WHEN PRICES ARE HIGH

Cattle buyer and ag lender reflect on record cattle market.

Story by Jena McRell
Photos by Katie Barnett

As Craig Scarmardo opens the door from inside his pickup, he's met with a flood of familiar sounds — bawling calves, clanking gates and the rumble of a semi-truck in the distance. Hours before sunrise, the crew at Scarmardo Cattle Company near Caldwell is busy settling in new arrivals from the prior day's purchases.

The team of buyers attends nearly 70 auctions each week across Texas, filling orders for stocker and feedyard customers across the South and Midwest. Every day the facility is the stopping point for cattle on the way to their next destination.

Craig walks the pens in the early morning light and looks over the stock one by one. In one corner, there is a set of freshly weaned calves ready to run on wheat pasture in Central Texas. In another, a group of backgrounded feeders destined for a feedyard in Nebraska.

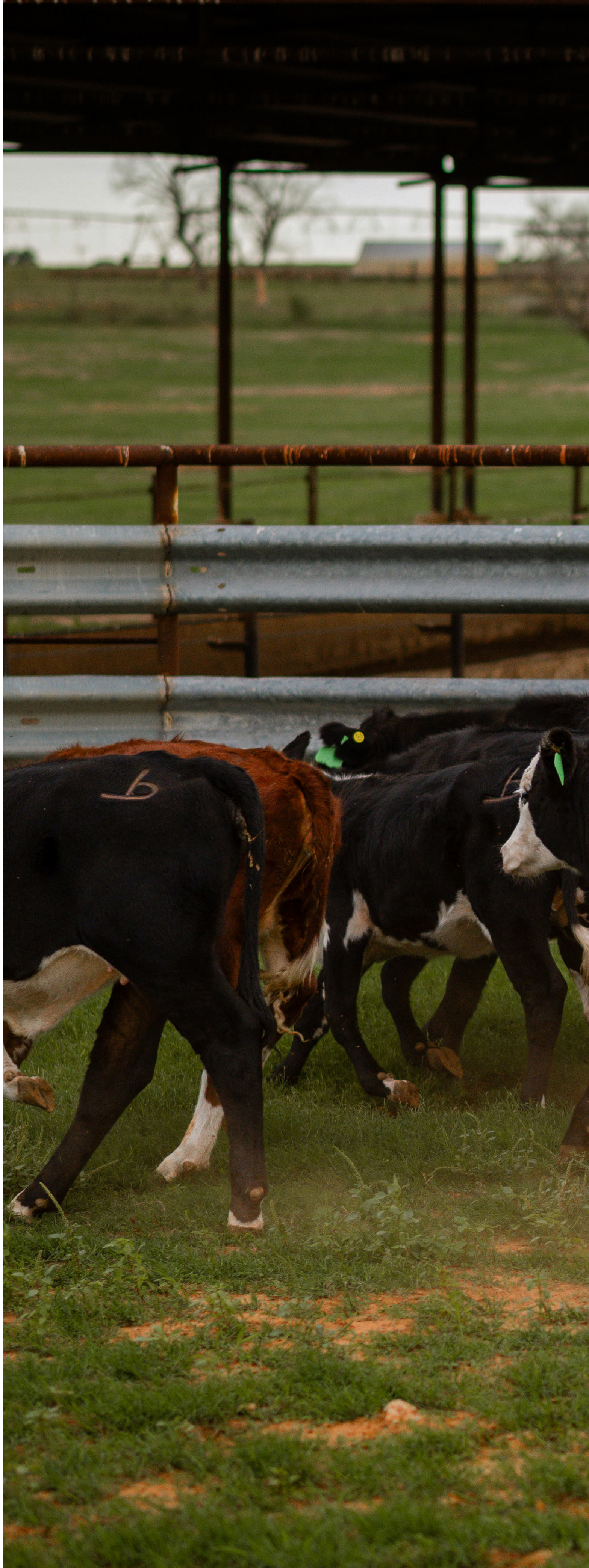
"Our job is to put cattle in the right place at the right time to maximize their value," Craig says. "We work to make both parties, the buyers and the sellers, happy."

