

INFLATION

and the American Angus Assn.

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Most of us agree with the politicians' assessment that inflation is public enemy No. 1. I am sure that inflationary pressures are felt in the daily operations of every cattleman each time he reaches for his checkbook. The rate of increase in costs of production, marketing and transportation is staggering.

Last year the Consumer Price Index (CPI) increased by 13.3%. In January 1980, the annual rate increased by 18%.

In the economic history of this country, we have experienced temporary spurts in the CPI many times. The early 1970s is a recent example. The most discouraging thing about the current runaway inflation is that many economists and businessmen expect it to stay at these record levels for the entire year. Even those who are more optimistic project that double-digit inflation may be a way of life for some time to come.

For now, we will leave the "whys" and "how much" to the economists. The businessman must sharpen his business instincts in order to survive this current round of inflation.

Service Organization

Your association is a service organization. Its primary function is to promote the Angus breed of cattle. To perform this function, we maintain registry records, promote Angus with a national advertising program, develop and promote a breed improvement program, contribute to cattle shows, sponsor other events designed to promote the cattle industry and provide a field service staff that reaches local levels.

The budget required to provide the services listed is \$2.8 million in 1980. And as in your cattle operation, costs are increasing each month.

Budgets are constantly reviewed to hold the line on costs. Planning, on both a short-term and long-term basis, is the first and foremost ingredient of financial stability. One action taken by the association recently was to establish annual dues for all new members. Although the fee is quite low (\$10) and the first dues will not be collected until Oct. 1, 1982, it will assist in offsetting the cost of maintaining a large membership and providing basic services to those new members who join the association after Oct. 1, 1980.

Cash Management Policy

An example of short-term planning, or perhaps more appropriately on-going planning, is the cash management policy of the association. It is designed to maximize the

use of funds by earning interest on all idle cash.

With the current rate of inflation, it is absolutely necessary that fees be reviewed periodically. Without periodic review and adjustment, the association would soon find itself in a position where it was unable to provide the services demanded by its membership.

If inflation continues at the January 1980 rate of 18%, it will cost an additional \$400,000 just to maintain the status quo. A 12% inflation rate translates into an additional \$200,000 of expenses annually. These figures do not even consider the replacement cost of assets such as buildings and equipment.

Our crystal ball is no better than anyone else's. However, there is strong reason to believe that inflation rates from 12-18% are realistic possibilities.

We are aware that an 18% CPI does not automatically translate into an additional \$400,000 of expenses. The effect on the association depends on the increase in costs of the particular products and services we purchase. History, however, has indicated a very close relationship between added costs incurred by the association and the change in the CPI.

The Same Problems

Your association is suffering the same problems that come with inflation as you, the Angus breeders. Like you, we make adjustments when required to by financial considerations. After studying the association's financial position, your board found it necessary to increase fees by \$1 on registrations, transfers and A.I. service certificates effective July 1, 1980.

We are extremely pleased that the fee increase could be held to such a small amount. The more efficiently the association can operate and provide the services that benefit all Angus breeders, the lower the fees that will be charged members. It is the desire of your board of Directors to maintain fees at as low a level as possible and still maintain adequate services for our membership and accomplish the goals stated in the Angus charter.

If the rate of inflation does not increase so rapidly as expected, the \$1 increase will produce enough revenue to provide services to our membership for some time to come. If the inflation rate is higher than expected, we will have to review the charges for our services in light of existing circumstances. 