

# COW SQUEEZE



## Economics and the competition for land continue shrinking the TCFA area cowherd.

BY WES ISHMAEL

### Everybody has a story.

In South Texas, miles of high fence make exclusive wildlife and recreation areas out of what was once productive cattle land.

In East Texas, the high cost of fertilizing improved pastures makes it more economically enticing to apply Roundup® and plant it to cotton.

In the Rolling Plains, small grains pastures traditionally used wholly or in part for cattle forage are becoming grain-only.

In the High Plains, migrating dairies continue to compete for land and resources traditionally reserved for beef cattle.

Even in parts of West Texas, rangeland is becoming more fragmented and less cow-friendly.

Everyone has a story with the same ending: Beef cattle numbers in Texas continue to shrink.

As of Jan. 1, 2008, there were fewer beef cows than ever that had calved in the state—5.2 million head—at least going back to 1971. Peak state numbers occurred in 1975 (6.9 million), the same year the national cowherd topped out at 45.6 million head, according to annual January 1 cattle inventory reports from the National Agricultural Statistics Service (NASS). Texas had 6.2 million beef cows as recently as 1995.

Based on data from the Texas Agricultural Statistics Service, the number of beef cattle operations in the state has decreased, too, from 133,000 as recently as 2002 to 130,000 in 2007. Of those, 11,900 own 100 or more cows.

The trend is the same on a national basis. On Jan. 1, 2008 there were 32.6 million beef cows, 28.5% fewer than the peak in 1975—the lowest number since 1971 when the annual NASS inventory reports were made available. Nationally, the number of operations with beef cattle Jan. 1, 2007 stood at 757,900, down 1% from 2006 and 2% less than 2005.

On a percentage basis, the Southeast (Louisiana east, including Kentucky, Tennessee, West Virginia, Virginia, South Carolina and North Carolina) has lost the most beef cows—30.8%—from peak to ebb. Combined, numbers in the Central Plains and Corn Belt have declined 30.6%. The Southwest, including Texas, is 26% less, while the West is down 21.1%.

States losing the highest percentage of cattle from 1975 until now are Mississippi (-65.3%), Indiana (-60.3%), Arizona (-54.1%), Illinois (-50.6%) and Georgia (-50.0%).

There's no single definitive cause, especially in Texas. Beef cow attrition revolves tightly around land fragmentation, increasing land values, higher input costs and good old-fashioned drought.

## Everybody Wants a Piece of the Country

"In 2001, the Governor's Task Force on Conservation concluded that the fragmentation of large family-owned farms and ranches poses the greatest single threat to wildlife habitat and the long-term viability of agriculture in Texas." That's according to a landmark 2003 analysis, Texas Rural Lands (TRL), conducted by Texas A&M University, Texas AgriLife Extension and the American Farmland Trust.

In other words, as chunks of rural land get sliced and diced into more numerous but smaller parcels, both wildlife habitat and cattle grazing opportunities decline.

According to the TRL, the amount of land in mid-sized farms and ranches (500-2,000 acres) declined by approximately 250,000 acres annually during the 1990s. Though some of this land was consolidated into larger operations, most was fragmented. Between 1982 and 1997, based on USDA statistics, the TRL indicates 2.2 million acres of rural Texas land was converted to urban use. Since that time, skyrocketing increases in land values suggest this trend has accelerated.

"Public policy at every level is driving land fragmentation in the state," says David Langford, vice president emeritus of the Texas Wildlife Association (TWA). "It's as if elected officials and policy makers think every bit of open space is waiting to be developed... The value the public places on open spaces is for development, to sell and not to keep."

Though Langford says his family wouldn't sell its six-generation ranch if you put a gun to their heads, he points out there's plenty of disincentive for families to keep ranches together, everything from estate taxes to public policy.

Driving home the point, Langford mentions the current movement by San Antonio lawmakers to condemn the historic Maverick Ranch as a dam site to protect development in a flood plain. "Because we as a society want so badly for people to own asphalt and rooftops, we're willing to put a national treasure under water so developers can make profits downstream," he explains.

In fact, the TRL study was conducted to arm the public and policy makers with data needed to plan for the conservation of working rural lands in Texas. One of the recommendations was developing a state Purchase of Development Rights (PDR) program to provide landowners with financial incentive not to sell or subdivide their lands.

The Texas Farm and Ranch Lands Conservation Program became a law in 2005. It establishes a PDR by which landowners can voluntarily sell development rights on their property to a qualified conservation organization or government agency. The program has not yet received funding.

"TCFA has no specific policy regarding PDR pro-

grams," says TCFA President & CEO Ross Wilson. "But we are strong proponents of private property rights. PDR is a property rights issue, ultimately accepted or rejected by private landowners. As always, landowners should be cautious about any agreement they make."

