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# Beef Industry Productivity, Prices and Profits

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# Cornhusker Economics

Cooperative Extension

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| Market Report | Yr Ago | 4 Wks Ago | 5/1/98 |
|---|---|---|---|
| ***Livestock and Products,*** | | | |
| ***Average Prices for Week Ending*** | | | |
| Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt. | $67.63 | $59.75 | $64.75 |
| Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt. | * | 83.48 | 81.60 |
| Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt. | 98.84 | 88.81 | 95.78 |
| Hogs, US 1-2, 220-230 lb Omaha, cwt. | 58.93 | 35.10 | 38.48 |
| Feeder Pigs, US 1-2, 40-45 lb Omaha, hd. | * | * | * |
| Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt. | 117.16 | 98.55 | 106.30 |
| Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt. | 87.63 | 70.63 | 60.00 |
| Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt. | 183.00 | 144.50 | 129.00 |
| ***Crops,*** | | | |
| ***Cash Truck Prices for Date Shown*** | | | |
| Wheat, No. 1, H.W. Omaha, bu. | 4.61 | 3.43 | 3.31 |
| Corn, No. 2, Yellow Omaha, bu. | 2.80 | 2.40 | 2.36 |
| Soybeans, No. 1, Yellow Chicago, bu. | 8.90 | 6.41 | 6.48 |
| Grain Sorghum, No. 2, Yellow Kansas City, cwt. | 4.78 | 4.15 | 4.04 |
| Oats, No. 2, Heavy Omaha, bu. | * | * | * |
| ***Hay,*** | | | |
| ***First Day of Week Pile Prices*** | | | |
| Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton. | 100.00 | * | 115.00 |
| Alfalfa, Lg. Round, Good Northeast Nebraska, ton. | 77.50 | 65.00 | 85.00 |
| Prairie, Sm. Square, Good Northeast Nebraska, ton. | 72.50 | 77.50 | 85.00 |

* No market.

Cattle numbers in the U.S. peaked in 1975 at about 130 million head. Since that time, cattle numbers have generally been declining. Numbers are affected by the cattle cycle, but peak numbers are declining with each new cycle. The January 1, 1998 inventory of cattle was less than 100 million head.

So, why aren't cattle ranchers making more money? There are a number of possible answers to this question, one of which is related to beef production. Total beef production in 1997 was only slightly lower than the record beef production in 1976. Beef production in 1976 was about 25.75 billion pounds and in 1997 it was about 25.5 billion pounds. So, while cattle numbers had declined by about 25% since 1975, production only declined by 1%.

Beef production per cow averaged 585 pounds from 1966 to 1979. However, beef production increased dramatically in the 1980's. During the 1990's, beef production per cow has average 715 pounds. This increase in production is a result of increased weaning weights and weaning percentages of calves, increased rates of gain for yearlings and fed cattle, fed cattle being slaughtered at a younger age and increased slaughter weights for fed cattle. These productivity gains have come about from improved management, improved genetics and new technologies.

The trend of real fed cattle prices (real prices are actual prices that have been adjusted for inflation) is quite revealing. During the 1960's and 1970's, when productivity was not increasing, real prices varied cyclically but were generally at the same real price level. However, as productivity increased in the 1980's and 1990's, real prices fell considerably. Productivity gains were offset by real price declines.

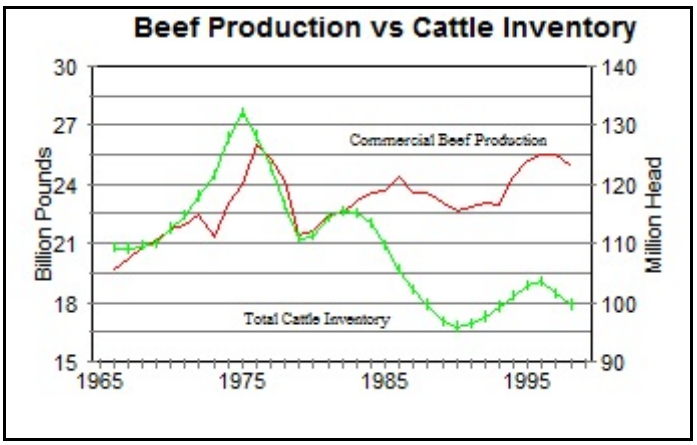
There are several points regarding increased productivity that can be made:

- ✔ Long-run average profits in the beef industry have probably not increased with increased productivity. In a competitive industry, such as the beef industry, long-run average profits will remain near zero (in this case profit is defined as an excess profit over a normal return to land, labor, capital and management).
- ✔ Consumers, not producers, benefit from increased production efficiency by having a larger supply of product at a lower real price.
- ✔ Frequently, increases in productivity favor larger, more capital intensive operations and thus tend to reinforce the trend towards fewer and larger producers.

This does not seem like a very optimistic forecast for long-run profits in the beef industry. However, there are some strategies that producers can use to enhance their own profitability. Average profits may be near zero, but there are always those who are above the average. Four specific strategies are:

- Be a low-cost producer. You are competing against your neighbor. If you can produce the same commodity cheaper, you will be more profitable.
- Find a niche market for a specific product. You can stop producing a commodity in a competitive market place and become a monopoly supplier of a specific product. If your product is unique and desirable, it will likely be profitable to produce.
- Be an early adopter of appropriate new technology. Adoption of technology that gives you a competitive advantage over other producers should lead to greater profits.
- Participate in some form of vertical integration. If you retain some degree of control or ownership of your product over more segments of the industry, you can share in the profits of the other segments. Most segments outside of production agricultural are not perfectly competitive. Therefore, there are more opportunities for long-run profits.

**One final comment:** The preceding discussion might suggest that the beef industry would be better off to stop adopting new technology and limit productivity increases. However, beef competes with pork, poultry, and other protein sources in the market place. The beef industry must improve productivity and reduce per unit costs of production to keep pace with these other industries.



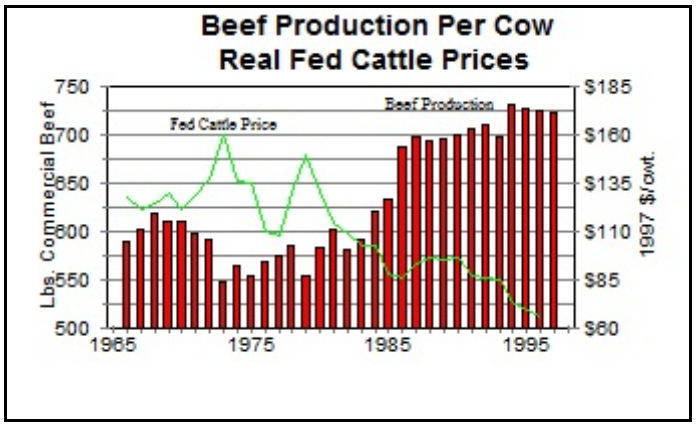




Chart Data Provided by the Livestock Marketing Information Center

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