

# Cattle Industry Taking Stock

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If the U.S. cattle industry faced challenges before the fallout of 2008, the recent economic slide has pounded producers, revealing the cracks in an agricultural model that drives beef production in this country.

"More dollars have been lost in the cattle-feeding industry in the last 12 months than during any other year in history," Charles McVean, founder and president of McVean Trading & Investments, said this spring.

Located in Memphis, the commodity futures brokerage firm specializes in grain and livestock research and analysis, conducting field studies with producers, elevators and agronomists across the country.

While herd reduction is at historic levels, McVean maintains even the number of remaining herds is questionable.

"The USDA can't count the number of cows in any reasonable, scientific way," McVean said. "The government applies a static model used for crop production to a migratory animal like the cow."

With four employees who travel the country specifically to gather field data and conduct inventories, McVean is confident he sees the real picture.

"We conclude there aren't as many cattle out there as the USDA says there are," McVean said.

According to the U.S. Department of Agriculture agricultural census report, the United States had 1,018,359 cattle farms in 2002. That number dropped to 963,669 by 2007. However, the USDA reported a total cattle increase from 95,497,994 to 96,347,858.

McVean said the number of cows raised in the future will be only what the land can support; the industrial commodity model, based on fossil fuel, won't any longer, he said.

"Production is going to drop," he said.

Europe, Canada, Brazil and Argentina are all either liquidating herds or have inventories at an all-time low, McVean says, although Australia and New Zealand are maintaining current herd numbers.

Other factors affecting the industry are conversion of agricultural land to residential or recreational uses, and the aging of the cattleman. The average age of the cattle producer now is over 60.

Droughts in the U.S. have also been affecting herd numbers.

The summer of 2008 dealt two final blows to many operations. Corn prices hit record highs -- jumping from \$2 a bushel to over \$7 a bushel -- at the same time fuel prices spiked.

"The producer was trapped between a weak economy and strong corn prices," McVean said.

"We've seen a lot of our members exit the industry," said Sammy Blossom, executive vice president of the Mississippi Cattlemen's Association. "Some due to age," he adds.

But economic factors caused a lot of red ink in the industry.

He estimates his 3,100 members closely reflect the state averages, with herd sizes at less than 50 head.

From a socio-economic perspective, owning cattle for some families hasn't always been tied to profitability.

"Low-income families have always treated cattle like a savings account," Blossom said. "It's completely liquid and provided some security for tough times."

Blossom does see a bright spot in branded beef programs such as Certified Angus Beef or Laura's Lean Beef, which fetch producers a premium price.

He said using technology, such as ultrasound to determine marbling, gives producers an edge.

McVean agrees: "Those efficient producers who can make it through will make money in the long run."

Sale barn owners Bobby and Hays Lipscomb of Lipscomb Brothers Livestock Market in Como, Miss., have persevered by cutting expenses and handling the work themselves. This year, the sale barn celebrates its 50th year in business.

"Since 1996, the numbers have gone down," Bobby Lipscomb said. But he's optimistic, pointing out that the market is cyclical.

"Folks are going to eat beef," he said.

Will Harris, a fifth-generation cattleman at his family's White Oak Pastures in Bluffton, Ga., converted to grass feeding his stock when he tired of what he considered industry excesses. An active board member of the American Grassfed Association, Harris finished construction on a \$2.2 million processing facility at White Oaks in 2008, right before the economy collapsed.

How is the operation faring today?

"To be sure, our operation continues to be a high-risk venture, and we're just reaching a break-

even point," Harris said. "We have to a great extent cut ourselves off from the industrial model and we're not tied to the vagrancies of the system.

"We'll either make it or not make it."

Six area producers raise beef under contract for White Oak Pastures, which serves a niche population of sophisticated consumers who are willing to pay higher prices for the assurance that their meat is grass fed rather than grain fed. Harris said his customer base represents less than 1 percent of the population.

"I believe that the current system that serves 90 percent of the population has a lot of problems, chiefly that it was a system developed in the 1950s and is based on cheap fossil fuel and government-subsidized feed," Harris said. "What we don't have (now) is cheap fossil fuel or grain."

Harris thinks the beef industry's current model is held together only by existing infrastructure.

"At one point, the textile industry in this country remained only because we had infrastructure," he said. "When that was finally exported overseas, the industry vanished."

Harris said a side benefit to his operation is that it creates rural jobs.

"I own about 1,000 acres and lease another 1,000 and employ 17 people, including skilled meat cutters and master's-level individuals," he said. "I have a friend with a much larger operation who employs three people."

Despite the existing challenges, Blossom believes one final factor could cause more damage.

"The worst thing right now would be for the consumer to lose confidence in the product," he said.

### **Causes of Herd Reduction**

Rolling droughts

Increasing cost of feed, hay, fertilizer and fuel

Advanced age of cattle producer

Vast tracts of land being converted to recreational uses or real estate