

Mount 'n Cattle

Article for the Wyoming Livestock Roundup

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Prepare Now for Changing Times

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Ready for a wild ride? The beef industry has seen some major changes in its history and, with the recent growth of the ethanol industry, it is headed around another bend to begin a wild ride.

The ethanol industry is here, and its footprint on American agriculture is getting larger every day. The livestock industry and Wyoming ranchers will be affected. The question is: what affect will the ethanol industry have, and how can producers position their operations to adapt to this change?

The ethanol industry is growing at an incredible rate. Currently, there are 111 operational plants in the United States, 75 plants under construction, and eight under expansion. Ethanol production was approximately 2 billion gallons in 2002, and it is expected to reach 11 billion gallons by 2009. Government subsidies of approximately 51 cents per gallon of ethanol are encouraging this level of growth.

A recent briefing paper “The Long-Run Impact of Corn-Based Ethanol Production” (<http://www.card.iastate.edu/publications/synopsis.aspx?id=1029>) by a group of agriculture economists at Iowa State University deduced that if commodity and ethanol production subsidy levels remain constant, corn prices of approximately \$4.05

per bushel would remain here for some time. Commodity prices and external forces such as oil prices, droughts, and foreign markets will change the market – the point is higher corn prices are likely here to stay for a while.

How does this corn market affect ranchers in Wyoming? For starters, higher corn prices generally mean lower calf prices. If feeders want to break even, they must pay less for feeder cattle when they pay more for corn.

Cattle-Fax data shows that for each 50-cent per bushel increase in corn price, the price of a 550-pound calf decreases by \$12.50 per hundredweight. Feeding periods should shorten as the cost of gain in feedlots increases. This will generally be reflected by a narrowing price spread between lighter weight and heavier weight classes of cattle.

The choice-select price spread may also widen due to the reduction of choice quality cattle on the market with the shorter feeding periods. Feed prices should remain high. As more acres of corn are planted, acres for growing hay and other feed grains will be reduced and the prices for those commodities will generally increase. Precipitation patterns during this growing season will have a major impact on the actual prices, but don't count on any cheap feed in the future.

Distillers grain, a byproduct of ethanol production, is great feed. University of Nebraska studies suggest wet distillers grain is 115 to 125 percent the value of corn, and dried distillers grain (DDG) is approximately 110 percent the energy value of corn. In addition, DDG has more than twice the protein of corn. The problem is that it can be hard to come by in Wyoming, and the tight supply is increasing the price of it as well.

The beef industry is well positioned to make use of this feed because it doesn't work well for hogs or poultry, but potential improvements in ethanol production may

eventually lead to a more efficient distillation process, resulting in reducing the energy content of the feed and therefore reducing its viability as a substitute for corn.

How should producers position their operations to adapt to these changes? Each operation will see different opportunities and experience different challenges. Maybe ranchers want to sell the cowherd and become corn farmers? More likely, they want to continue ranching and hopefully remain profitable. Being proactive, visioning, and having discussions among the ranch team are probably the most important steps to take.

For the traditional cow-calf operation, this new market may offer incentives to structure herds toward producing heavier weight calves with minimal feed inputs. This may include moving toward a cow-calf/yearling operation, changing the calving season to reduce winter feed requirements, taking advantage of compensatory gain on summer grass, and/or investigating the quality grade of the herd to evaluate grid marketing opportunities.

Evaluate decisions based upon available resources and their affects on production costs. Examining exposure to risks is also an important step. Ranchers are encouraged not to wait for the changing market to hurt their operations. Prepare now, and discuss the plans with the ranch team.

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