The Decade Ahead For The Farmer/Feeder

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Abstract
Farmer/feeders dominated cattle feeding for many years—accounting for roughly two-thirds of the fed cattle marketed in 1960 and still over half of the total as recently as 1968. Their numbers have declined and their contribution to total feeding has dropped rather sharply. But they are still a significant part of the feeding industry. And they still have a future—possibly a brighter one than some have projected in recent years.

Disciplines
Agribusiness | Marketing | Statistical Methodology | Statistical Models | Statistical Theory

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THE DECADE AHEAD FOR
THE FARMER/FEEDER

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#103
The Decade Ahead for the Farmer/Feeder

Farmer/feeders dominated cattle feeding for many years—accounting for roughly two-thirds of the fed cattle marketed in 1960 and still over half of the total as recently as 1968. Their numbers have declined and their contribution to total feeding has dropped rather sharply. But they are still a significant part of the feeding industry. And they still have a future—possibly a brighter one than some have projected in recent years.

Official statistics on cattle feedlots really don't classify lots by "farmer-feeder" and "commercial". But the data on size of feedlot can give us a rough indication of the trend in farmer/feeding. Back in 1962 there were nearly 235,000 feedlots in the U.S. with less than 1,000 head capacity. And they marketed 63.5 percent of the fed cattle sold. By 1968 the number had dropped to about 207,000 and they accounted for 53.0 percent of the fed cattle. The big change came in more recent years, with lots of under 1,000 head capacity down to 132,000 in 1978; and they fed just 32 percent of the fed cattle.

Certainly many lots of over 1,000 head capacity can properly be classed as farmer/feeders, particularly those in the 1,000 to 2,000 capacity range. But the trends in fed cattle marketings by the under 1,000 head group is probably a reasonable indication of what's happened to farmer/feeders as well.

The decline in the relative position of farmer/feeders in the total cattle feeding picture is not necessarily the result of being unable to compete economically with larger feeders—although this was probably a factor in some cases.
Much of the relative decline reflects the flexibility most farmer/feeders have to choose between several livestock and cropping alternatives to utilize their resources and as income sources. It also results from the large shift of new resources into cattle feeding in parts of the West and Southwest during the past 20 years.

What is He Now? . . .

Farmer/feeders are by no means a very homogeneous group, in terms of size and other aspects of their feeding operations. The operations are quite varied in size—from less than 100 head to several thousand head. But few are extremely large. Feeding facilities are also varied, ranging from open lots and movable bunks to lots with shelters, paved feeding floors and fenceline bunks on to full confinement units. Feeding programs, rations and feed handling systems also vary—probably more so than in large commercial lots.

The common characteristic of the farmer/feeder, however, is the inter-relationship of cattle feeding with other farming operations—grain and forage production in particular, and in some cases with other livestock operations. So the farmer/feeder is typically not just a cattle feeder or even primarily a cattle feeder. He is likely to be a corn and soybean producer as well, and may also raise hogs or beef cows or have some other farm enterprises.

This doesn't mean farmer/feeders aren't serious about cattle feeding. Most of them are; and those that continue in cattle feeding will be increasingly capable and serious about that part of their total farming operation.

What Future for the Farmer/Feeder? . . .

In a time of rapid change in U.S. agriculture, no one really knows what the future will bring for particular groups or parts of the agricultural industry. Forces that will affect the patterns of resource use, of consumer demand, and of the nature and structure of particular agricultural sub-sectors are at best
difficult to identify and project ahead. But at this point in time, I see little reason to expect the quick demise of the farmer/feeder. He's likely to change somewhat to be sure. But there's reason to expect farmer/feeders to remain an important part of the industry and possibly even to regain just a bit of the lost share of feeding.

That may seem like sentimental loyalty of a midwestern farm boy to a style of feeding that has been traditional in his native area. But I believe there are more fundamental reasons to expect farmer/feeders to stay in business in the decade ahead. Resources are obviously available for cattle feeding in many farming areas of the midwest—if there is the ability to compete with other areas and the motivation and economic incentive to do so.

