

# Advice for the Year Ahead

*Compromise and producer vigilance needed to navigate the current political and economic climate.*

by **KINDRA GORDON**

Today's cattle industry is certainly one of change and adaptation. Some say the cattle cycle no longer exists, and with a presidential election looming in 2012, an expiring Farm Bill and an unprecedented budget deficit, the days ahead could be interesting — to say the least.

What can producers expect as they anticipate the future? Here's a roundup of insight from industry leaders.

## Statesmen sought

Montana rancher Bill Donald completed his year as president of the National Cattlemen's Beef Association (NCBA) in February. From his experiences advocating for the beef industry this past year, Donald acknowledges the political climate in Washington, D.C., is "challenging" and "gridlocked."

"There are two deeply different fundamental philosophies on what the role of government is," he says. "That is not conducive to get a lot of things done."

As he looks ahead to 2012, Donald says, "We need statesmen to step up who understand the art of compromise."

Donald emphasizes the need to work together and to do what's best for the industry. Among the issues cattlemen need to work together on include the proposed child labor law, doing away with the death tax and addressing the current deficit.

"This deficit is a huge issue. Both parties are responsible for creating it and need to get together to resolve it," Donald states.

Despite the "gloom and doom about Congress," Donald remains optimistic and says, "I would like to acknowledge that in one day they (Congress) passed three free-trade agreements that had been languishing. So we know they can do it."

Likewise, Donald's successor, J.D. Alexander — who took on the role as NCBA president in early February — is encouraging the beef industry to stay vigilant and stay involved in the political debates ahead. Alexander operates a cattle feeding and farming operation with his family near Pilger, Neb.

He says, "I often cite the quote: 'If you are not at the table, you're on the menu.' We (the beef industry) have got to have our voices and representation out there in order to continue to improve the climate in which we operate."

## Prepare for continued volatility

With regard to the economic climate, economist Brett Crosby forecasts for cattle producers: "There's going to be a lot more volatility going forward than there has been in the past."

Crosby, of Wyoming-based consulting firm Custom Ag Solutions, says, "In eight of the last 10 years, we've seen cattle price fluctuations of over \$20 at a level never seen before 2003." He attributes the volatility to the uncertainty in the market in areas such as grain supplies and prices, demand, weather and even availability of coproducts.

But, Crosby says, volatility is not all bad. He notes it also offers opportunity, and advises, "Use volatility to your advantage."

To do so, Crosby emphasizes capitalizing on the high and low price swings.

"In a volatile market the rule of thumb is when you have a profit, take it," he emphasizes.

While Crosby does not know

what the future market will bring, he says there is one forecast he can make: "If you aren't managing your risk, you should start because prices aren't always going to be this high. Protect your profits."

He points to several pricing tools available that can help producers manage risk. Examples include forward contracting, Livestock Risk Protection insurance and the futures market.

Of forward contracting, Crosby does offer this caution, saying, "In a volatile market, my suggestion is you don't forward contract all your cattle in one day. I suggest you do it on different days."

He adds, "It isn't worth the chance to put all your eggs in one basket to get the highest price of the summer, because you could get the lowest. Be careful when you are contracting and do it over a period of time."

Regarding the futures market and options, Crosby says, "I use it all the time because it offers a good way for me to protect my prices out farther than I can do with a forward contract. It gives me some ability to protect my prices out a long way."

For those new to futures and options, Crosby says, "You have to have a broker, and you should rely on your broker. If you are going to be in the futures market, I recommend getting in slowly. You don't want to dive in."

For producers with smaller numbers of livestock, he suggests Livestock Risk Protection (LRP) insurance, which he calls similar to a put option. "If you are a smaller producer, you can buy LRP on any number of animals," Crosby says.

When prices are good, like they currently are, Crosby suggests to producers it's a good time to look around at tools to manage risk.

"Prices won't stay high forever," he reiterates.

Have a plan and stay with it, Crosby emphasizes. "When we get into a marketing situation where things turn bad, we tend to make it worse and jump into things we don't understand — such as adverse forward contracts."

"My advice in this volatile market is that if things start to go south, stick to your plan. It's not a time to try something new," Crosby concludes.



## COOL compromise?

Past National Cattlemen's Beef Association (NCBA) President Bill Donald believes country-of-origin labeling (COOL) legislation is one subject on which the industry needs to find common ground in 2012.

In addressing the South Dakota Cattlemen's Convention in mid-December, Donald said, "We are never going to do away with COOL. I think it's good to have information out there."

However, he gave the example of t-shirts carrying a label stating where the product is made.

"That does not mean the cotton or silk was grown in that country," he noted. "So, as we look at COOL, I think a measure that would be agreeable to Mexico and Canada is to label the product based on the point of major transformation (where the cattle are harvested and become boxed beef).

"This does not identify where the beef is born or raised," he continued, "but if we get into a trade war with two of our largest trading partners, that is not going to be a service to our industry."

Of his proposal for COOL, Donald said, "It's a sound ruling; let's fix the law."