



Livestock Farm Management Update

March 15, 2004

Prepared By Rodney Jones, Associate Professor / Extension Livestock Production Economist,
Kansas State University, March 15, 2004.

In This Issue....

*Uncertainty regarding profitability in months ahead driven by feed cost risk, and fed
cattle price uncertainty..... 2*

Cattle Production Budgets and Returns

By Rodney Jones, Extension Livestock Production Economics

Optimism In Cattle Industry Keeps Break-even Projections High

The relatively low break-even projections published in the last issue of this newsletter soon after the BSE news in late December did not last long. Cattle feeders quickly bid the price of feeder cattle up to levels significantly higher than those discussed in the December newsletter, reflecting the fact the fed cattle prices stabilized at higher average prices than many predicted, and also reflecting optimism regarding the ability to solve some of the export constraints in a fairly short time period which will place upward pressure on fed cattle prices in the future. Even significant increases in feed cost projections have not completely stemmed the optimism of the cattle feeding industry. Based on recent auction prices for 750 lb. steers and 650 lb. heifers, the average expected break-even price for cattle expected to finish in about August are in the \$80.00 to \$81.00 per cwt. range for steers and heifers. The physical performance (feed conversion and average daily gain) of March and April placements is expected to be much better than the annual average. In fact, from a performance standpoint early spring has historically been a good time to place cattle on feed.

A use-weighted combination of placement month corn, hay, and supplement prices, and projections for ingredient prices over the following four months, is used to estimate a ration charge, and subsequently a feeding cost of gain projection for current placements. The ration charge projection has steadily increased over the past few months as feedgrain and supplement price forecasts have increased. In fact, the current ration charge projection (\$134.55 per ton) is nearly \$20.00 per ton higher than the

projection of just a few months ago. In hind site, locking in feed costs back in December would have been a prudent strategy. Feedgrain market dips may still provide some opportunities lock in feed needs and protect against the risk of a significant grain and protein price rally going into the summer.

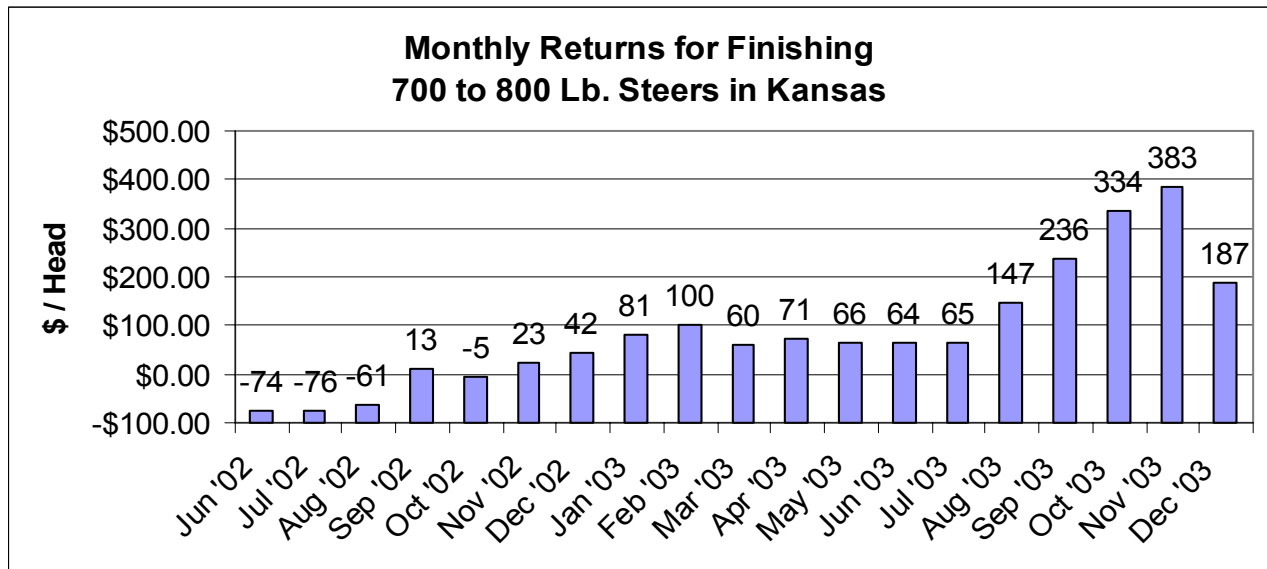
Combining the ration charge projection with March placement performance expectations results in a feeding cost of gain projection of \$58.34 per cwt. for traditional weight steer placements, and \$61.84 per cwt. for traditional weight heifer placements. In spite of improving performance expectations, these feeding cost projections are up 5 to 8 percent from the projections of just a few months ago. Estimates are most sensitive to changes in feed conversions, daily gains, grain prices, and hay prices. Based on spring placed performance expectations, each \$0.10 per bushel change in corn price changes feeding cost of gain by \$1.20 per cwt. In addition, each \$10.00 per ton change in hay price changes feeding cost of gain by \$0.45 per cwt. Though the feeding cost of gain projections for closeouts over the next several months are relatively high, continued increases in feed ingredient prices could push feeding costs even higher. Sensitivity tables are included in this newsletter to assist producers in projecting break-evens based on alternative feeder cattle purchase prices and alternative feeding cost of gain projections.