The ability to combine a well managed cattle feeding operation with other farming enterprises should continue to offer benefits that will make this kind of feeding operation competitive and also of interest to many farmers. Midwest cattle feeding is not likely to change to the predominately large scale, specialized style of commercial feedlots. Instead, feeders will try to adjust feeding to the resources and organizational arrangements present in farming areas and to capitalize on the particular advantages they have. Let's look at some of these advantages, as well as the disadvantages, before trying to look into the possible future for farmer/feeders in the 80's.

Some Pluses for Farmer/Feeders

Feed Availability and Cost. Although farmer/feeding isn't exclusive to the midwest or cornbelt states, this region has been the center for this kind of cattle feeding. And one of the clear strengths of the midwest is the availability of ample supplies of feed—both grain and forage. The 10 states shown in Figure 1 (Iowa, Illinois, Indiana, Minnesota, Michigan, Missouri, Nebraska, Ohio, South Dakota, and Wisconsin) accounted for three-fourths of the nation's feed grain production in 1978. They also produced a large volume of corn and
sorghum silage—over 61 million tons or half of the U.S. total. Add to that also approximately 45 percent of the nation's hay crop in 1978.

So there are ample supplies of both grain and roughage in the midwest for cattle feeding. And from a feed cost standpoint, this region should have an advantage over most other areas of the country—something farmer/feeders can capitalize on. Since much of their feed is home-produced, this can be a moderating influence on the cash costs of the farmer/feeder versus a commercial lot where most or all of the feed is purchased. Thus, variations in feed costs are likely to have less impact on the cash flow position of the farmer/feeder. When high feed prices add to his costs of feeding cattle, they may improve the profitability of his grain production activity—and add financial support to the total farming operation.

There's another dimension of the feed picture that may make the future position of the midwest farmer/feeder even stronger in this area. Higher energy costs will have a greater impact on feed grain production costs in areas heavily dependent upon irrigation. This will also become more significant in costs of transporting grains from surplus areas of the cornbelt to other feeding areas. The long-run availability of water may also be a factor in limiting grain production in some areas where large commercial feedlots are now dominant.

Feeder Cattle Availability. Midwestern farmer/feeders have relatively good access to feeder cattle supplies. A little more than a third of the beef cows in the U.S. are in the North Central States (Table 1). And feeder cattle from the Northern Plains states continue to be available to the midwest in fairly large volume. In addition, feeder cattle from the South Atlantic and some South Central States are more accessible to midwestern feeders than to some of the feeding areas in the West and Southwest.

Table 2 compares 1978 beef cow numbers and fed cattle marketings in two groups of states. The ten midwestern states listed include the bulk of the
nation's farmer/feeders; they had 27 percent of the nation's beef cows on January 1, 1978 and marketed 40 percent of the fed cattle that year. The group of western and southwestern states had 36 percent of the beef cows and accounted for 53 percent of the fed cattle marketings in 1978. The ratio of beef cows to fed marketings, however, was nearly the same for each group—suggesting that both groups of states required inshipments from other areas for about the same proportion of their feeder needs.

Pricewise, cattle-feeders in the Central and Southern Plains states may have an advantage over some midwest-feeders in the purchase of feeder cattle, although this does not appear to be a major factor. Feeder attitudes regarding quality and breeding of feeder cattle may be a more important aspect of the comparative costs of cattle fed by some farmer/feeders versus those fed in large commercial lots. Thus, there may be a greater tendency for farmer/feeders to purchase higher grading cattle and to incur additional costs as a result.

Risk Bearing Ability. Farmer/feeders as a group are in a relatively strong position to obtain financing for cattle feeding, to carry the risk involved in cattle feeding, and to weather periods of feeding losses in the industry. This relates in large part to the source of feed supplies and to the multiple enterprise nature of most farmer/feeding operations. Since most farmer/feeders are also grain and forage producers, much of the feed does not represent a direct out-of-pocket cost. Instead, it is a charge to the cattle enterprise at its alternative market value. The value of the corn crop can be increased at times by "selling" it through cattle. At other times, losses on cattle feeding may be offset by greater profit on grain production activities.

It's a somewhat different proposition for a feedlot that requires a direct cash outlay for all feed. Financing the cattle feeding operation may be easier when the feed supply is largely home-grown and only the feeder cattle require outside financing. Likewise, some of the labor and other non-feed inputs to
cattle feeding may not be out-of-pocket costs for most farmer/feeders—in contrast to specialized feeding operations. The potential found on most farms for income flows into the farm business from other crop or livestock enterprises also helps the farmer/feeder carry the cattle feeding risk.