## Land Values Skyrocket

Since 2001, land rush dynamics have propelled Texas nominal rural land values ahead by 120%. Charles Gilliland, research economist at the Texas Real Estate Center (TREC) at Texas A&M University's Mays Business School explains that until the 1990s farmers and ranchers were the primary buyers of agricultural land in the state. Along came a robust economy and plenty of interest from recreational buyers. Now, with inflation jitters, more investment buyers are entering the market looking for a hedge. So, rather than one group of buyers, there are three.

Consequently, though there are signs the market may be maturing, there's little reason to expect the bottom to drop out.

Speaking to the first half of 2007 when agricultural land transactions slowed, Gilliland explains, "Potential buyers are still searching for land, but continue to face shortages of quality properties for sale throughout the state. Second, potential sellers have begun to factor anticipated price growth into asking prices. The resulting jump in asking prices has startled some buyers and caused them to delay buying in hope of finding more desirable properties for the price."

The average value of Texas rural land rose to \$2,076 per acre during the first half of 2007, 15% more than 2006, the first time values have been more than \$2,000. Values in 2005 grew by a whopping 23%. Lending support to the notion of fragmentation, the average size of property traded during the first half of last year declined to 82 acres, a record low.

According to Gilliland, the real (inflation-adjusted to 1966 dollars) price of \$407 per acre during the first half of 2007 was the first time inflation-adjusted values have pushed beyond \$400.

Here in Texas, NASS says the 2007 annual pasture value was \$1,370 per acre, a 26.9% increase over the previous year. Annual cash rent value was \$8.30 per acre; the national average was \$12.

Along with more categories of buyers, there are more buyers overall as Texas population growth continues at a hot pace. According to James P. Gaines, another TREC research economist, the state population stood at 22.9 million in 2005; it's expected to surge to 26.6 million by 2015 and to 33.3 million by 2030.

"My best estimate is that price increases will tend to moderate," says Gilliland. "There's still interest, and there's



not as much leverage in the market as there was in the 1980s, so it's not as vulnerable as it was then."

Even the relentless news about the nation's slow-down in housing and anemic economic performance—barring some sort of Depression-like meltdown—won't necessarily take the bloom from Texas land prices. Gilliland emphasizes, "Hard assets like land have traditionally been a hedge against inflation."

To varying degrees, the same can be said about agricultural land prices across the nation.

Farm real estate values—a measurement of the value of all land and buildings on farms—averaged \$2,160 per acre in 2007, up 14% from 2006, according to NASS. That was record high and \$260 more than a year earlier. Cropland and pasture values rose by 13% and 16%, respectively.

In Iowa, the epicenter of corn-based ethanol production, farmland values grew 22% (\$700 per acre) last year to a record high \$3,908 per acre, according to economists at the Iowa Beef Center. The average value per acre in 2000 was \$1,857.

Closer to home, unsurprisingly, cattle producers in Oklahoma and New Mexico are also seeing land values surge. Average farm real estate values in New Mexico increased 17.3% (to \$610 per acre) last year; Oklahoma's grew 11.3% (to \$1,080 per acre). Pasture values bulled ahead 27.3% (\$350 per acre) and 18.4% (\$900 per acre) in New Mexico and Oklahoma, respectively. NASS cites annual pasture rent value last year at \$2 per acre in New Mexico and \$9.50 per acre in Oklahoma.

### **Cow-Calf Profitability is Declining Fast**

Along with increasing land and lease costs, the precipitous climb in other input costs is taking away economic incentive to run cows, despite historically high cattle prices the past few years and the longest run of sustained profitability in the cow-calf business in our lifetimes.

Last winter the Livestock Marketing Information Center (LMIC) estimated returns over cash costs, plus pasture rent for commercial cow-calf operations in the Southern Plains, had declined more than \$100 per cow since 2004. LMIC economists say cow-calf returns for 2007 were about \$38 per head, the lowest since 2002 and the second lowest since 1999. At the time, they pointed out in January last year USDA reported that costs for production items were 2% higher than a year earlier; by July the increase was 7% and by December the annual increase was 11%.

Closer to home, Stan Bevers, a TAMU agricultural economist, says that annual costs for participants in the Southwest Standardized Performance Analysis (SPA) were \$571.73 per female in 2006.

Using a subset of 56 herds that completed the Southwest SPA analysis for the three previous years, the average weaning

percentage was 81.39%, meaning the average cost per calf weaned was \$648.65.

Even so, Ron Gill, Texas AgriLife Extension beef specialist, thinks drought over the past decade has had more to do with declining cow numbers in the state than fragmentation.

Texas has lost right at 1 million beef cows since 1995, much of it fueled initially by drought. Rather than build cow numbers back, Gill explains, "With the high price of cattle, producers have been able to run fewer and still be profitable." Other producers have made the switch to stockers and yearlings. Others have folded their tents.

