COW/CALF CORNER

The Newsletter

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Will We Run Out of Corn?

Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

The answer to that question is no…as long as markets are free to adjust prices. One of the most remarkable characteristics of a market economy is how rare it is to run out of most anything. It is easy to take for granted that anyone can walk into most any store, any time and find what they are looking for. It is really quite amazing! The secret is, of course, that market prices adjust to make sure that we don't run out. Markets will almost never tell you that you can't have something but prices may rise so that you will decide you really don't want it after all.

Agricultural markets rely especially heavily on this process. Unlike, a manufactured product market where inventory control plays a bigger role in maintaining market equilibrium, agricultural markets typically rely much more on prices to balance supply and demand. Since much agricultural production, especially crops, are limited to an annual production cycle and total production is subject to the vagaries of weather on yields, demand must be adjusted to fit available supplies. Thus it is, for example, that a freeze in citrus regions quickly provokes higher prices for orange juice, not because we are immediately out but to ration demand and make sure we don't run out of orange juice.

That leads to the real question implied by the title: What corn price will be needed to make sure we produce enough corn to meet our needs? This is an entirely different question. In the last five years, the use of corn for industrial production has averaged 5.6 billion bushels, up 2.8 billion bushels, or double the previous five year average industrial use. In response, total corn production the last five years has averaged 12.6 billion bushels, up 20 percent over the 10.5 billion bushel average of the previous five years. Other uses are impacted as well. Interestingly, corn exports have averaged slightly higher, up about one percent the last five years compared to the previous five years. Global demand for corn is not easily bid out of the market. However, corn used directly for feed has decreased 12.5 percent, an average drop of 731 million bushels

each of the last five years compared to the previous five years. Of course, the availability of by-product feeds has offset part of the quantity of corn used for feed but it is the primary corn market where values are determined.

So we have been able to meet our needs for corn the last five years but only at prices that are double to triple historical levels. The pressure on agricultural resources that results from increased corn production (including a 17 percent increase planted acres from 2006 to 2011) limits the ability to increase corn supply to meet growing demand without higher corn prices. Higher market prices are needed to expand production as well as to limit corn demand among alternative uses. It is possible that increasing yields will provide enough additional corn production to relieve some of the price pressure but much of the yield trend of the last thirty years has been with hybrid and other technology that responded well to near ideal production conditions and relied on cheap fuel and fertilizer. Expanded corn acreage is pulling in more land in areas where soil and climate are more marginal for corn production. Changing from 1:1 corn to soybean rotations to continuous corn or 2:1 corn to soybean rotations also reduces yield potential. In the absence of cheap inputs and with more use of sub-optimal production resources and systems, corn yield improvement is likely to be tempered in the coming years. We will meet our needs for corn but it will likely take permanently higher prices to make sure we don't run out.

Most of the time, market price adjustments are rather subtle and result in many small changes in decisions by businesses that maintain market equilibrium. This is much like the hundreds of small adjustments one makes constantly to steer an automobile down the highway. Occasionally the adjustments are more dramatic and cause significant and abrupt impacts in markets. In the case of corn, the reality of permanently higher corn prices is resulting in a series of short and long run adjustments in most other crop and livestock markets. The beef industry, which has more ability than other livestock industries to adjust production systems in the face of higher corn prices, now faces the need to make those adjustments. This is a process that will take many years to fully complete and will shape how and where cattle production takes place in the country.

Know the Cull Cow Grades Before You Sell

Glenn Selk, Oklahoma State University Emeritus Extension Animal Scientist

Many Southwest United States cow herds have been culled as much as possible. Some culling of beef cows occurs in most herds every year. If feed resources are available, a few producers may wish to market the culls after the first of the year for tax purposes.

The Beef Audits have generally shown that cull cows, bulls, and cull dairy cows make up about 20% of the beef available for consumption in the United States. About half of this group (or 10% of the beef supply) comes from cull beef cows. In a drought-plagued year, the percentage of some herds that are being culled goes even higher than the survey estimates of 20% of each cow herd. Whether we are culling because of drought or to improve the productivity of the herd, it is important to understand the values placed on cull cows intended for slaughter.

The USDA market news service reports on four classes of cull cows. The four classes are divided primarily on fatness. The highest conditioned cull cows are reported as "Breakers". They usually are quite fleshy and generally have excellent dressing percentages. Body condition score 7 and above are required to be "Breakers".

The next class is a more moderate conditioned group of cows called "Boners" or "Boning Utility". These cows usually would fall in the body condition score grades of 5 to 7. Many well-nourished commercial beef cows would be graded "Boners".

The last two groups of cows as reported by the market news service are the "Leans" and "Lites". These cows are very thin (Body condition scores 1 - 4). They are in general expected to be lower in dressing percentage than the fleshier cows and are more easily bruised while being transported than are cows in better body condition. "Lites" are thin cows that are very small and would have very low hot carcass weights.

Leans and Lites are nearly always lower in price per pound than are the Boners and the Breakers. "Lites" often bring the lowest price per pound because the amount of saleable product is small, even though the overhead costs of slaughtering and processing are about the same as larger, fleshier cows.

Producers that sell cull cows should pay close attention to the market news reports about the price differentials of the cows in these classes. Cull cows that can be fed enough to gain body condition to improve from the Lean class to Boner class can gain weight and gain in value per pound at the same time. Seldom, if ever, does this situation exist elsewhere in the beef business. Last week, in Oklahoma City, the difference in “Leans” versus “Boners” was about 7 dollars per hundredweight in favor of the Boner cows. Therefore, market your cull cows while still in good enough condition to fall in the Boner grade. If cows are being culled while very thin, consider short term dry lot feeding or putting them on wheat pasture to take them up in weight and up in grade. This usually can be done in about 50 to 70 days with excellent feed efficiency. Rarely does it pay to feed enough to move the cow to "Breaker" class. There is very little if any price advantage of Breakers over Boners and cows lose feed efficiency if fed to that degree of fatness.