

# Managing In The Changing Corn Environment



By

Harlan Hughes  
Professor Emeritus  
North Dakota State University

Presented at  
Cost Control & Risk Planning Workshop  
For Livestock Producers Workshops  
Montana, North Dakota, South Dakota, & Wyoming  
Feb/Mar 2008



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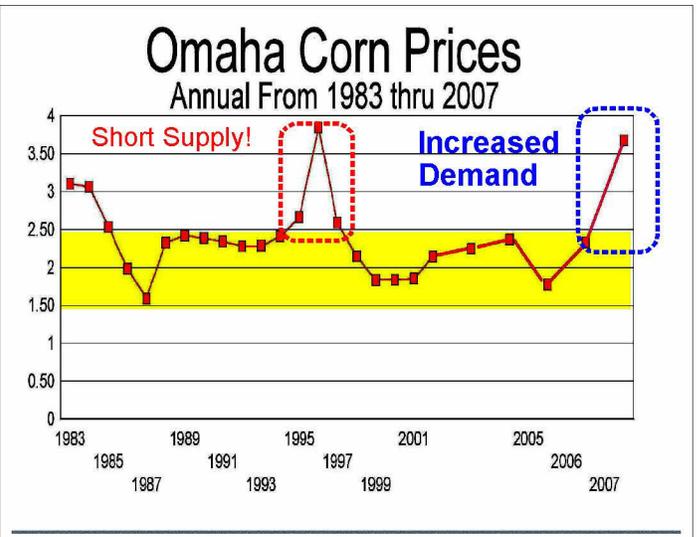
### Today's Market Setting

- Crude Oil Near \$100 Per Barrel
- Global Bull Commodity Market
- 1 Short Corn Crop Away From A Crop Failure
  - ▶ Ranchers will be the first to feel impact!
    - There is no Government Corn Reserve
    - There is no Farmer Held Corn Reserve
- \$93 Average Fed market in 2007
  - ▶ Cattle Feeders -\$40/ head in 2007
  - ▶ Packer Margins Lowest In 4 Years
- Could see \$94/\$95 Fed Market In 2008
- Best Cure for \$4 Corn is \$100 Slaughter Cattle
  - ▶ Slaughter Cattle Price Driven by Weak Dollar

### Goals Of This Presentation

- Part I – Just How Much Is Corn Price Going To Change?
- Part II– Layout What Changing Corn Price Is Projected To Do To The Ranching Sector
- Part III – Role Of Increasing Costs Of Production In Emerging Biofuel Era
- Part IV– Evaluate Ranch Production & Marketing Implications

