The market for performance horses, which was on a sharp upward trajectory earlier this decade, has leveled out since mid-2008. How can breeders and owners prepare for what's to come?

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When it comes to enduring eternal optimists, horse breeders surely are in a class all by themselves. There is always the chance for the next futurity champion, a world-class breeder or that perfect horse to get the work done. Breeders are looking for the right mix that balances to the positive.

Breeding horses with a hopeful eye on the future has been the impetus since the Mongols took off on their steeds, the Europeans perfected their warhorses and the North American Indians urged theirs on at greater speeds. What we do now is not new, and it's certainly not unique to our era.

What is different, however, is the core reason for which we breed. In most parts of the world horses are on the unemployment rolls, as far as real jobs go. Sure, a few are used on ranches to work cattle and pull feed wagons, and a good many have careers as performers in show rings. But the days of breeding thousands and thousands of horses to fill jobs are gone, at least in the more advanced countries of the world. In 1911 the U.S. Department of Agriculture reported there were more than 23 million horses in the United States. But as the engine replaced authentic horsepower, the population of equines decreased steadily. Just as we're seeing now, albeit on a less drastic level, the supply/demand balance drove prices down. The

1926 Yearbook of Agriculture reported that horses were at their lowest value in 60 years. When the USDA census was taken in 1959 there were 4.5 million horses, and the 1974 count showed only 1.4 million on-farm horses.

Off of farms, however, horses were gaining ground. As people settled into an increasingly comfortable suburban lifestyle, they began acquiring horses for sport and status. This pumped life into the American horse industry, one based on recreation and discretionary income. The USDA census in 2002 reported 3,644,278 on-farm horses, while the one in 2007 listed the population at 4,028,827. The most recent study of the American Horse Council puts the number of horses at 9.2 million, with an annual economic effect of $39 billion in the United States.

By the 1970s, through the 80s and into the 1990s, the sport horse business expanded and diversified. Increasingly, the market became segmented and specialized. The all-around horse gave ground to horses bred and selected for specific disciplines, even within the various breeds. The Quarter Horse, for instance, went down a path that forked, and then forked again. Quarter Horses bred for halter classes gained mass, while individuals selected for pleasure took on the longer, taller Thoroughbred type. Cutting horses were athletic but compact, and there was more emphasis on overall beauty and power in the reiners.

The horse market arrived in the new century at the crest of a strong wave of success. Every year, the prices got higher and the sell-through rates healthier. The national and world economies were on fire and discretionary money flowed into the horse business. Just as it was on Wall Street and in the real estate market, people bred horses on the best of odds.

Just when it seemed as if the performance horse industry was on a permanent upward trend, 2008 crashed to shore and drove the market straight into the sand.

When looking at what has pushed the performance horse market lower in the past couple of years, it’s tempting to point an accusatory finger solely at the economy. And if one were talking about Thoroughbreds, that might be a logical place to start. Thoroughbred sales in the fall of 2008 suffered, with averages that plummeted 50 percent and sometimes more. The 2009 season brought little relief for this market. At the elite Keeneland September Sale, where more than 5,000 horses sold, Blood Horse magazine calculated that only 13 percent of the yearlings were profitable, meaning that just a little more than one in 10 brought a bid that paid for its original stud fee.

But for the performance horse market, challenges extended well beyond basic economics. It was more like a triumvirate of circumstances that brewed into the perfect storm. The economic recession, liberal breeding and the allowed registration of multiple Quarter Horse embryos, along with the ban on horse processing in the United States – these three added up to one powerful force that pushed down the entire North American horse market.

Economy: Reality Check in 2008

As they say, timing is everything. And for the performance horse industry – in cutting, reining and reined cow horse – during 2008, the timing could not have been worse.

On Jan. 2, 2008, the day when the financial markets opened after the New Year holiday, the Dow Jones Industrials closed at 13,264 points. On Dec. 31, 2008, the Dow Jones closed at 8,776 – a drop of 4,488 points, or 33.8 percent. Who could have imagined? None could have guessed that at the start of September, right when the fall futurity season was rolling into motion, Lehman Brothers, one of the largest and most respected financial institutions in the world, would file for bankruptcy; that the Federal Reserve would step in with an $85 billion rescue loan for insurance company American International Group; or that, on the 29th day of the month – right in the middle of the National Reined Cow Horse Association Futurity – the Dow would plummet 777.68 points, the largest one-day point loss in history.

Bailout packages, disastrous retail numbers, depressed real estate values, Ponzi schemes, tight credit and a changing of the political guard in the United States – and yet, business went on at the 2008 futurity sales. At the National Reined Cow Horse Association Snaffle Bit Futurity sales in September, 264 out of 335 (79 percent) of consigned horses posted receipts of $2.1 million for a $7,962 net average; not a significant change from the 2007 net average of $8,853. At the National Reining Horse Association Futurity sales, 269 of 363 (69 percent) of the consigned horses changed hands for $2.9 million and a $10,873 average, down from a net average of $15,650 the year before.