Feeding Profits go from Historically High Levels to Negative

Final average November steer closeout returns came in about as expected. The average November steer closeout returned about \$383.00 per head. As was the case all

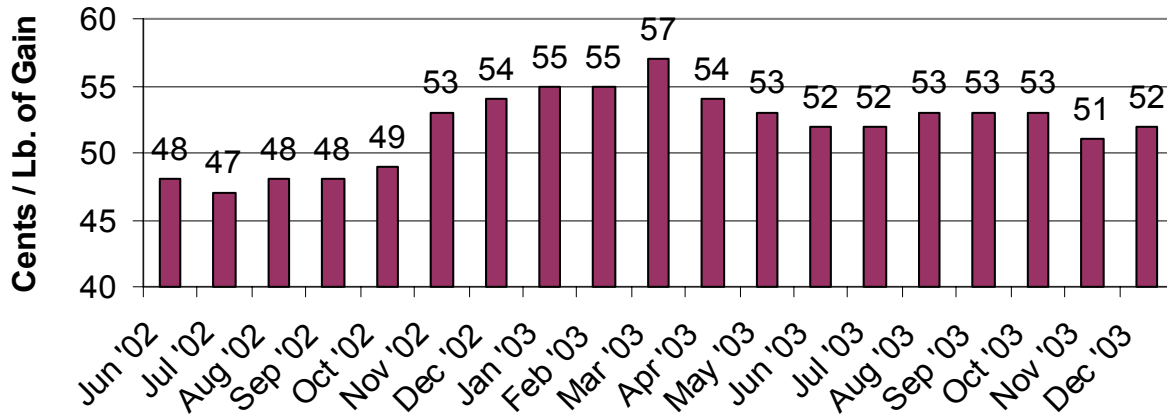
fall, sale prices varied significantly from week to week and from pen to pen due to substantial quality premiums, so some closeouts returned significantly more than the calculated monthly average, while others returned significantly less. Net returns to cattle feeding in December averaged around \$186.00 per head. Cattle marketed prior to the BSE incident returned more than that average, and those cattle marketed the week after Christmas returned significantly less than that (close to \$0.00 per head profits). Preliminary calculations suggest much more negative returns on January and February '04 closeouts. Average break-evens were around \$80.00 per cwt. for January closeouts, and increased to around \$85.00 per cwt. for February closeouts. Western

Kansas direct sale prices averaged around \$78.50 during that time period, resulting in modest losses on average January closeouts, and losses between \$75.00 and \$100.00 per head on February closeouts. Sale prices have been stronger in March, however break-evens for March and April closeouts are higher as well (around \$90.00 per cwt.), likely resulting in substantial losses on current closeouts. For the remainder of the spring breakevens will be in the very high \$70's to the low \$80's, resulting in negative returns unless prices rebound to levels higher than current forecasts.



Source: KSU Cattle Return Series.

Monthly Feeding Cost of Gain 700 to 800 Lb. Steers in Kansas



Source: KSU Cattle Return Series.

Commercial Feedlot Cattle Finishing Budget
March 2004 Placements (750 lb. steers, 650 lb. hfrs)

Assumptions	Steers	Heifers
Cost of Feeder (\$/cwt.) ¹	\$92.50	\$91.00
Interest Rate	7.0%	7.0%
Ration Charge (\$/ton) ²	\$134.55	\$134.55
Yardage Charge (\$/head/day)	\$ 0.05	\$ 0.05
Beginning weight	750 lbs.	650 lbs.
Pay weight	1250 lbs.	1100 lbs.
Gain	500 lbs.	450 lbs.
Days on feed	149 days	155 days
Shrink	4.0 %	4.0 %
Pay weight to pay weight:		
Average daily gain	2.35 lbs.	2.91 lbs.
Feed conversion (as fed)	7.92 lbs.	8.34 lbs.
Death loss (in conversion)	0.50 %	0.50 %
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$693.75	\$591.50
2. Interest on feeder:	\$ 19.86	\$ 17.54
Feed		
3. Total feed cost:	\$266.11	\$252.49
4. Interest on feed:	\$ 3.81	\$ 3.74
Other Costs		
5. Yardage Charge:	\$ 7.46	\$ 7.73
6. Processing Charge:	\$ 7.00	\$ 7.00
7. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
8. Interest on other costs:	\$ 0.31	\$ 0.32
Break-even selling price:	\$ 80.42	\$ 80.67
Total cost of gain / cwt:	\$ 62.31	\$ 65.74
Feeding cost of gain / cwt: ³	\$ 58.34	\$ 61.84