Some Negative Factors...

All things are obviously not on the plus side for the farmer/feeder. In most areas where there are large numbers of farmer/feeders, weather during part of the year is often unfavorable for efficient feed conversion. This, along with pressure to improve labor efficiency and to make cattle feeding more pleasant, has caused more farmer/feeders to provide some kind of shelter or housing for cattle—including considerable growth in confinement feeding facilities. The larger capital investment in facilities adds to the fixed cost of feeding. On the other hand, poor gains during periods of severe weather can also add significantly to feed costs.

The impact of environmental regulations relating to waste management and odor may be greater on the farmer/feeder than for large commercial lots. This may be particularly true for confinement facilities, which have been increasing in number. Facilities to meet Environmental Protection Agency regulations will be more costly on a per head basis in the midwest as a result of higher humidity levels, greater rainfall and the resulting need for larger pit capacity. The stringency of individual state environmental regulations regarding livestock wastes and odor, in relation to federal standards, may also influence the willingness and ability of some farmer/feeders to remain in business.

There is resistance to large concentrations of livestock in some midwest communities—even in areas where human population density is not particularly high. While population is not dense in many of these areas, the dispersion of farms and towns leaves few large areas that are not populated. This attitude toward livestock production also extends into resistance towards locating livestock
processing facilities in some communities. The result can be a negative political and social environment for livestock production.

Smaller feeders may be at some disadvantage in the purchase of feeder cattle and the sale of finished animals. This is mainly in terms of less frequent buying and selling, leaving the outcome of feeding operations dependent on a relatively small number of marketing decisions. By contrast, larger operations that buy and sell on a more frequent basis have more opportunity to average out on any monthly or seasonal variations in prices of feeder and slaughter cattle. Extremely small feeders may also be at a disadvantage in attracting bids on cattle or in their ability to utilize the futures market or other forward pricing operations.

As mentioned previously, most farmers in traditional farmer/feeding areas have several alternative farm enterprises that they can consider in deciding how to most effectively use their land, capital and labor resources. Although this is not a disadvantage with respect to cattle feeding, the presence of other alternatives such as hog production, dairying or cash grain farming means that they can choose the enterprise combination that appears most attractive to them -- from either an economic or personal value standpoint. This flexibility in the use of resources is a factor that could limit the volume of cattle fed by farmers/feeders in the years ahead.

What's Ahead?...

I think cattle feeding in the U.S. will expand moderately over the next few years, as the cyclical upturn in cattle numbers continues in the early to mid 80's. If weather conditions are fairly normal, feed costs should be moderate enough to encourage more feeding; and consumer demand for fed beef is likely to be strong enough to maintain cattle prices high enough on average to encourage some growth in fed beef production. I would expect, however, that consumer
preferences will direct further emphasis on high yielding carcasses that are free of excess fat.

If the economic and regulatory climate is favorable for cattle feeding in the decade ahead, I would expect the farmer/feeder to remain an important part of the cattle feeding industry. But he will change in some ways. Organizationally, there may be some growth in condominium type lots and possibly cooperative feedlots. More custom feedlots are also likely in the midwest. But I doubt that these types of feeding arrangements will be widespread. Feeding operations that are a part of a farm business that includes crop production will still dominate midwest feeding.

I would expect farmer/feeders to continue to increase in size, with a rapid dropout of very small feeders and a moderate increase in those from the 500 head level on up to the 2,000 to 5,000 or 6,000 level. But the larger operations will still be farmer/feeders in every sense. More of the operations will be large enough to move several lots a year through the facilities--placing cattle on feed several times a year. The trend to confinement feeding operations will continue in order to counter the effect of more variable and at times unfavorable weather and to permit year-round feeding.

Many of the farmer/feeder operations may combine confinement facilities and open lot feeding--utilizing the open lot for part of the feeding period and moving cattle into confinement for the final phases of the feeding program. This will provide a way to increase volume, but also will help hold down capital requirements. It will also permit some flexibility in volume fed, with less economic pressure to utilize facilities to capacity when prospective feeding returns are poor.

