

Better Economic Health Through Diversity

I have long thought, and often been told, that beef/dairy and sheep are a natural fit on a grass farm. Yet, over the years, the diversity of farms, be they large or small, has diminished largely because of the mantra of “specialize”. I had the opportunity this past year to supervise a fourth-year Nova Scotia Agricultural College graduate thesis by Alicia Baxter on this very topic. Alicia was charged with attempting to document whether or not the cycles of beef and sheep were counter-cyclical. Both commodities have predictable supply and demand cycles. The question examined was whether or not these cycles have historically been at opposite poles, i.e. when beef supply is high and prices are low, is the sheep price high and supply correspondingly low? The greater issue here, of course, is whether or not as a farmer you can lessen the cash flow crunch when prices dip by having a commodity that is at, or nearing, its price cycle high.

To have perfect complementary cycles, they would need to be the same length. They are not. Sheep cycles last on average eight years and beef cycles last on average 10 years. Alicia’s data did show that the last cycle did indeed show an excellent counter-cyclical effect. In 1996, when beef prices hit a cycle low, the sheep industry was very near its peak in prices. This relationship was offset by approximately two years in the 1980s and was aligned in the late 1970s (price highs occurred for both commodities at the same time). Projecting this concept into the next cycle puts sheep prices at peak levels in 2003 and beef at cycle lows in 2004-2005. Next cycle highs occur in 2010 for beef and 2012 for sheep. This kind of crystal gazing can get anyone in serious trouble if taken literally. The concept to consider here is that both commodities have the potential to offset each other but the relationship is not perfect.

Another interesting method of examining both commodities is on input/output. Simply put, a ewe eats a given amount of forage DM per season, as does a cow. Comparing this input value to an output value (gross dollar value per ewe or cow) provides an alternative method of examining the potential of both commodities to share farm financial risk. Using a ratio of 5.5 weaned lambs per weaned feeder calf, historical prices and weights would give the nod to sheep 14 out of the last 22 years in terms of efficiency per unit of forage input in Nova Scotia. This concept is a powerful tool to consider when looking to spread risk. Why look to beef or sheep to complement each other rather than another livestock commodity or perhaps an alternative crop? Capital current requirements (land, buildings, machinery) are virtually identical for both commodities – previous or future investment in farm capital will satisfy the requirements of both commodities. Labor inputs are similar, as are grazing techniques. Both commodities also have virtually endless potential for expansion in the Maritimes.

My point? Think outside the box.

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