

Is it Time to Increase the Herd Size?

*Andrew P. Griffith, Assistant Professor
Agricultural Economics*

Cattle herd expansion is on the horizon as stocker and feeder cattle prices are expected to reach record levels in 2014. As I have traveled the majority of the state during the past month, I asked producers their intentions of increasing the number of head in their cattle herd. An overwhelming majority of them say they intend to start or they have started to retain heifers, buy bred heifers, or retain heifers and buy bred heifers. The reasoning behind the intent to increase individual herd size is to capitalize on high calf prices. If we think back to what drove the cattle cycle in previous decades, it hinges heavily on calf prices and net returns (profits) experienced in the cow-calf sector.

Cow-calf producers over the past sixty or so years have had a tendency to retain more heifers and hold on to older cows one more year when calf prices were strong which would support positive returns. In contrast, when calf prices declined and net returns were either less positive or even negative then cow-calf producers had a tendency to market more of the heifer calves as well as marketing the older cows. The point of this article is not to talk about the cattle cycle, but rather to discuss if this is the appropriate market and timing to increase the herd size.

Retaining heifers now will result in fewer animals marketed in the near term and increase marketing of calves in the future. It also means forgoing revenue today with the expectation, but no guarantee, of receiving compensation at a future date. In October, load lots of Tennessee heifers ranging from 590 pounds to 656 pounds brought between \$149.90 to \$154.10 per hundredweight (\$900 to \$1,000 per head) while at the same time similar weight classes at the weekly auction markets sold for \$132.19 to \$136.22 per hundredweight (\$800 to \$900 per head). Similarly, good quality bred heifer prices have ranged between \$1,300 and \$2,000 per head with good quality open heifers not too far behind.

There are many questions that need to be asked and answered before an individual can decide if increasing cattle numbers this year is the best option for the particular operation. Amid all the questions there is one question that stands out to me. What is the most profitable and sustainable? The final answer to this question may differ among producers as each producer has a unique set of resources and differing set of defined goals and objectives. Thus, each producer may have to approach the question from a different perspective than their neighbor.

Since there are so many different perspectives among producers, I am going to express a few thoughts and pose a few questions that will help each producer in the decision process.

1. Buy low sell high is an adage that has been around for years and years, and we have all heard it at some point or another. There are not many people who purchase an asset with the intent to lose money. Such is the case with cattle. When cattle prices are at record levels, does it benefit a producer to forgo marketing heifers? One way of thinking about this is if we consider the 600 pound heifer that would sale for \$800 to \$1,000 per head, would we be willing to purchase that same animal for that same price? If we would not be willing to purchase a similar or better quality heifer for the same price and develop her to enter our breeding herd then it may be best to market the heifers.
2. Staying with the buy low sell high idea. If we forgo selling heifers then we can essentially say we purchased that heifer for the amount (\$800-\$1,000) we could have received if we sold her. Considering that we are seeing record prices now and that prices

will remain relatively high for the next few years then the question is can a producer make more money from developing the heifer and marketing calves from that heifer than marketing that heifer today?

3. Stocker and feeder cattle prices are expected to be strong at least through 2015 if not through 2016. If that is the case and a producer is considering herd expansion then it would benefit producers to consider the payback period (how long it takes to get your money back from the investment) for the cost of developing heifers or purchasing bred heifers. If the investment value can be recouped quickly with the expectation of positive returns in the future then retaining heifers or purchasing bred heifers may be the correct decision.

It is important to remember the cattle herd expansion decision is a business decision that can require a significant investment, and investment decisions should not be taken lightly. The purpose of investments is to increase the value, and if we are losing value then it would be a good indication that we might have made an incorrect decision. The end result of the thought process will in all likelihood not result in the same outcome for all producers as it applies to herd expansion, but hopefully every producer will have similar results in that their decision will result in positive returns.