COW/CALF CORNER

The Newsletter

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In this Issue:

Imports of Australian beef should moderate in coming months

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U.S. beef imports were up 32.5 percent in the first seven months of 2015. This follows a beef import increase of 31 percent year over year in 2014. The 2014 beef import total was the highest level since 2007 and, at the current pace, total 2015 beef imports could be a new record high. The increase in beef imports was expected and is the result of several factors including: record high U.S. beef prices; declining U.S. beef production (especially relative shortages of processing beef); and a strong dollar making imports even more attractive. However, changes in the U.S. market and in countries that export beef to the U.S. suggest that beef imports will likely moderate in late 2015 and into 2016.

A significant part of the jump in U.S. beef imports in 2014 and 2015 has been from Australia. A unique combination of the U.S. market circumstances described above and the situation in Australia created the ideal conditions for a dramatic increase in beef imports from Down Under. Australia has been severely impacted by drought across much of the country, including the major cattle production regions, since 2012. This has resulted in increased cattle slaughter and beef production; increased cattle exports; and increased beef exports. Australian cattle slaughter in 2014 was 9.91 million head, the highest level in more than 35 years. Live cattle exports (mostly to Indonesia, Vietnam and China) were another 1.3 million head, an all-time record level. Both beef production and exports were also at new record high levels in 2014. This level of production is not sustainable and 2016 cattle numbers in Australia are projected to be 26.3 million head, down over 10 percent from 2014 levels. If realized, this 2016 cattle inventory would be the smallest since 1995. Reductions in the cattle herd mean that production will moderate and indeed, cattle slaughter and exports, along with beef production and exports are all expected to decrease somewhat in 2015 and again in 2016. When forage conditions improve, herd rebuilding will further squeeze Australian beef production and exports at some point in the future.

The combination of U.S. and Australian market conditions resulted in U.S. imports of Australian beef increasing 74 percent in 2014, accounting for 66 percent of year over year increase in total U.S. beef imports. Imports of Australian beef are up another 55 percent for the year to date through August of 2016, accounting for 53 percent of the year over year increase so far this year. The U.S. surpassed Japan as the largest Australian beef export market in 2014 with the U.S. accounting for 30 percent of Australian beef exports in 2014. This pattern is continuing in 2015.

However, there are several reasons to expect U.S. imports of Australian beef to moderate in late 2015 and into 2016. As noted above, the decline in cattle numbers means that total Australian beef production and exports will decline modestly in 2015, from 2014 peaks, and will decrease further in 2016. There are indications of some improvement in forage conditions in parts of Australia that may stabilize herd liquidation; though significant herd expansion does not seem imminent. Simultaneously U.S. beef production will begin to expand and U.S. beef prices will moderate somewhat in 2016. However, the strong U.S. dollar (specifically against the Australian dollar) will continue to support U.S. imports of Australian beef. One final factor for the remainder of 2015, Australia is likely to hit the U.S. beef import quota before the end of the year, thus curtailing imports somewhat. Any imports above the quota will be subject to a 21 percent tariff.

Marketing cull cows

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Some culling of beef cows occurs in most herds every year. A few cows will become reproductively unsound, broken-mouths, bad udders, open, and/or just plain OLD. If feed resources are available, some 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. Cow herd budgets often show that cull cows and bulls make up about 20% of the gross income in a cow calf operation. 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 5.5 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 "Lights". These cows are emaciated to thin (Body condition scores 1 - 5). 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. "Lights" are thin cows that are very small and would have very low hot carcass weights. Leans and Lights are nearly always lower in price per pound than are the Boners and the Breakers. "Lights" 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 6 dollars per hundredweight in favor of the Boner cows. On some occasions, the gap between “Leans” and “Boners” has been as wide as 10 dollars.

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 the "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.

A source of market information for many states and many livestock markets can be found at the USDA Agricultural Marketing Service website: **Feeder and Replacement Cattle Summary .**

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