

► Producers who differentiate themselves on the basis of quality may fare better than others.



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# What's Driving Female Prices?

Shrinking cow numbers, drought, energy initiatives and the ethanol drive all play key roles in higher-than-anticipated female prices.

by Troy Smith

In southwestern Oklahoma, near Anadarko, Bobby Bilyeu manages both commercial and registered Angus cows. Like a lot of producers during recent years of drought, Bilyeu has been applying plenty of culling pressure. And like a lot of others facing feed shortages, he hasn't kept back as many heifer calves for replacements.

Last fall, Bilyeu assembled a group of commercial heifer calves to market through the AngusSource® program. They were close in age, preconditioned and weaned, weighing about 600 pounds (lb.), and ready for grass. Bilyeu received a dozen inquiries, mostly from producers in surrounding states, and soon sold the heifers at private treaty.

"The buyer paid top-of-the-market price, plus \$75 per head. He planned to develop the heifers, breed them AI (artificial insemination) and resell them as bred females," Bilyeu explains. "He said he knew where he could market them easy enough, in an area that's short on mamma cows. I wish I had more heifers to sell him."

## Short on cows

A large portion of the country could be considered short on cows. It's mostly due to drought-driven shortages of forage for hay and grazing. Even where drought isn't the primary driver, costs of feed resources and other production inputs keep climbing. As a result, the total tally of beef cows in the U.S. has declined. Numbers have been in decline for years.

So what's going on? The nation's cow herd is shrinking, and industry analysts predict it's a trend that's likely to continue. You might think the market for breeding females would be pretty soft. Yet Bilyeu and others like him are selling heifer calves at handsome prices. During recent months there have been frequent reports of commercial bred heifers bringing \$1,200 to \$1,300, or more. Bred "running-age" cows can fetch as much as \$1,400 to \$1,500.

Those seem like fairly good prices during a time when the nation's herd is contracting. What factors are driving prices paid for females?

## Driving factors

Before sharing some opinions from around cow country, let's think about how we arrived at this situation. Utah State University agricultural economist Dillon Feuz says it wasn't so long ago that he and other economists expected high calf prices to trigger expansion. That's usually how it works.

"About two and a half years ago, we should have begun the typical expansion phase of the cattle cycle. Then fairly widespread drought put expansion on hold.

Add to that a government energy policy and incentives for ethanol production that encouraged more crop acres to be devoted to production of energy instead of feed. That also helped push prices of grain and hay higher," Feuz explains.

"It looks like we'll see those high prices continue, along with higher land values and pasture rental rates. I'd guess about one-third of producers may see profitability slip away from them. So, generally, herd expansion remains on hold until things shake out," he adds.

Still, Feuz says, bred heifer prices at the end of 2007 were about even with the year before. That's true for bred cows, too, on average. In some localities, however, prices improved. Larry Schnell, Stockman's Livestock Exchange, Dickinson, N.D., says prices improved toward the end of last year. In late December, bred heifers brought as much as \$1,350 and averaged \$1,150. Young stock cows topped out at \$1,560 and averaged around \$1,350. Schnell speculates that some diversified farmer-ranchers sold grain on a high market and bought breeding stock. Maybe they wanted to upgrade their herds, and buying before the first of the year offered tax advantages.

At sales hosted early in 2008, female prices were steady to slightly higher. Amounts paid for young bred cows improved by as much as \$100. Buyers paying top money have been very selective.

"I think drought prompted producers in our area to reduce their numbers. They started by selling cows that really needed to [be] culled, but had to keep going. I'm sure some of them culled a lot deeper than they would have liked," Schnell says.

"Then, last year, some areas got a little moisture, which improved their grass and hay situation. And I think some producers just had to have some replacements. Whatever the reasons, more of them are buying — not in huge numbers, but they want quality. They're looking harder at genetics," Schnell adds.

The Ogallala Livestock Market, which serves western Nebraska and adjacent states, has hosted several cow herd dispersions during recent months. Manager Dwayne Mays says the advanced age of owners, along with higher input costs and a shortage of labor are reasons behind many of the dispersions. The owners have decided to sell their herds — some numbering 1,000 to 2,000 cows — and lease out their ranches.

"Demand for the good cows has remained strong," Mays offers, though

he's a little surprised, considering rising production costs and forecasts for lower calf prices. "There still seems to be some buyer optimism, but for actual replacement and not for herd expansion. Bred females, especially heifers, have been bringing a little more money — if the quality is there. Many of them are going out of this local area to Kansas, Oklahoma and Missouri."

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**— Jarold Callahan**

Mays reports softer demand for open heifers offered as replacements. Most have been going on feed, or toward interim grass programs. Some will bring steer price or better, but not often.

Jarold Callahan, chief executive officer (CEO) for Oklahoma-based Express Ranches, says prices have been variable for commercial and registered females sold at auction and by private treaty. From the company's own herds and those of customers, Express Ranches markets in excess of 4,000 females per year. Callahan says demand for commercial females has remained good since last fall.

"There's been some restocking since the drought weakened in the Southwest, but it hasn't been exuberant," Callahan says. "We've sold commercial bred heifers in the \$1,200-to-\$1,500 range, with a few elite sets of heifers bringing a little more. On the purebred side, the very elite heifers are up probably 30% in value.

"Buyers have been aggressive, but very discriminating. They've been willing to pay well, but only for the kind they really want," he adds. "The top end of the market has been phenomenally good, and the low end of purebreds is down some."

Callahan calls demand for pairs lively, with 2- and 3-year-olds with calves at side fetching \$1,500 to \$2,000. Buyers of pairs are paying more for the promise of a quicker return. Older cows are discriminated against.

"It's a very sophisticated market," Callahan states. "Buyers are pretty decisive. In purebreds, they want a combination of pedigree, balanced EPDs (expected progeny differences) and phenotype. They want it all."

More commercial female buyers seem to be concerned about mature cow size. Many are seeking to moderate cow size, and that influences choice of females and the price those producers are willing to pay. Other producers talk moderation, but still pay more for big heifers. If females are bred, buyers want them mated to bulls promising low birth weights and carcass merit.

## Quality is king

While herd expansion isn't a dominant driver of female prices, producers do require a minimum number of replacements to stay in the cow business. Those that choose to buy females appear to be increasingly selective. They seem ready and willing to pay up for females that meet their quality criteria. They aren't very interested in anything less. In fact, there have been reports of packers outbidding replacement buyers and claiming bred cows of common quality.

Maybe the better females are selling so well because their buyers are trying to upgrade their herds and ready their operations for what lies ahead. Troy Applehans, cow-calf and stocker market analyst for Cattle-Fax, predicts continued high grain prices, due to ethanol mandates and export demand. That means high breakeven costs for feeders are likely to pressure calf and feeder cattle prices lower. But producers who differentiate themselves on the basis of quality may fare better than others.

"Producers offering quality are often in a position to receive more for their cattle," Applehans states.

The market for females seems to be illustrating that point.