Most farmer/feeders in the decade ahead will be good managers, more businesslike in their feeding operations and oriented to making cattle feeding a positive contributor to the financial success of the total farm business. They'll be
competitive with other feeders, on balance, with particular advantages in feed costs and the ability to disperse the feeding risk over other farming activities. And they’ll continue to have a bit more flexibility in adjusting their level of feeding from year to year.

Management decisions will be made with the help of micro-computers and programmable calculators, which will be widely used and available at low cost. They’ll be used to guide purchase decisions, ration formulation, pricing and marketing of cattle. Feedlot performance will be monitored and records on the beef enterprise will be maintained and summarized on the farm by micro-computer.

Midwest farmer/feeders are using their feed supply more efficiently than in the past; and this will strengthen their competitive position in the future. They’re making more use of silage to utilize more of the corn plant and produce more beef per acre of corn. And they are less inclined to over-feed cattle but rather to sell at lighter weights with less fat cover.

The price and income alternative from cash grain may be more favorable in some midwest areas then in others—due to access to transportation to export points or for other reasons. This may influence the level of cattle feeding, with some growth in farmer/feeding more likely in areas where the cash grain price alternative is less attractive. Areas in western Iowa, eastern Nebraska and eastern South Dakota are among the possible areas of growth.

Farmer/feeders will also do a better job of marketing their finished cattle and of buying feeders. They will make greater use of the futures market and other forms of forward pricing or contracting as a way to reduce price risk. More cooperative marketing is likely with many cattle marketed by feedlot marketing organizations—with groups of farmer/feeders organized to hire the services of feedlot representatives to advise them on the sale and purchase of cattle, to
represent them in negotiating with buyers and sellers and to handle most of the marketing details.

Some further integration of cattle feeders into beef processing is likely—mainly in the form of membership in cooperatives who own slaughter and processing facilities. There will also be an increase in contractual arrangements between farmer/feeders and processors—either their own cooperative plants or other processors.

Summary . . .

In summary, I think the farmer/feeder is in good position to maintain his relative standing in cattle feeding and possibly to expand his role slightly in the next decade. Combining cattle feeding with crop production and other farm enterprises will continue to be a competitive way to feed cattle and one that will be attractive to many farmers. The number of farmer/feeders will likely decline in the decade ahead; and those that continue in cattle feeding will be larger and many will combine confinement and open lot facilities into an efficient year-round feeding system. Look for more contractual feeding, more custom feeding, and more cooperative or joint venture feeding by farmers in the Midwest. But independent farmer/feeding will still be dominant in that area.

Farmer/feeders will be serious about cattle feeding, will be good managers in general, will make extensive use of micro-computers and programmable calculators to guide their decisions, and will be oriented to profitable feeding. They will be more market oriented and will make greater use of joint marketing arrangements through organized feedlot marketing groups and involvement in cooperative processing operations. More of them will make use of forward pricing alternatives to help manage the price risk in feeding.

While larger commercial feedlots will continue to turn out a bigger share of the total fed cattle supply than farmer/feeders, don't count the farmer/feeder out. He'll be around in the decade of the 80's.
Figure 1. Feed Production, 1978

% of U.S. Total
Feed grains 74%
Silage (corn & sorghum) 50%
Hogs 45%
Table 1. Location of U.S. Beef Cow Herd, January 1, 1979 (percent of U.S. total)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Central (includes Texas)</td>
<td>37.2</td>
</tr>
<tr>
<td>North Central</td>
<td>34.0</td>
</tr>
<tr>
<td>West</td>
<td>18.6</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>9.2</td>
</tr>
<tr>
<td>North Atlantic</td>
<td>0.8</td>
</tr>
<tr>
<td>Alaska &amp; Hawaii</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 2. Beef Cows vs. Fed Cattle Marketings

<table>
<thead>
<tr>
<th>Region</th>
<th>Number (000)</th>
<th>Percent of U.S. total</th>
<th>10 Midwest States 1/</th>
<th>9 Western and Southwestern States 2/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef cows, January 1, 1978:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number (000)</td>
<td>10,451</td>
<td>26.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fed cattle marketed, 1978:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number (000)</td>
<td>11,216</td>
<td>40.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of beef cows to fed cattle marketings</td>
<td>.932</td>
<td>.943</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1/ Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Michigan, Ohio, South Dakota and Wisconsin.

2/ Arizona, California, Colorado, Kansas, New Mexico, Oklahoma, Oregon, Texas and Washington.