



Oregon's cattle country is on the ropes

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There once were just cowboys, cattle and wide open space, rambling across an eastern Oregon landscape too hot for most humans, too dry to grow much other than sagebrush.

Now, Oregon steaks are served in South Korea and ranchers fret over cattle damage to streams.

To hear rancher Ken Holliday tell it, the romance of ranching has long been gone. But the constant roller coaster ride that sapped the thrill is on a downhill run with the recession, leaving ranchers feeling beaten.

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"It's never been easy to make a living," says Holliday, who runs a 10,000-acre ranch near John Day. "But now, you kind of wonder why you even do it."



In Oregon's vast cattle country, where life yields to nature's whims and business bucks with the market's whiplash, the global downturn is bearing down. At the start of a food chain that ends on your plate, Oregon ranchers are trying to hang on through a sudden swing that could mean a losing year for an industry that roped \$664 million in gross sales last year.

In 2008, ranchers paid record high prices for corn, hay and feed -- an investment now all but lost as beef competes against falling prices for poultry and pork. People worldwide are buying less meat. Restaurants are ordering fewer steaks. And the hides that make shoes, car seats and furniture aren't worth much in a recession that has curbed consumer lust for material things.

Summer is supposed to be beef's best-selling season. But for many ranchers, the recession heaps pressure on an Old World industry trying to find a place in a new age. Cyclical downturns are the norm in agriculture. But this one exacerbates a fundamental shift unfolding in the beef cattle industry, moving toward tightened regulations, choosier consumers and heightened environmental concerns.

"There are many issues affecting the industry today," says Brent Searle, an Oregon Department of Agriculture economist. "Some are environmental and social, some are microbial. ... There are clear agendas and influences now on how food is produced and distributed."

So far, Oregon ranchers have adapted while holding tight to traditions. The big hats, big belts and big boots have remained unchanged for generations. Business and life follow the law of the seasons. And the one thing a rancher knows is what goes down must come back up again -- if he can hang on long enough.

Hope never dies: At the Central Oregon Livestock Auction, auctioneer Trent Stewart stares from under a wide brim, noting a good omen on the way. Rain -- a sprinkling of gold for pastures across the high desert terrain.

"Well," he says. "What are we going to do with all this grass? The gentleman upstairs must be watching out for us."

Industry in flux

Outside Madras on U.S. 97, the livestock auction is a fast-paced cattle-hawking operation in which 35,000 head are swapped annually, totaling up to \$20 million in gross sales each year. Ranchers, cattle buyers, feedlot operators, truckers and others congregate weekly to carry out the business transactions for an industry that's among the largest in terms of its economic and environmental impact.

In Oregon and the nation, cattle are among the top agricultural moneymakers, as well as the biggest consumers of corn. Oregon has 605,000 beef cattle in 11,500 operations, mostly in the southern and eastern parts of the state. Raising cattle on pastures consumes about 60 percent of the state's 17 million acres of farmland, according to an Oregon State University Extension Service report.

U.S. cattle industry

- The U.S. is the world's largest beef producing nation, with about **\$50 billion in gross sales**. (2007)
- About **34.4 million cattle are slaughtered** each year -- more than 660,000 every week. (2008)
- Americans account for **22 percent of the world's annual beef consumption** of 128 billion pounds. (2008)
- The U.S. has the world's **fourth-largest cattle inventory**, and is the largest beef importer and third-largest beef exporter.
- Consumers spend an average of **\$249 a person on beef** in supermarkets and restaurants. (2008)

Industry in Oregon:

- Ranks **24th among states** in cattle and calf production, accounting for 1.4 percent of the U.S. total. (2006)
- Oregon's cattle industry brings in about **\$664 million in gross sales**, about 14 percent of total state farm sales. (2008)

Sources: CattleFax, NW Farm Credits Services, National Agricultural Statistics Service, USDA, Oregon Department of Agriculture

The heart of the state's beef cattle industry lives in its far-flung reaches. In counties such as Baker and Grant, cattle and calves make up more than half of the gross agricultural sales, and family ranches are a bedrock for rural economies.

In Malheur County, Jordan Valley would be a retirement community of 300 if not for the longtime ranchers and their families, says Jayne Collins, owner of the remaining grocery store, Ranch Hand Hardware.

"This town won't go away, because there's ranching here," says Collins, 59.

But in recent years, ranchers have been under the gun of changing social values that could alter their

way of life. Many say they'll survive the recession but perhaps not the broader shifts in the industry.

Like logging, ranching has grown controversial and political. Environmental groups worry that cattle herds trample stream banks, causing erosion to salmon habitat. Debates wage over whether cattle should be allowed to graze on public lands, which make up a large portion of the state's pastureland.

"Obviously, grazing has been a primary use of public lands for the last century," says Brent Fenty, executive director of the Oregon Natural Desert Association, which filed a lawsuit against the U.S. Forest

Service over the impact of cattle on public lands along the John Day River. "Now there are competing values for wildlife and recreation. With that, there are social and economic conflicts."

At the same time, consumers demand more natural beef raised on grass, without hormones or antibiotics. That requires more grazing land. And ranchers must adjust to a globalized marketplace, where currency rates matter and consumers overseas can bolster razor-thin profit margins.

