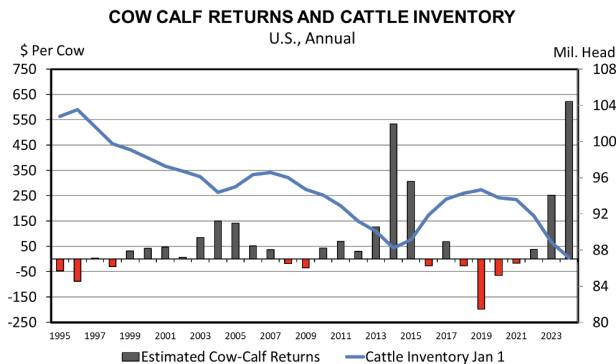


The Cost of High Dollar Cattle

Ken Kelley, Regional Extension Agent, Alabama Cooperative Extension System
Auburn University

Prices have been good for Alabama Producers and should remain so for the near future. Lower inventories and steady demand have pushed cattle prices to the point of profitability for most producers (see figure 1).

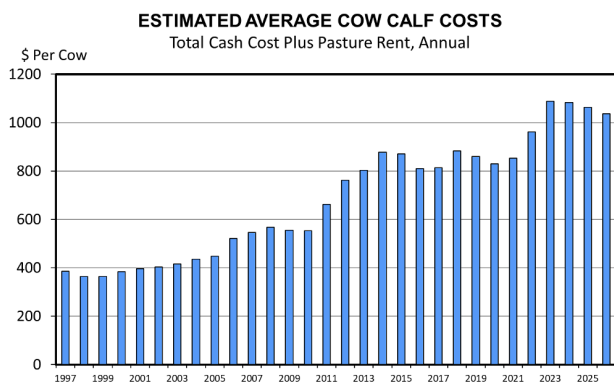
Figure 1.



However, it is always important to consider what the cost of production is for those producers and what will happen to profitability when cattle prices trend down (which they will). There are 2 components of profitability- income and expenses. So, what will expenses look like going forward into 2025? It is probably wise to consider where we have been and where we are now....and why we are there.

Figure 2 is a graphical representation of what estimated cow calf costs have been for cattle producers nationwide since 1997 and estimated costs through 2026. The low point on the graph would be 1998 when the average producer spent \$364 per cow, and the most expensive year on the graph would be 2023 with a cost of \$1088 per cow. 2025 projections are for a slightly lower cost of production with the average national cost being \$1064 per cow.

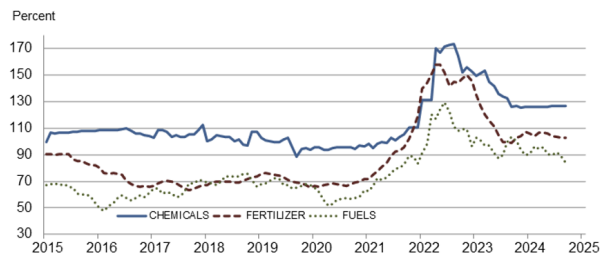
Figure 2.



When considering the hierarchy of expenses on a cattle operation, feed (including forages) is usually the largest and most expensive component we deal with (outside of the cost of breeding stock). As such, it certainly bears scrutiny. There are two major parts of most Alabama cattle producers feed bills- forages and (for lack of a better term) “bagged feed”.

First, we should consider the cost of forage (including both grazing and hay). Forage costs are driven by establishment expenses, fertilizer, chemical and fuel costs. As we can see in Figure 3, those costs are certainly down from the high point in 2023 and will project slightly lower into 2025. These prices were driven higher by both the effects of COVID and the effects of the Russian invasion of Ukraine. However, even though we have seen some relief recently, these prices are remaining higher than pre-covid levels. Management of these expenses will be paramount to profitability as cattle prices come down in future years. Producers should continue to employ sound agricultural practices like soil testing to ensure they don't invest more than is necessary in forage production. They should also consider grazing management and hay storage to prevent loss of produced forages.