### Part I: How Much Is Corn Price Going To Change?

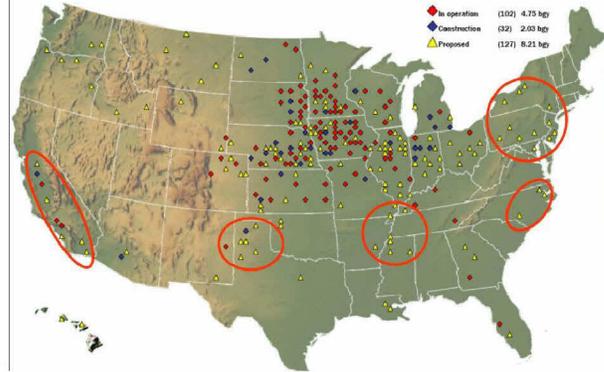


## What's Different This Time?

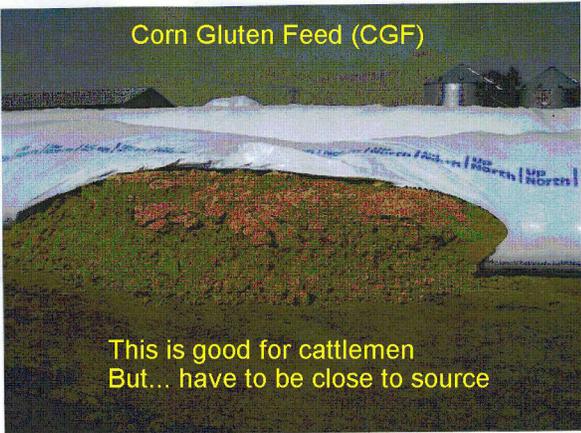


## U.S. Ethanol Plants

AS OF: June 2006

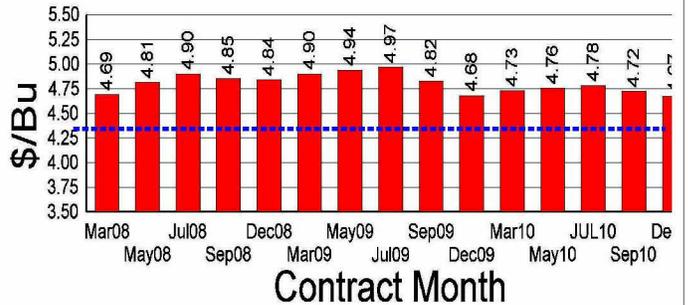


## Corn Gluten Feed (CGF)

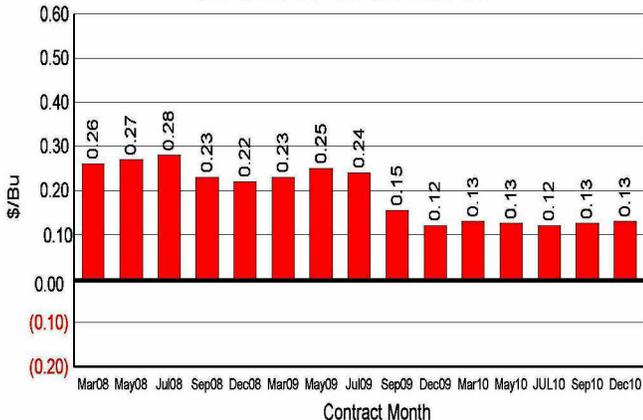


## Corn Futures Price

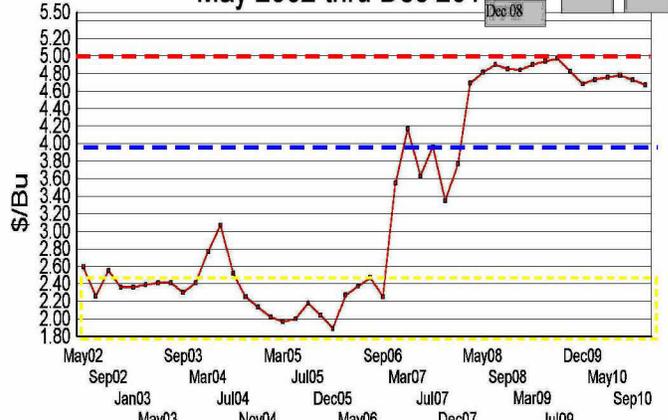
23 Jan 2007



## Change In Corn Price 21 Dec 07 To 23 Jan 08



## Corn Futures Prices May 2002 thru Dec 2010



## Take Home Message

- Corn Prices Are Projected To Stay High For At Least The Rest Of This Decade

## Part II: Projected Impact of Changing Corn Prices On The Ranching Sector



### Average Return Producers Cow/Calf Returns



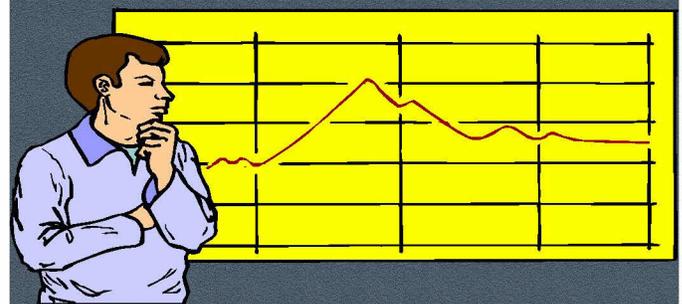
### High Return Producers Cow/Calf Returns



