Farm Talk

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Right after you pay $10 for a beef roast and that isn't all that large, you begin asking yourself why farmers aren't making more money.

I'm sure the casual consumer must feel there's some kind of economic imbalance when favored food items take such tremendous price jumps.

There's a great temptation to jump on the farmer for higher food prices, without really considering the complicated maze that's called agricultural economics. It's a whole discipline and it has to do with supply and demand and elasticity and a lot of other economic words. What it means to the farmer in the simplest terms is that he is a price-taker and not a price-maker.

That happens because he is in what economists call pure competition. That means there are lots of them, they produce an undifferentiated product and no one of them has any real impact on the market. Collectively, however, it's a different story.

Several years ago when beef prices at the farm were terribly low farmers started cutting back on beef output. They sold steers at lighter weight, marketed some heifers, even culled their cows as a way of cutting their losses. The total effect of all that in the short run meant more beef on the market and even lower prices. But then gradually as that excess worked its way through the market and consumers enjoyed relatively low beef prices, the farm situation started to change. Fewer beef cows on the farm meant fewer steers and less beef available.

That meant packers were willing to pay higher prices and consequently consumers paid more for meat. And so over a period of several years, consumers have gone from a period of record supply to one of moderation. Those factors have shown up on the cash register tape.

Unlike manufacturing, farmers can't increase beef output in response to better prices. Once cow numbers went down, it took several years to build them back up.

For some beef men, by the time they get back into full production prices will be heading down again. It's like a roller coaster ride, with producers hoping the highs will go higher and last longer to cover the depth and length of the lows.

Some farm commodities experience wide swings in price and profitability. All phases of the livestock business have traditionally been that way. Any time you invovle a process that means animals must be born before they can be fattened for market, you increase the risk. For once a farmer decides to breed cows for production, he may be several years from market.

His first decision to expand means saving back heifer calves that won't have their own offspring for at least a couple of years. Then those calves must be raised and fattened for several more months. By the time they reach market age the original decision to expand based on profitable markets may have gone sour.

On the other hand, a grain producer can decide once a year whether to grow corn, soybeans, barley, wheat or several other crops, what proportion of each crop he will grow, and when he will sell it.

Unlike the livestock producer, a grain farmer can store his crops for months, even years if necessary, until he feels the price is right. But when a fat hog is ready for market there isn't much leeway.

Even grain producers have their problems because they don't know what other grain producers are doing. Individually, they make decisions that collectively produce surplus. A wet spring or a late frost can drastically alter the total crop. Dry weather in the West means higher grain prices in the East. Prolonged wet weather in the Midwest at harvesttime can spell economic ruin while at the same time elevating grain prices for other farmers.

Farming is a difficult, high risk business with some very high odds against success. The craziness of it is exemplified by the beef producer who continues to pour high priced grain into a steer he knows will lose money. Each day as he watches grain into a steer he knows will lose money. Each day as he watches the livestock market, he sees his margin of loss widen and yet he continues to feed that steer in the hope of an eventual upturn in the market.

Some data I saw recently indicated that over a 10-year period beef men averaged a substantial loss. There were more bad years than good years, and the bad years were worse than the good years were good! The net result was a financial disaster.

Yet those spiraling beef prices that we're all seeing in the supermarket have encouraged them to go back into production to a point where the forecasters predict that beef supplies will reach close to the record of the mid-seventies in the next three or four years.

One thing for consumers to remember as they shop among the meat choices these days—current high beef prices are bound to go down, pork prices will probably go up, and you can expect poultry prices to increase.

It's all a function of supply and demand and consumers willingness to shell out inflation-riddled dollars for the meats of their choice.