Scarmardo Cattle Company is one of several family businesses established by Craig's father, Pete Scarmardo. Right out of high school in the late 1970s he purchased a few head of cattle and leased a set of pens. From there, Pete pursued his dream and built a future in the agriculture industry for his three sons: Scott, Craig and Ty.

"It boils down to hard work," Craig says of his father. "Some strategies work, and some are lessons, but he gets up and goes to work every single day."

Decades ago, no one could have anticipated weaned calves bringing $1,500 per head or $2,000 eight-weight steers. Today's record-high cattle prices bring profit potential, but also a high-stakes game of financial planning. Craig says keeping a close eye on the ledger and maintaining a strong relationship with a trusted agriculture lender is key.

"Whether we're buying auction calves, calves off the ranch or a string of yearlings off winter pasture, the amount of dollars we are handling is exponentially bigger than it was five years ago," he says. "So it's been a little tougher to operate. We've put more capital at risk on smaller margins."

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Cattle move through the pens at La Babia Cattle Company in South Texas. The current high-risk, high-reward market offers both challenges and opportunities for all segments of the cattle business.

HIGHER AND HIGHER

Pat Shields, a Capital Farm Credit senior relationship manager based in College Station, says the level of price volatility has been the largest shift impacting the beef industry. Wider swings in both the cattle and grain markets have caused extremes in both directions.

"You could see bigger rallies and bigger downward runs as well, which is going to cause a margin call for somebody every day," Shields says.

He attributes greater volatility in the futures market to changing dynamics at the Chicago Mercantile Exchange, including expanded daily limits and computerized trading. Technical traders operate in the immediate or short-term commodity futures markets, he says, making decisions driven by chart analysis and other indicators to find a quantifiable edge.

Pat Shields

"Fundamental traders and hedgers are more into mitigating risk and move slower as they base decision making on such things as supply and demand, weather patterns, bullish or bearish tone of the market, and foreign policy," Shields explains.

With tight supplies, rising demand and recent drought conditions faced by many in cattle country, the equation adds up quickly for higher prices at the livestock market and in the grocery store.

Cattle prices may be record-strong, but everything else is, too. The overall economic weight of higher interest rates and inflation have placed a heavy load on an operation's bottom line.

"The high interest rates coupled with inflation have really made it tough on not just the consumer, but the producer," Shields says. "It costs so much more from a budgetary standpoint in the year's operating cycle."

CATTLE PRICES MAY BE RECORD-STRONG, BUT EVERYTHING ELSE IS, TOO.

He says most producers have seen interest rates double alongside rising operational costs in recent years. The result has been a sharp increase in overall expenditures. "That is almost a four multiplier rather than just twice the interest you were paying three to four years ago before rates increased," Shields explains.

According to the most recent USDA Census of Agriculture and data published Nov. 11 in *Southern Ag Today*, all southern states have experienced higher agricultural production expenses.

From 2017 to 2022, Texas reported a nearly 22% rise in input costs, feed, labor, fuel, cash rent and other defined expense categories. Oklahoma saw a 15% increase during the same timeframe. Looking at 20-year data from 2002 to 2022, Texas production costs increased 21% and Oklahoma nearly 18%.

Within the Census, total farm production expenses were broken down into 17 categories. The top five mentioned across 14 southern states were: purchased feed, at nearly 29% of the total $112.3 billion; livestock and poultry purchased or leased, 15%; hired farm labor, 8.5%; fertilizer, lime and soil conditioners purchased, about 7%; and repairs, supplies and maintenance costs, around 6%.

Shields says he remains optimistic about how economic trends — nationally and across the agriculture sector — might shift in the year ahead.

At time of press in early November, the Federal Reserve cut interest rates by a quarter percentage point. The target range of 4.50-4.75% is the lowest level since March 2023.

With President-elect Donald Trump returning to the White House and a Republican-led Congress, all eyes will be on Washington, D.C., to see where the economy might be headed.

"I think that with another couple percent drop [in interest rates], people would feel better and be a little more profitable," Shields says.

EXPENSES ON THE RISE

Input costs, feed, labor, fuel, cash, rent and other expenses.