For that matter, Gill says the make-up of producers attending extension meetings and calling for advice hasn't changed much in the 24 years that he's been helping them. At every meeting he says about half are new, meaning they haven't been to a TAMU extension meeting before. The primary questions continue to revolve around nutrition.

### **Education and Cooperation are Key**

There's no telling how much growth is possible in the state and national cowherds, if any.

"With corn prices driven to all-time highs in 2007 by the demand for ethanol, the livestock industry has experienced what many consider to be the third biggest event to shape agriculture's history," says Barry Dunn, Executive Director of the King Ranch Institute for Ranch Management (KRIRM). The other two revolutionary changes were the invention of the moldboard plow in the 1850s and the introduction of hybrid seed corn in the 1930s-40s.

Speaking last fall of soaring global grain demand and federal mandates for grain-based ethanol production, Dunn explained, "The mosaic of American agriculture will be very different. There's a battle for resources between cow-calf producers, stockers and feedyards. The marketplace and price discovery will be very different. It will all happen faster than we're used to."

One thing Dunn is convinced of is that holding fast to the industry's traditional commodity model amid higher costs will likely lead to further attrition.

Likewise, though there are no silver bullets, Gill says, "I think there are more opportunities for producers to participate in branded and niche programs, but it will take cooperation and coordination. If producers would just capitalize on what they're already doing or not doing, they could find more opportunity."

In other words, cow-calf producers who don't implant or use antibiotics are missing an opportunity when they sell their calves as a commodity product, just like producers who precondition but don't let buyers know about it or document their efforts in a way that provides value.

*(continued on page 134)*

(continued from page 10)

On the other side of the fence, stemming the trend of beef cow attrition may have as much to do with education as anything. Though land fragmentation looks to continue, helping new landowners understand the benefits of grazing cattle could keep more of those acres available.

“New landowners try to do their dead-level best. They want to do the right thing, but they don’t know what the right thing is,” says Langford. If someone has told them barring cattle from their new assets is beneficial to the environment, that’s what they’ll do. But the opposite can be true, too.

For all of the educational forums that focus on beef cattle production or managing range for wildlife, it’s not often that dual-purpose management is addressed specifically.

for both livestock and wildlife is that when the public understands ranchers make management decisions that benefit wildlife and wildlife habitat, it may have a more favorable view of ranching and livestock production.”

Though producers have traditionally been mistrustful of inviting the public onto their lands for any reason, Langford believes they could benefit through more interaction. “We have the best story to tell that there is,” he explains. “Here are people managing the land to the land’s benefit, paying to do it, plus paying taxes and contributing to their communities. As producers, we keep that a secret. It’s like the Nike Board of Directors deciding not to let anyone know what they have to sell.”

**“We have the best story to tell that there is. Here are people managing the land to the land’s benefit, paying to do it, plus paying taxes and contributing to their communities. As producers, we keep that a secret. It’s like the Nike Board of Directors deciding not to let anyone know what they have to sell.”**

That’s one reason Austin Anderson, a graduate fellow, and Kimberly McCuiston, an assistant professor, at KRIRM recently published an insightful paper: *Evaluating Strategies for Ranching in the 21st Century: Successfully Managing Rangeland for Wildlife and Livestock*. In it, the authors emphasize, “Management for both livestock and wildlife can yield greater financial returns than either by itself. Dual purpose management can increase returns to management activities that many producers already practice. One example of such a practice is the development of water resources.” Along the way they offer specific information about using cattle as a tool for managing a variety of wildlife habitats.

“The public perception of ranching, especially on public lands, is becoming more and more important,” say Anderson and McCuiston. “An unexpected benefit of actively managing

TWA conducts field days on its own and in conjunction with other organizations to get the public onto agricultural lands and show them how producers care for the environment and wildlife habitat with their management.

“We’re big on partnerships because we believe the challenge of informing the public is so great that no single organization can tackle it on their own,” says Langford. “Public policy discounting the value of open space is a symptom of the disease that is natural resources illiteracy.”

Whether it’s public policy or business models aimed at the cattle business, Dunn says, “The status quo isn’t going to cut it anymore.”

EDITOR’S NOTE—Wes Ishmael is a freelance writer based in Fort Worth.



## Petroleum & Environmental Services

Supports  
**TCFA**

Serving Texas, New Mexico, Oklahoma, Colorado and Kansas

806-373-4251

Contact: Glenn Farmer or Joe Langdon

gfarmer@dhpump.com

joelangdon@dhpump.com

- Petroleum Equipment
- Environmental Services
- Above Ground Tanks
- Underground Tanks
- Automotive Maintenance Equipment
- Multipurpose Pumps
- Water Storage Tanks
- Custom Steel Tanks
- Tank Monitoring Equipment

### 6 Locations to Serve You

- Amarillo, TX
- Lubbock, TX
- Midland / Odessa, TX
- El Paso, TX
- Albuquerque, NM
- Farmington, NM