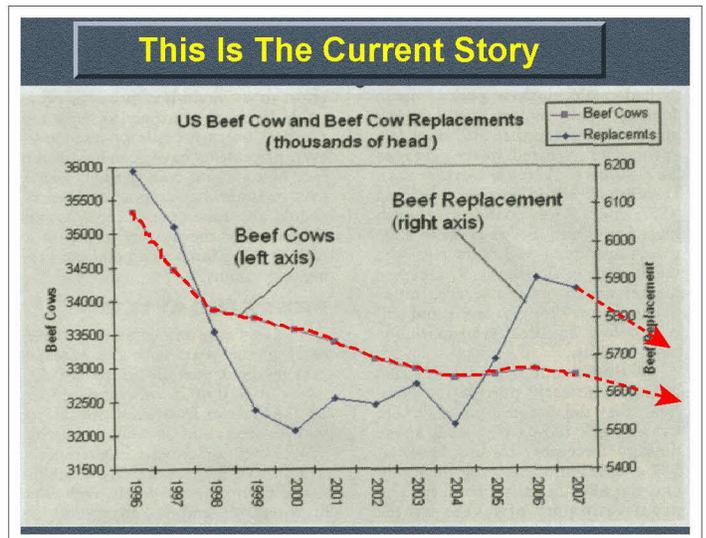
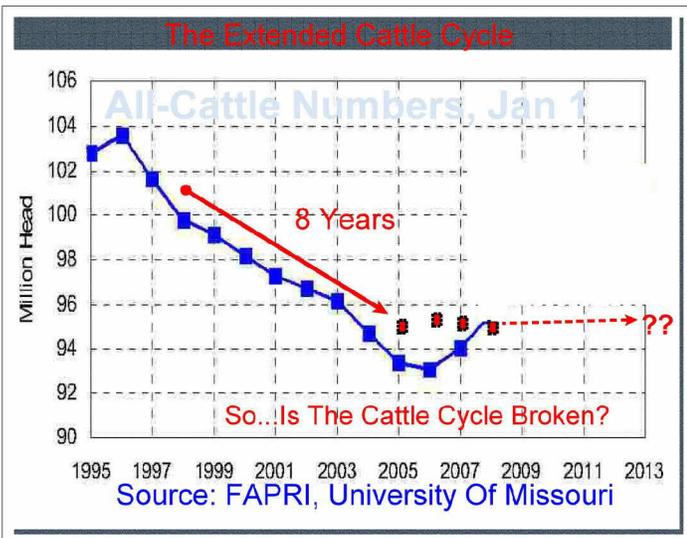
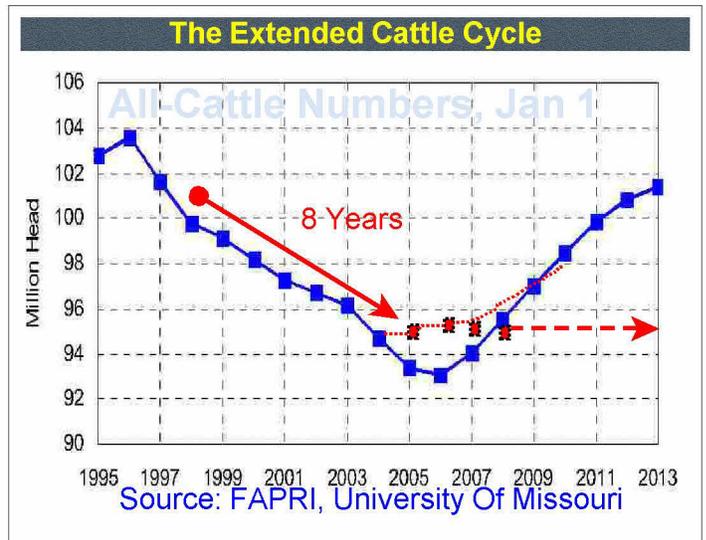
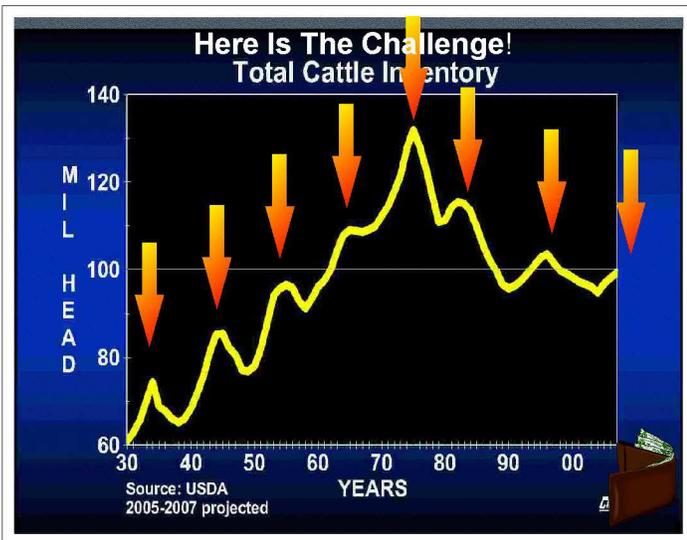
### Low Return Producers Cow/Calf Returns