Paid Indexes by Non-farm Origin and Month, Chemicals, Fertilizer, and Fuels – United States: 2011=100



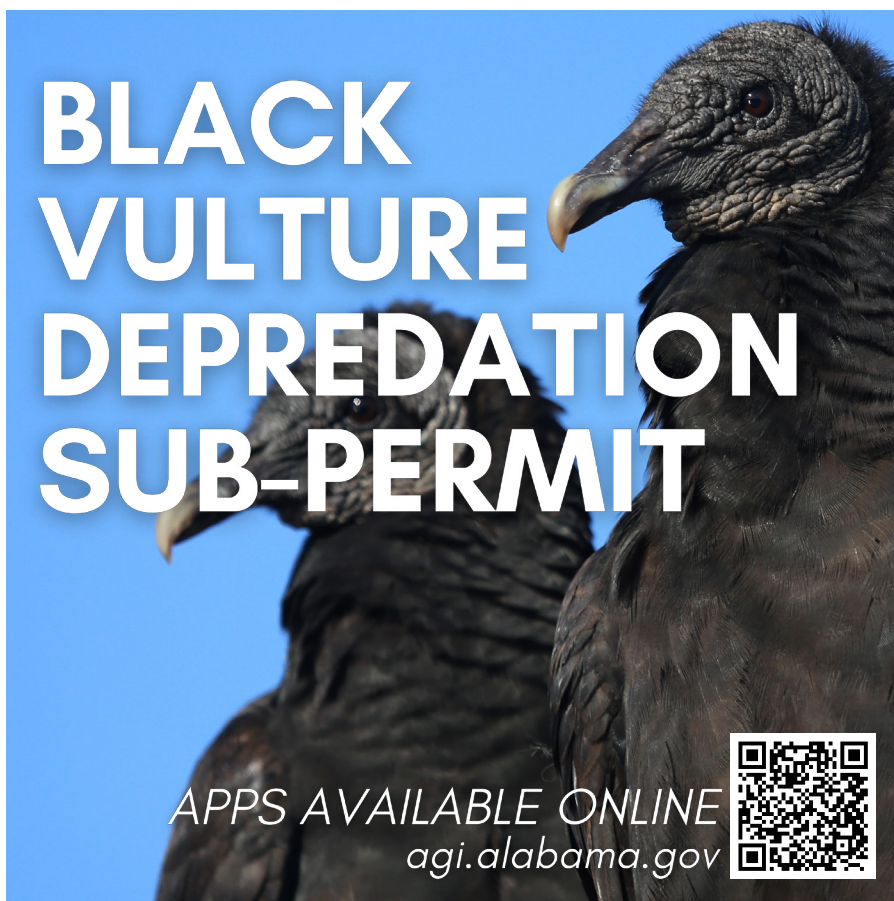
USDA – NASS
10/31/2024

Producers should also consider their bagged feed costs into 2025. Feed cost indexes are the lowest they have been since 2021, driven mainly by lower corn costs. While this is a very positive thing for livestock producers, it is also important to remember that even with lower feed costs well managed cattle producers will normally find grazing to be the lowest cost and highest performing option for their cow-calf operations.

There are numerous other expenses to be aware of as producers plan for our next year(s) in the cattle business in Alabama. Interest rates have been higher for us over the last couple of years as the Federal Reserve attempted to battle inflation. We have seen some easing of these rates, but they


remain well above the extremely low rates we enjoyed only a few years back. This makes it more expensive to buy equipment and other necessary inputs and can certainly hamper our profitability- even with historically high calf prices. Likewise, machinery costs have been rising at a significant rate since 2021. These higher costs for machinery and implements coupled with higher financing costs certainly make it difficult to expand the small to medium cattle operation.

So, what does all this mean as far as profitability? It means that if we are good managers and good producers, we will have the opportunity to be profitable in the near term with our projected calf prices. However, as we move forward managing expenses and planning for our future expense needs to be prioritized just like choosing our next herd bull or picking out our replacement heifers to purchase.



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