There was apprehension as December approached and the largest sales of the season shifted into gear at the NCHA Futurity in Fort Worth. Yes, a wet blanket had been thrown over the performance horse market, but experienced industry insiders remained relatively optimistic because horses were still changing hands.

“This is kids’ stuff compared to the ’80s,” said Susie Reed, a woman who’s been in the horse business for decades and has been co-manager of the Polo Ranch in Oklahoma.

At the NCHA Futurity sales in 2008, the gross average was down by 26 percent from the year before, while the net average dropped 35 percent. Even then, 77 percent of the consignments sold. Buyers were on edge, made abundantly clear by a net average on yearlings that was down 39 percent from the year before, along with the average on 2-year-olds that slid 30 percent.

The best horses at the NCHA Futurity sales, however, continued to command strong prices. The bids might have been high, but it seemed as though the sellers’ expectations were even higher. In 2007, 31 horses (2.5 percent of total consignments) at the NCHA Futurity sales attracted bids of $100,000 and more. In 2008, 29 horses (2 percent of total consignments) had bids go that high. That’s not much of a drop off. But still, the greatest percentage of pass-outs was among the top-50 priced horses, with 26 of those not changing hands. In fact, the top three bid generators failed to meet their reserves: Ruby Tuesday DNA (with a bid of $575,000), Peek A Boon ($425,000) and Sweet Shorty Lena ($330,000).

While five horses brought six figures or more at the 2007 NRHA Futurity sales, only one hit that mark in 2008, and a syndicate made up of the owner/trainer along with clients and family members purchased that one. There was no change in Reno as the NRCHA Snaffle Bit Futurity sales had two horses reach bids of $100,000 and more in 2007 and 2008.

By the close of 2008, it was obvious what was happening at the bottom end of the spectrum. At the NCHA sales, horses priced in the $2,500-$4,999 range were 10.9 percent of the total in 2007, but represented 21.5 percent of all consignments in 2008. The trend was even more apparent for horses that brought below $2,500, with those being 3.2 percent of the total in 2007 and 8.9 percent of all consigned horses in 2008 – a 217 percent year-over-year increase. Despite the lower prices, people elected to part with those horses. It was as though they’d given into the unpleasant notion of a new reality. Of the bottom 50 horses consigned to the NCHA Futurity sales, only four did not sell; and of the bottom 100, 91 of those changed hands.

Breeding: Multiple Choice

By 2000, the horse world was in a good place. Show purses were high, events were plentiful, sales were rocking and rolling, and breeders were anxious to cash in on possibilities. Demand was strong for high-caliber mares. For instance, at the 2006 National Cutting Horse Association sales, 169 broodmares sold for $4.7 million and a $28,023 gross average. A year later, mares were still in good graces; at the 2007 NCHA sales: 164 mares generated bids of $4.2 million for a $25,865 average.

There simply were not enough good mares to meet the demand and so the mood was right for breeders to take chances on mares with lesser amounts of black type and little or no show earnings. There also was an ample supply of proven and well-bred stallions with stud fees at all levels, which went hand-in-hand with the increased use of high-tech breeding procedures, shipped semen and embryo transfer.

In 2002 the AQHA was forced into a legal corner and reversed its policy of not registering multiple embryos in a single year from one mare. Now, a mare could keep performing while producing multiple foals and an older mare that might otherwise not be able to produce a foal could turn out one, two, three or more offspring a year, thanks to embryo transfer. In 2004, cutting horse mare Quejanamia (dam of successful cutting stallion Quejanaisalena, who has lifetime earnings of $338,205) produced seven registered Quarter Horse foals. More well-bred babies meant more well-bred choices. Now, breeders had the luxury of handpicking their favorite prospects and offering the others for sale.

A deep pool of black type mixed with economic apprehensions at the close of 2008, creating a buyers market where good horses could be purchased at bargain prices. Like never before, more buyers realized opportunities to purchase premium quality prospects – ones by top stallions out of the most accomplished mares. Sellers certainly had the wares, as they'd been breeding their stock at full blast. At the 2007 NCHA Futurity sales, 66 dams had multiple embryos consigned. There were five consignments (two weanlings and three yearlings) by Meradas Money Talks out of Lilly Dual, which brought bids ranging from $8,500 to $17,500. Bet Yer Blue Boons was the most successful multiple-embryo dam at those 2007 sales, with her two yearling colts selling for a combined $487,000 – Bet Hesa Cat (by High Brow Cat), $400,000; and Bet Ichi (by Cat Ichi), $87,000.

