

CWT and Beef Cow Culling

Dairy producers have been experiencing negative cash flows for the entire year. Producer equity is disappearing at an alarming rate. Most agree we are milking too many cows and flooding the market with excess dairy products.

In an effort to get supply in line with demand, dairy farmers and their marketing cooperatives have organized CWT (Cooperatives Working Together). The purpose of CWT is to retire dairy cows and dairy producers. Participation in CWT is entirely voluntary and is totally funded by dairy farmer assessments.

CWT announced their third retirement cycle this year. The sign-up period is from October 1 to October 15. Weary dairy producers can obtain a bid form at www.cwt.coop or by calling 1-888-463-6298. Individual producers or their milk marketing cooperative must have been a full member of CWT since January 2009. The maximum bid CWT will consider is \$5.25 per hundredweight.

A logical question beef producers may have is how another dairy cow buyout will impact the price of their cull cows. Dr. Dillon Feuz, Economist and Ag Marketing Specialist at Utah State University, wrote about this concern last summer when the second CWT cycle was announced. Dr Feuz has been following the cull cow market in multiple states for twenty plus years, analyzing years of historical data. Of all agricultural markets, the cull cow market is more consistent and predictable than any others.

Data shows that cull cow prices increase from January through about April, and then maintain or increase slightly in value through August and then prices decline rapidly into October. The prices remain seasonally low through November and then sometimes they stay low in December and sometimes they increase in December. The most reliable part of this seasonal pattern has been the decrease from August to November. In the last 20 years, there has only been one year when prices were higher in November than they were in August. That was in 2003, the year the border was closed to Canada and steer prices increased 50% in a couple of months time.

The typical decline from August into November is about 15% in most markets. In dollar values, that would be a decrease of almost \$7 per cwt. if cows were at \$45 in August to about \$38 in November.

Surprisingly, cull cow prices declined from the typical \$48-49 level for Canner/Cutter grades in mid May to \$41-42 this past summer. Likewise, Utility grade cow prices declined from \$54 to \$46 over that time period. That is the 15% decline that economists would expect to occur in September and October.

Why did we experience a 15% decline in the cull cow market in late May? Many think it was all those dairy cows flooding the market from the CWT herd buyout program. Feuz advocates that assessment is mostly psychological because the numbers do not support it. In the weeks prior to that slump we were slaughtering about 111,000 cull cows and bulls per week. That was only up about 1,500 head from the March/April average weekly kill, and below the 2008 level of about 115,000 head per week. Granted, dairy slaughter increased from 44,000 per week last year to about 50,000 per week this year; an increase of 13%.

During that same period, however, beef cow slaughter decreased from 71,000 head to 62,000 head. Just looking at the slaughter numbers, Feuz suggests we should have been seeing near steady cow prices and that beef cattlemen may not have been justified in blaming their dairy cousins for cow prices not being higher. The impact may be as much psychological as actual.

Most cow-calf producers were not too concerned about cull cow prices last summer, but the volume of sales are always much higher in the fall. The recent announcement of another CWT retirement almost guarantees that dairy slaughter numbers will still be running above year ago levels and sales of cull beef cows will also increase seasonally. If nothing has improved in the general economy to increase the demand for beef, then this seasonal increase in supply will likely bring about more downward pressure on cull cow prices.

What can a beef producer do in this situation? It may already be too late to take advantage of seasonally stronger prices. If early culling is not an option, then perhaps there may be some profit in holding onto those cull cows and feeding them for 90 days. The price of hay and corn are lower than they have been in recent years and that certainly has a big impact on how profitable a feeding enterprise may be. Perhaps there will be a greater than normal price rally in the cull cow market when this round of the dairy CWT program has finished. That will especially be true if milk prices strengthen and it once again becomes profitable to milk dairy cows.