## U.S. Cattle Cycle



Let's Review The U.S. Cattle Cycle In Detail



## Take Home Message

- I Believe that The Emerging Biofuels Era has **Broken The Cattle Cycle!!**
  - The question is:
    - Is this Permanent
    - Or Temporary??

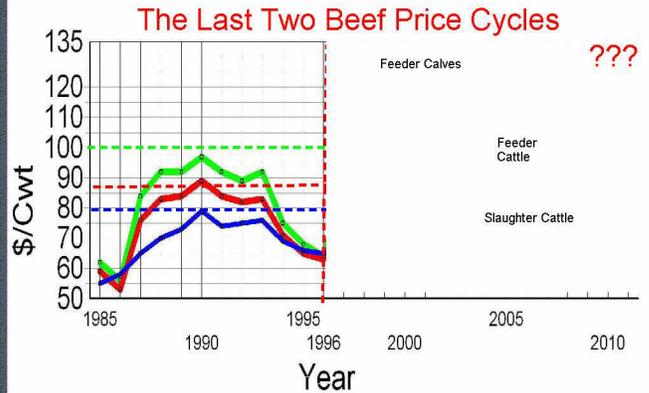
## Breaking The Cattle Cycle At Or Near The Bottom Is A “Good Thing” For The Ranching Sector

- The Broken Cattle Cycle Will Support Calf Prices
- It is not so good for the cattle feeding Sector!
  - ▶ Have excess bunk spaces
- It is not so good for the beef processing sector!
  - ▶ Also has excess capacity
  - ▶ Already have some plants that have closed

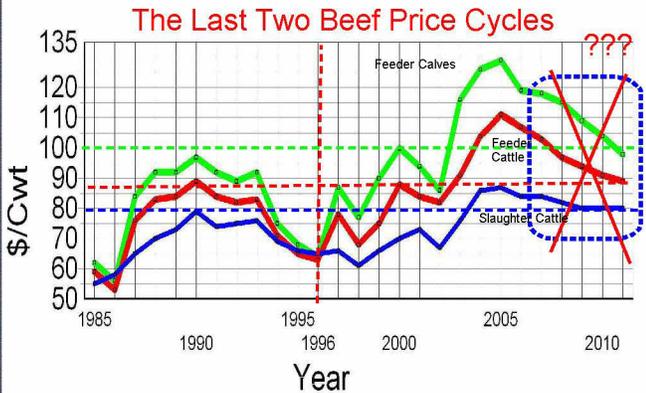
# Cattle Cycles Cause Beef Price Cycles



## Feeder Calf, Feeder Cattle & Slaughter Cattle Prices



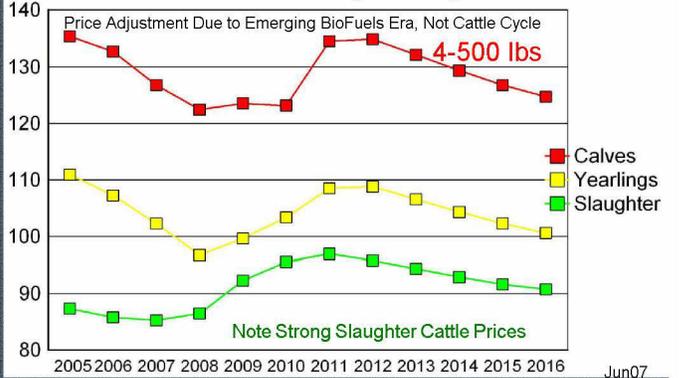
## Feeder Calf, Feeder Cattle & Slaughter Cattle Prices