Five-year data (2017-2022)

↑ **22%** **Texas**

↑ **15%** **Oklahoma**

20-year data (2002-2022)

↑ **21%** **Texas**

↑ **18%** **Oklahoma**

Source: *USDA Census of Agriculture*, Southern Ag Today - *Nov. 11, 2024*

DOING BUSINESS

In addition to cattle price, Shields says adequate and timely rainfall is the primary predictor of cow-calf profitability. Feed costs as a result of drought rob from the bottom line quickly. He advises clients to annually project alternative feed sources within their business plans for when the inevitable dry spells occur.

Craig says their feed costs have been fairly moderate compared to the five-year average. Depending on the feed source and commodity price, he estimates a cost of around $1.05 per pound of gain. That is an improvement over the prior $1.25-$1.35 levels.

Craig Scarmardo

For stockers and feedyards, he says the current struggle is extended days on feed. With tight cattle supplies and growing demand for beef products, the industry has responded by sending heavier animals to the packer. But those added pounds come with a cost.

Not long ago, Craig says they could purchase an eight-weight steer, 800-899 pounds, for about $1,200. They would grow that steer to 1,400 pounds and he was ready for harvest. Today, they are paying $2,000 for an eight-weight steer and raising him to 1,500-plus pounds.

"We're paying more money for our inventory, plus we are owning them longer," Craig says. "The longer you own the animal, the longer that capital is at risk, and the more overall risk you carry."

Some stocker operators who would traditionally retain ownership of cattle through the feedyard are choosing to sell early, Craig says, and freeing up capital to purchase the next set of animals. Others are spreading out cattle more and putting on more pounds in the backgrounding stage.

"Maybe they buy a four-weight steer and graze that one steer all the way up to 800-850 pounds, whereas previously, they would sell them at 675-750 pounds," he says.

Ultimately, profitability in the cattle market is won on the margins, by making smart decisions at the right time and avoiding chasing after extremes.

"Keep in perspective that it's impossible to accurately predict the top or the bottom of the market continuously," Craig says. "Just try to trade somewhere in the middle that's profitable. And if you can stay profitable and keep trading, you can stay in business."

BUDGET WISELY

To help ease uncertainty in a high-stakes market, Shields recommends cattle producers budget for risk management strategies.

The USDA Livestock Risk Protection program, or LRP, has been a popular avenue for insuring cattle on a per-head basis. “It has been helpful for a lot of people,” Shields says. “You can apply it on a wide range of cattle weights or even the in-utero fetus for bred cows. You can protect the calf that’s on its way.”

Pasture and Rainfall Protection, known as PRF, is another risk management measure gaining traction. The drought insurance plans, available through various brokers, offer cash-back payment that can be used to purchase feed if minimum rainfall thresholds are not met.

Other strategies include futures contracts and options, or pre-paying input expenses to lock in a certain feed price. Shields says these are all considerations to discuss with a lender when developing an overarching business plan and operational budget.

“Make sure to have open communication with your lender,” he says. “If something comes up on the horizon, call them early. Be proactive and work together.”

Financial conversations should revolve around potential growth, too. Shields reminds producers to be ready when the right investment comes along.

"You want to have room for opportunity as well, not just a disaster," he says. "If there is a day the market looks good, you want to have the capital there to take advantage of that chance to grow, expand or make some more profit if you see it's out there."

EYES AHEAD

Moving into 2025, Shields says strong cattle prices should continue into the foreseeable future. "We are going to see a lot of opportunity [over] the next few years in the cow-calf business," Shields says. "They are really in a cat-bird seat for a while."

As the cow herd shifts toward an expansionary phase, investments into replacement females are expected to be costly, but a worthwhile expenditure. Shields says if last summer's trends hold true, it could be another record year for cow prices at the packer. If producers decide to send older cows to auction, that could return the needed funds to reinvest in young or bred heifers.

"As long as we are finishing cattle to larger weights, we will need more and more cow beef and trim to mix for the desired ground beef ratios," Shields says. "This increases the demand for packer cows and bulls."

Each operation will need to take an honest look at their herd, finances, projected operational expenses — and collective goals for the future.

Livestock agriculture is a long-term game, filled with risk and reward, as Craig and his family know well.

"I hope that we continue to maintain price points that are profitable and encourage young people to get into or stay in this business," Craig says.

"I hope that we can continue to evolve in the direction consumers want and provide the most nutritious, wholesome protein in the world."

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— Pat Shields, *Capital Farm Credit*