U.S. Cattle Industry Sees Shift with Ethanol Era

by ***Barb Baylor Anderson***

FORT COLLINS, Colo. (Dec. 12, 2007) — The ethanol industry boom and subsequent higher corn prices are shifting fundamentals in the U.S. cattle industry. And, Andrew Gottschalk, senior vice president of R.J. O'Brien & Associates and owner of HedgersEdge.com LLC, Englewood, Colo., says those changes aren't going away. Corn used for ethanol is expected to expand from 2.125 billion bushels (bu.), or 20% of annual production, to 4.3 billion bu. in 2009-2010, or about 30% of annual production.

Gottschalk addressed attendees of the 2007 Range Beef Cow Symposium XX Dec. 11. Hosted by the cooperative extension services and animal science departments of Colorado State University, South Dakota State University, the University of Wyoming and the University of Nebraska, the symposium is at the Larimer County Fairgrounds and Events Complex, Fort Collins, Colo., Dec. 11-13.

"The immediate impact of the Renewable Fuels Standard (RFS) is the sharp increase in corn prices resulting from increased corn demand for ethanol production. It has substantially increased the cost of corn to all users," he says. "The sector of our industry most susceptible to the adverse impact of a sharp increase in corn prices is the cow-calf sector. Higher corn or feedgrain prices will ultimately limit the price the fed sector will pay for calves and feeders."

PHOTO BY TROY SMITH

►Andrew Gottschalk

Not all regions of the beef industry will be affected to the same degree. Gottschalk notes ethanol production capacity is concentrated in an area that encompasses Iowa, Nebraska, Illinois, South Dakota, Minnesota, Indiana and Wisconsin. That capacity is attracting more cattle feeding.

"The move follows decades of decline, as cheap feedgrain prices and relatively cheap transportation costs had encouraged the growth of cattle feeding in the Southern Plains," he says. "The advantage in the Midwest (with availability of dried distillers' grains, or DDGs, for feed) can reduce feeding gain costs by as much as $10.00 per hundredweight (cwt.). For cattle expected to gain 500 pounds (lb.) while on feed, the cost savings can approach $50.00 per head."

In the short to intermediate term, Gottschalk says Midwest cow-calf producers and stocker operations will see additional demand for feeders and calves on feed. Some of the feed gain cost advantage can be passed on via higher prices. Producers can also reduce feeding costs for cows. Wet distillers' grain (WDG) can cut daily winter costs by 40% or more. Distillers' grain can be fed at 10% to 15% of the ration on a dry-matter basis in backgrounding operations.

At the same time, additional regional feedlot expansion will only exacerbate the current feeder and calf shortfall. "The Midwest is also limited by a lack of fed cattle daily harvest capacity," he says. "The differential in capacity is already being realized. Price premiums for Iowa/ Nebraska fed cattle over Texas have eroded from $0.50-$1.00 per cwt. to a $0.75-$1.30 per cwt. discount."

Ultimately, Gottschalk says, the price of fed cattle will be determined by consumers. "If fed cattle prices cannot increase to offset higher feeding costs, the necessity to ensure a profit margin to the fed sector will force the price of other inputs to adjust lower," he says. "Higher corn or feedgrain prices

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U.S. Cattle Industry Sees Shift CONTINUED

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Gottschalk predicts herd expansion is likely to be limited. Expansion in current ethanol mandates would also intensify competition for land. "Price differentials will eventually reduce some of the gain realized by Midwest producers," he says. "Long term, structural requirements are likely to lead to more ethanol plant expansion closer to end users. While such action will temper the advantage garnered by Midwest producers, it will not negate the advantage. Public perception and government ethanol programs will not likely concern themselves with any impact on the cattle industry. But these impacts will not be invisible, nor unsubstantial."

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