¹ Feeder steer and heifer prices based on recent auction results at major Kansas sale barns.

² Ration charge of \$134.55 is a use-weighted projection over the feeding period based on a corn price of \$3.15 / bu., alfalfa hay price of \$80.12 / ton, supplement price of \$310.42 / ton and feed markup of \$20.00 / ton. An average corn price change over the feeding period of \$0.10 / bu. changes the ration cost \$2.91 / ton. An average alfalfa hay price change of \$10.00 / ton changes the ration cost \$1.20 / ton. An average supplement price change of \$25.00 / ton changes the ration cost \$0.75 / ton.

³ Excludes interest on feeder animal

Commercial Feedlot
Sensitivity Analysis of Break-even Prices for 750 lb. Steers

	Feeder Purchase Price				
	\$88.00	\$90.00	\$92.00	\$94.00	\$96.00
Feeding Cost Of Gain (\$ /cwt.)	-----Break-even Price----- (\$ / cwt.)				
\$55.00	76.29	77.53	78.76	80.00	81.23
\$56.00	76.69	77.93	79.16	80.40	81.63
\$57.00	77.09	78.33	79.56	80.80	82.03
\$58.00	77.49	78.73	79.96	81.20	82.43
\$59.00	77.89	79.13	80.36	81.60	82.83
\$60.00	78.29	79.53	80.76	82.00	83.23
\$61.00	78.69	79.93	81.16	82.40	83.63

Commercial Feedlot
Sensitivity Analysis of Break-even Prices for 650 lb. Heifers

	Feeder Purchase Price				
	\$87.00	\$89.00	\$91.00	\$93.00	\$95.00
Feeding Cost Of Gain (\$ /cwt.)	-----Break-even Price----- (\$ / cwt.)				
\$58.00	76.66	77.88	79.09	80.31	81.53
\$59.00	77.07	78.29	79.50	80.72	81.94
\$60.00	77.48	78.70	79.91	81.13	82.35
\$61.00	77.89	79.11	80.32	81.54	82.76
\$62.00	78.30	79.51	80.73	81.95	83.16
\$63.00	78.71	79.92	81.14	82.36	83.57
\$64.00	79.12	80.33	81.55	82.77	83.98

Feeding Cost of Gain For Steers By Closeout Month (\$/cwt.)

	% Change Previous Year	2004	2003	2002	1990-2002 Average
January		51.66 ^P	54.99	49.08	52.15
February		56.10 ^P	54.79	52.12	53.90
March		58.77 ^P	56.94	52.24	54.71
April		60.49 ^P	54.08	51.99	53.76
May		60.55 ^P	52.60	50.58	52.38
June		58.30 ^P	51.85	47.56	50.66
July		57.77 ^P	52.16	46.66	49.58
August		58.34 ^P	52.53	48.05	51.13
September	+11.2		53.31	47.96	50.28
October	+ 7.2		52.69	49.16	50.73
November	- 2.9		51.10	52.64	51.10
December	- 3.7		51.68	53.69	51.28

^P Values for this month are projected

Source of Actual Historical Feeding Cost of Gain: Focus on Feedlots Newsletter, KSU Extension Animal Science and Cooperating Feedyards.

Break-even Prices for Finishing Steers (\$/cwt.)

	% Change Previous Year	2004	2003	2002	1990-2002 Average
January		80.04 ^P	71.69	75.49	71.09
February		85.31 ^P	71.98	76.77	71.59
March		90.97 ^P	72.72	76.90	71.63
April		89.53 ^P	73.33	74.15	71.58
May		86.64 ^P	73.49	72.22	71.42
June		78.72 ^P	71.17	69.56	70.69
July		77.45 ^P	69.40	69.02	69.77
August		80.42 ^P	68.48	67.80	69.28
September	+ 8.2		69.86	64.55	69.09
October	+ 9.2		71.86	65.83	69.25
November	+ 2.7		70.19	68.35	71.28
December	+10.3		76.54	69.42	71.92

^P Values for this month are projected