## Suggested Long-Run Planning Prices For Emerging Biofuels Era

### USDA Price Projections

Calf Prices, Yearlings, Slaughter Cattle



## Suggested Long-Run Planning Prices For Emerging Biofuels Era

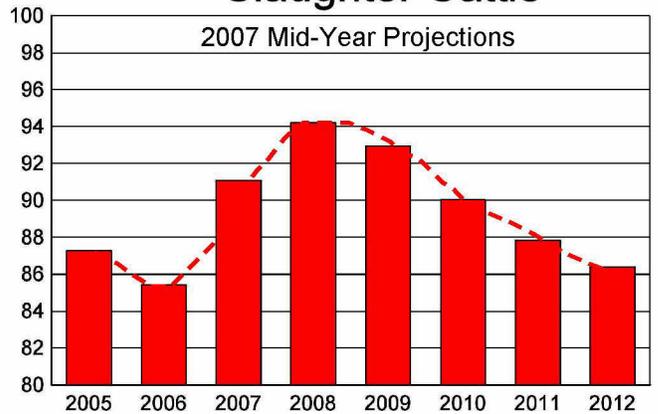
### USDA Price Projections

Calf Prices, Yearlings, Slaughter Cattle



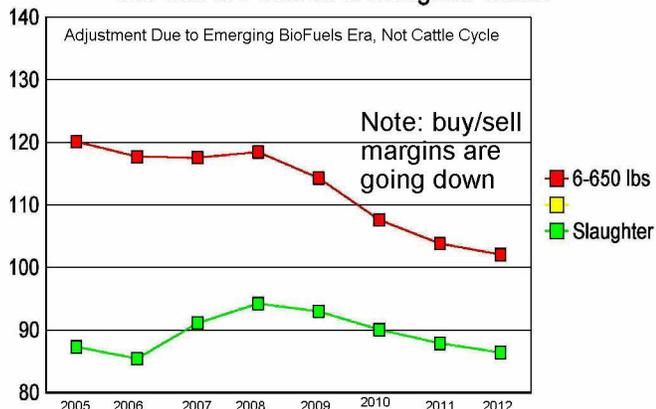
## FAPRI Price Projections

### Slaughter Cattle



# FAPRI Price Projections

600-650 lb Feeders & Slaughter Cattle



## Take Home Message

- Over the next couple of year, the cattle markets will be adjusting the buy/sell margins to take into account **Higher Costs Of Gain in the Feedlot.**
- Adjustment is slow due to Ranchers Being In the Drivers Seat!

## Economic Profits Per Cow

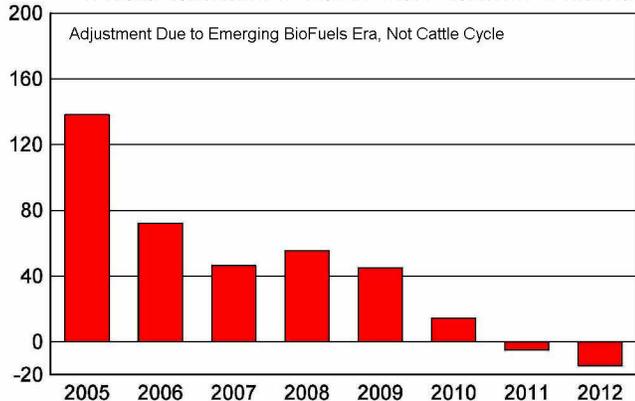


## In the Past, The Cattle Cycle Determined Profits

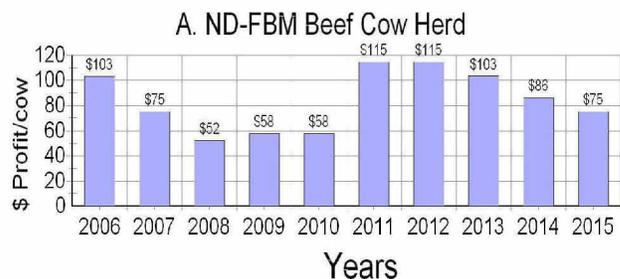
Cow/Calf Returns



## FAPRI Price Projections Net Cash Flow for Cow Herds



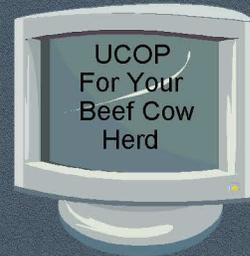
## Projected Economic Profits For Intensively Managed Northern Plain's Herds (2007-2015)



## Take Home Message

- Intensively Manage Herds Will Continue to Make a Profit In the Emerging Biofuels Era
  - ▶ They will do this thru:
    - Herd Performance Records
    - Profit Center Accounting
- What does this suggest for the less intensively managed herds?