Many nearing retirement in an aging industry wonder what the future will look like. The high costs of land mean few people can afford to jump in. Their kids are leaving the rugged life for steadier wages.

Holliday, 53, runs 2,200 cattle at his ranch on the banks of the John Day River, founded by his father more than 50 years ago. He is hunkered down in the fight against environmental groups, but he considers other options. If he sold his land, he says, he could cash in big.

"On paper I'm a multimillionaire," Holliday says. "But we're barely holding our teeth together."

Recession hits hard

Over a lifetime, a typical cow may eat thousands of pounds of corn, hay and feed before it ends up at the slaughterhouse. And last year, the cost of those ingredients went sky-high.

Feed shot up 22 percent, fertilizer and chemicals went up 26 percent and fuel rose 14 percent, according to the USDA National Agricultural Statistics Service. Corn, the primary diet of cattle in the last months of their lives, has tripled in price over recent years.

The high input costs are a big reason economists predict a money-losing year for the industry nationwide, with losses of up to \$130 a head, which ripples throughout the chain, according to CattleFax, a market research firm. With 26 million head of cattle in the U.S., the losses multiply fast.

Even in a normal year, consumers might have hesitated to pay for beef at last year's production prices. But with the recession, world demand for beef has dropped, tamping a decade of growth fueled by rising incomes from here to India.

In the U.S., people are simply eating out less. At supermarkets, they buy fewer luxury items such as T-bone and New York steaks (about \$6.20 a pound) and more of the less expensive and less profitable hamburger (\$2.25 a pound). Still, poultry and pork continue to be an even cheaper alternative (from \$1.85 to \$2.95 a pound).

"People with less income eat out less," says Gregg Doud, an economist for the National Cattlemen's Beef Association, which represents 30,000 ranchers nationwide. "That's clearly impacted our business mostly in the white table cloth restaurants and steakhouses. And steak is the highest value item."

To get consumers buying, the National Cattlemen's Beef Association kicked off grilling season early. The group released 60 million price discount coupons this year, compared with 10 million last year.

But the nonedible parts of a cow have tanked, too. This year, the collapse of the auto industry and low demand for leather consumer goods could mean additional losses.

"It's very hard for everyone to make money on this deal," says Dean Jennings, executive director of the Oregon Beef Council. "There are four cuts of chicken and dozens of dozens of cuts of beef, each with corresponding prices."

The banking crisis means that the costs of some loans have also gone up, which will further pinch profit margins in coming months. Jay Penick, CEO of Northwest Farm Credit Services based in Spokane, says the beef cattle industry is just at the beginning of this cyclical downturn.

"This downturn is more severe and occurred quicker," Penick says. "The cycles have been much more extreme, the highs are higher, and the lows are lower. All of our industries in agriculture will have to adjust to the new economic realities that we face."

Looking to the future

Ranchers have started paring their herds and cutting back production to balance supply and demand. Beef production is down 3.5 percent nationwide, and average prices hover at about \$3.92 a pound, by the latest USDA estimates.

A timeline of beef from the pasture to your plate

Beef production starts at the pasture and ends at the grocery store or restaurant. Most operations specialize in one or two of these steps.



Source: National Cattlemen's Beef Association

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The roller coaster is a part of life in agriculture. But some Oregon ranchers have found ways to even out the dips and dives.

Rancher Louie Molt sells hay, runs an organic farm and a land-leveling company on his 300-acre ranch in Burns. Several years ago, he opened his own restaurant, the Meat Hook Steak House, to sell the meat he raises to reap a bigger profit.

"We've cut out the middleman anywhere we can," Molt says. "We're trying to make money any way we can."

Other ranchers are specializing in raising all-natural beef, a growing market that Oregon leads. Country Natural Beef, a well-known co-operative of 120 ranches that started in Oregon, rode the all-natural movement early on, hoping to sidestep the commodity market and its losses.

The co-op also adopted a different business model by calculating a cost of production and selling directly to retailers such as Whole Foods and New Seasons with a 3 percent rate of return.

"Ranchers and farmers have always been price takers," says Scott Exo, executive director of the Food Alliance, a nonprofit that certifies sustainable farms, ranches and food handlers "Sometimes they cover their costs, other times they don't. Country Natural Beef tried to change that. "

But even Country Natural Beef isn't safe from the economy's erratic jolts. The natural-meat market faces fierce competition from big national producers who have jumped on the bandwagon. And consumers, more careful with their dollars, are trading down for cheaper meats at the butcher counter.

Sales of natural and organic beef products, which can cost as much as 50 percent more than commodity beef, have declined by about 5 percent from last year, according to data from the National Cattlemen's Beef Association. And Country Natural Beef ranchers are searching for ways to differentiate themselves from the rest of the pack, hoping consumers will continue paying the premium price. Like others, they'll be harvesting 5 percent fewer cattle.

In order to cover his costs, Dan Barnhart, a Country Natural Beef rancher near Philomath, says he's been selling off more cattle from his herd of 180. He's doing everything he can to get through a downturn with no clear end.

"I've sold them to make it, but that's not sustainable," Barnhart says. "I have to cut costs. I need to find a better way to winter the cows. I don't have all the answers."

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