Just how hot was the breeding frenzy a couple of years ago? Think about this: At the 2008 NCHA Futurity sales, 103 mares had multiple embryos consigned, a 54 percent year-over-year increase. Those consignments accounted for 254 horses that posted $4 million in gross proceeds. As an interesting side note, The Smart Look had two foals consigned that did not meet their reserves. SVR Reyl Smart, a colt by Dual Rey, put $170,000 on the board; and Shezasmartlookincat, a filly by High Brow Cat, commanded a $160,000 bid. Sixty-three, or 24.8 percent, of those multiple embryos attracted final bids of $5,000 or less – a sobering thought considering the expense of an embryo transfer procedure, not to mention the stud fee, mare care, feed, preparation and sale commission.

Processing: No Bottom Floor

In 2007 horse processing in the United States came to an abrupt halt. First, two meat abattoirs in Texas – Dallas Crown Inc., in Kaufman, and Beltex Corporation in Fort Worth – closed when state legislation banned the slaughter of horses for human consumption. Later in the year, the third and last plant, Cavel International Inc., in DeKalb, Ill., shut its doors for the same reason.

The timing couldn't have been worse.

The closure appeased those set on banning the domestic slaughtering of horses. But the abrupt end also erased a humane option for unwanted domestic horses, a practice overseen by the USDA's Animal and Plant Health Inspection Service (APHIS), which in 1996 was given regulatory responsibility for the humane transport of horses to processing plants and treatment of those horses once they were on the premises.

According to Dr. Tom Lenz, past president of the American Association of Equine Practitioners, in 2007 there were approximately 150,000 horses processed in the United States or exported for processing. During 2008, the USDA reported that 79,647 non-breeding horses, mules and donkeys were exported to Mexico and Canada, representing a 29 percent increase from the year before. From January to September of 2009, there were 44,668 non-breeding horses, mules and donkeys exported to Canada and Mexico, a 16 percent decrease from the same time period the year before.

There is no way to track every horse that could be classified as "unwanted" in the United States. But rescues and local animal shelters have felt the increased brunt of horses that are abandoned, neglected and abused. One shelter in North Carolina, Hope For Horses, can accommodate 30 horses at a time, which is nowhere near enough. Its story is not unique.

Whitney Wright, operator of Hope For Horses, admits that she was in favor of the ban of slaughter in the United States. Now she's feeling the full force of that action.

"When they shut down all the plants without having a plan for these unwanted horses, it was a recipe for disaster," she said. "And that's what we're experiencing now. We are seeing a lot more neglected horses that before probably would have ended up at an auction and bought by a killer buyer. I get calls every single day."

Pair unwanted horses with the ever-constant breeding of the wild horses in the United States, and the stage is set for a class of horses that are worth little-to-nothing. They're sold at auction, offered for adoption, given away or abandoned. When fuel prices and feed costs rose in 2008, oversupply became an even more acute problem. It has yet to let up, as killer buyers still hand over receipts full of $25 horses – a price cheap enough to justify shipping costs to Canada and Mexico, countries that still operate horse-processing plants.

Horse processing and the reality of a burgeoning population of unwanted horses have had little impact on the high-end performance horse market. But they do play a role. Through the middle of 2009, as buyers took advantage of lower prices and ample supply of good horses, the middle and lower ends of that market suffered. People could afford to buy a well-bred horse at the big and second-tier sales, so why would they bother with something that was a granddaughter of so-and-so? This pushed prices on lesser quality horses lower, which pushed on the next level down, and so on. Without a base per-pound price, there simply was no floor on how low horse prices could go. Some went all the way to the bottom, and even lower when some sellers found themselves actually paying to sell their horses once the costs of consignment and commission were added up.

At the same time, sellers sought affordable options for marketing their horses, which actually helped the second-tier sales because they had a larger quantity of better horses consigned, thus generating higher averages. The number of consignments at the major performance horse sales dropped, as evidenced by the elimination of the NRHA Derby Spotlight Sale and the decreased number of offerings at the 2009 NCHA Futurity sales.

What's to Come?

And here we are, at the start of 2010 and right in the middle of a horse market that has at least two more years worth of major supply. Foals bred in the spring of 2008 are just now yearlings – ready to hit the major sales this year and in 2011. The economy remains on shaky ground and horse processing is still banned in the United States, coupled with a legislative threat that could ban the transport or sale of American horses destined for processing – anywhere in the world.

Basically, the three supports of a healthy horse market are still wobbly. Stallion owners and associations report that breeding numbers decreased in 2009, so one could logically expect a correction to supply levels within a few years. Slaughter is a practice reviled by most Americans; politicians will probably choose the path of least resistance and continue the ban or even enact new legislation. But as instances of horse neglect and abandonment continue to be reported in the media, policymakers might think twice about closing the doors permanently to the export of horses for slaughter. Finally, the economy remains in flux and only time and votes will count. Changes in the tax code could greatly impact those whose discretionary money fuels the performance horse industry. Yes, there will always be wealthy individuals who can afford to play the game, no matter the cost. But for the majority of performance horse owners, breeders and participants, the benefit has to justify the expense. That benefit might be in the form of fun, or it might be in dollars and cents. Either way, it has to balance to the positive.