## Part III: Role Of Increasing Unit Costs Of Production In The Emerging Biofuel Era



[www.IRMeasy.blogspot.com](http://www.IRMeasy.blogspot.com)

## SO, What Is Unit Cost Of Production?



$$\text{UCOP} = \frac{\text{Herd's Total Cost}}{\text{Total Lbs Produced}}$$

Anything You Want To Talk About Is In Either The Numerator Or Denominator Or Both!

## Critical Cost Control Point No.1

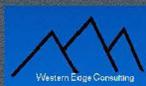
- Ranchers Need To Calculate Their Unit Costs Of Production



## Critical Cost Control Point No. 2

- Am I A High-Cost Or A Low-Cost Producer?

Answer This by Benchmarking

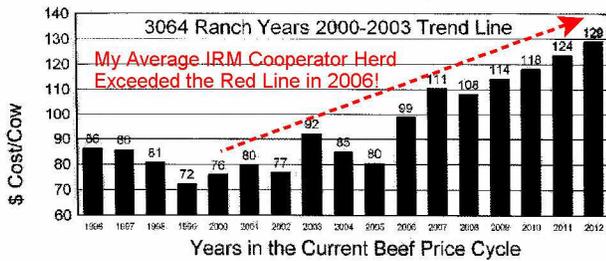


## The Key To Cutting Costs Is To Have Herd Performance Records And Profit Center Accounting



Without Cost Control, This Is Projected To Happen In The U.S. Northern Plains

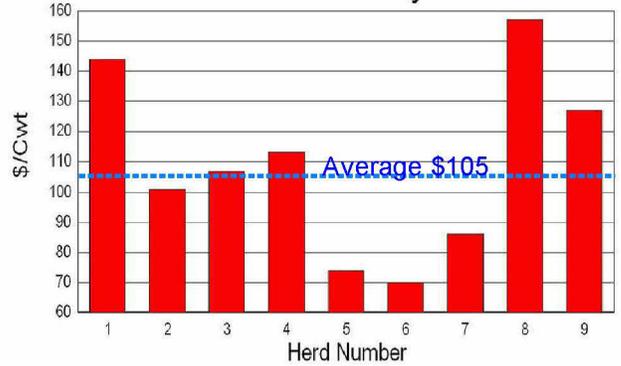
**UCOP**  
For Current Beef Price Cycle



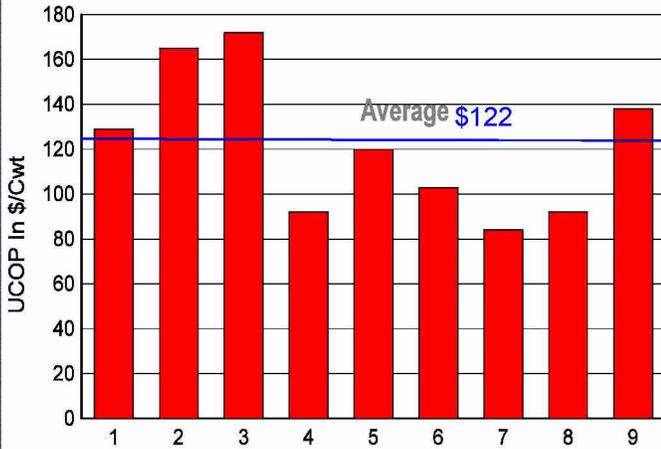
UCOP Is Directly Under Your Control!!

**Last 9 IRM Herds Analyzed In 2005**

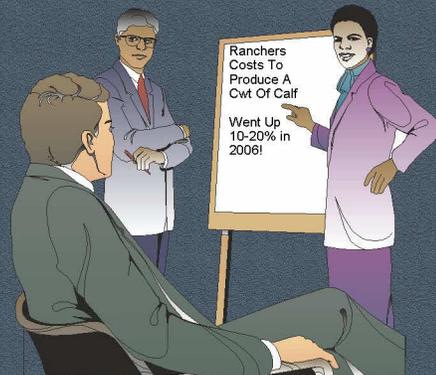
UCOP Of Last 9 Herds Analyzed In 2005



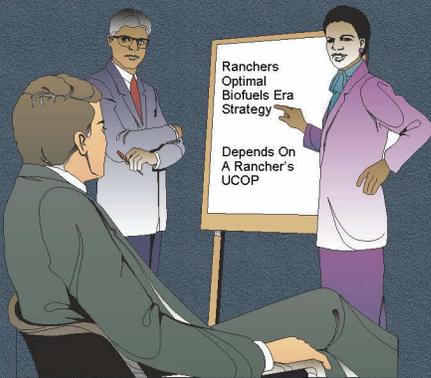
**UCOP On 2006 IRM Herds**



**Take Home Message**



**Take Home Message**



**Take Home Message On UCOP And Drought Re-Stocking Strategies**



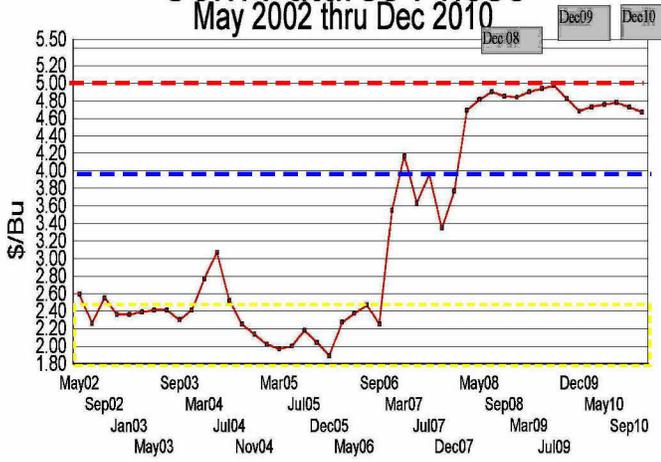
# Part IV: Summary



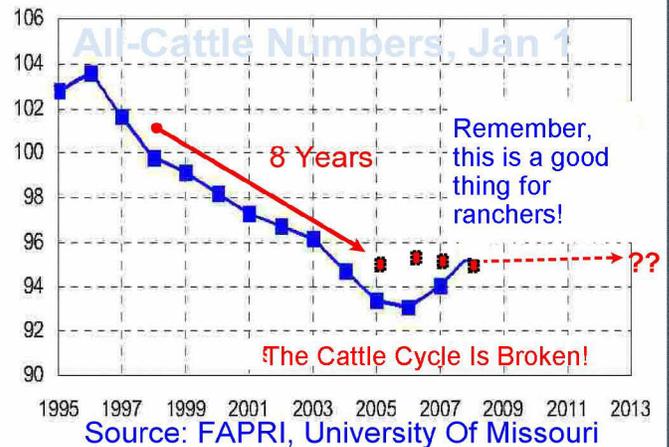
Ranch Level Unit Costs Of Production Are Increasing Dramatically!



## Corn Futures Prices May 2002 thru Dec 2010



## The Extended Cattle Cycle



## Post-Weaning Profit Centers

Not All Cattle Industry Sectors Are Sharing In The Good Times

- Post-Weaning Costs Of Grain Are Going Up
  - ▶ Texas October Steer COG = \$72.15
  - ▶ " " Hfrs COP = \$77.23
- Expect Another New Level Of Feedlot Costs Of Gain in 2008 and 2009

## Take Home Message

- To date, Cow-Calf Sector Is In The Drivers Seat!
- The rancher that can produce Forage-Based 850 lbs Feeder at a profit will win!

**The End**



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<http://beefeconomics.blogspot.com>



## **Notes**

### **COST CONTROL: RISK MANAGEMENT PLANNING STRATEGIES**

*Education for Livestock Producers in the Northern Great Plains*

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