



Livestock Farm Management Update

June 4, 2001

Prepared By Rodney Jones, Assistant Professor / Extension Livestock Production Economist,
Kansas State University, June 4, 2001.

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Cattle Production Budgets and Returns

By Rodney Jones, Extension Livestock Production Economics

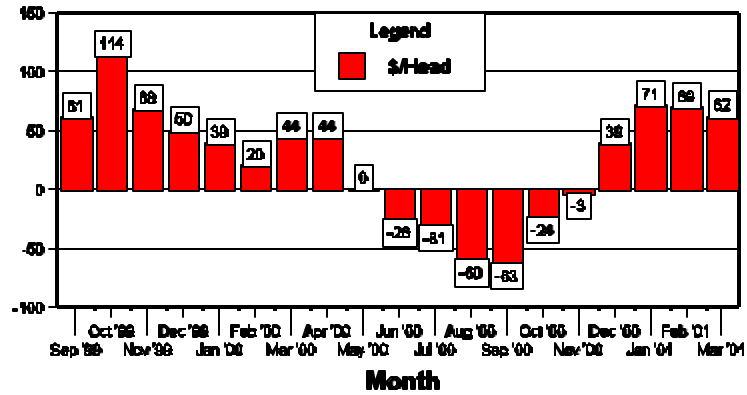
Based on this month's traditional cattle finishing budgets for 750 pound steers and 650 pound heifers, the expected break-even prices for late May placements remained about the same as the projections of the previous month. The projected break-evens, for cattle expected to finish in about October, are in the \$74.00 to \$74.50 per cwt. range for steers and heifers. Both average feeder steer and average feeder heifer prices increased slightly from the previous month. Feedgrain prices declined slightly from the previous month, and hay prices are finally coming down as new crop alfalfa is becoming available. Performance expectations remain relatively attractive this time of year. Feed conversions of May placed cattle are expected to be 4 to 5% better than the annual average, while average daily gains of May placed cattle are expected to be 2 to 3% better than the annual average.

Due to the decrease in ground alfalfa prices, the estimated ration charge decreased again relative to last month. Combining the ration charge projection with May placement performance expectations results in a feeding cost of gain projection of \$43.72 per cwt. for May steer placements, and \$46.15 per cwt. for May heifer placements. These estimates represent declines of nearly \$1.00 per cwt. from the projections of last month, and declines of about \$2.00 per cwt. over the past few months. The feeding cost of gain estimates depicted in the accompanying budgets are based on current feed prices and seasonal average performance, and are slightly higher than "futures based" feeding cost of gain projections that assume feed is purchased as needed throughout the feeding period. In addition to feed ingredients, yardage, processing, medication, and death loss are accounted for. Estimates are

sensitive to changes in feed conversions, daily gains, grain prices, and hay prices. Feed conversions, grain prices, and hay prices are positively related to feeding cost of gains. Based on spring performance estimates, each \$0.10 per bushel change in corn price changes feeding cost of gain by \$1.24 per cwt. Each \$10.00 per ton change in hay prices changes feeding cost of gain by \$0.50 per cwt. Feeding cost of gain changes by \$0.53 per cwt. for each 0.10 pound change in feed conversions and \$0.08 per cwt. for each 0.10 pound change in daily gains. As has been the recommendation for the past several months, risk averse feeders may want to take advantage of relatively cheap feed ingredient price opportunities protect against the possibility of a summer feedgrain price rally.

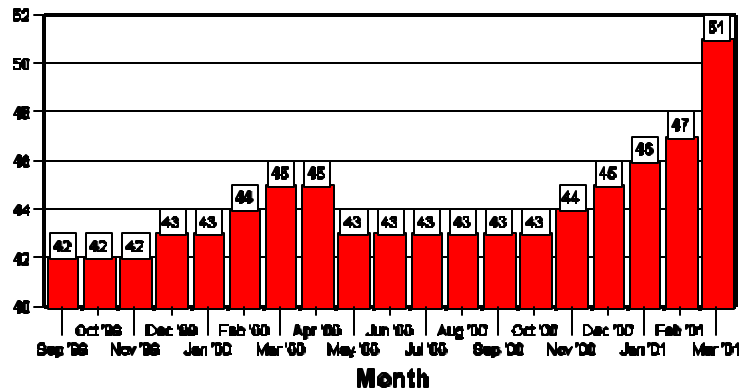
As expected, positive returns continued to accrue to most cattle feeders in March. The average March steer closeout in Kansas generated a profit of about \$61.61 per head. Unfavorable winter weather pushed the average feeding cost of gain up to higher than anticipated levels, resulting in a higher than anticipated average break-even for March steer closeouts of \$74.90 per cwt. Fortunately, cash fed cattle prices for the month also averaged higher than anticipated at around \$80.05 per cwt., resulting in a continuation of the string of profits. Significantly positive returns likely continued on April closeouts, however, declining fed cattle prices likely eroded profits on average May closeouts. Preliminary estimates have break-evens around \$74.75 per cwt., with selling prices for the month averaging about \$75.00 per cwt. The recent rebound in fed cattle prices suggests that early summer net returns may be more positive than earlier anticipated.

Monthly Returns for Finishing 700 to 800 Lb. Steers in Kansas



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
May 2001 Placements (750 lb steers, 650 lb hfrs)

Assumptions	Steers	Heifers
Cost of feeder (\$/cwt.) ¹	\$90.50	\$89.63
Interest rate	9.8%	9.8%
Ration charge (\$/ton) ²	\$97.45	\$97.45
Yardage charge	\$0.05	\$0.05
Beginning weight	750 lbs.	650 lbs.
Pay weight	1250 lbs.	1075 lbs.
Gain	500 lbs.	425 lbs.
Days on feed	152 days	147 days
Shrink	4.0%	4.0%
Pay weight to pay weight:		
average daily gain	3.30 lbs.	2.90 lbs.
Feed conversion (as fed)	7.91 lbs.	8.26 lbs.
Death loss (in conversion)	0.50%	0.50%
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$678.75	\$582.60
2. Interest on feeder:	\$ 27.47	\$ 22.81
Feed		
3. Total feed cost:	\$192.70	\$171.04
4. Interest on feed:	\$ 3.90	\$ 3.35
Other Costs		
5. Yardage Charge:	\$ 7.58	\$ 7.33
6. Processing Charge:	\$ 7.00	\$ 7.00
8. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
9. Interest on other V.C.:	\$.44	\$.42
Breakeven selling price:	\$ 73.99	\$ 74.56
Total cost of gain/cwt:	\$ 49.22	\$ 51.52
Feeding cost of gain/cwt: ³	\$ 43.72	\$ 46.15

¹Feeder steer and heifer prices based on recent auction results at Winter Auction, Dodge City, Kansas.

²Ration charge of \$97.45 based on corn price of \$2.06/bu., milo price of \$3.27/cwt., alfalfa hay price of \$100.00/ton, supplement price of \$189.60/ton, and feed markup of \$20/ton. Corn price change of \$0.10/bu. changes ration cost \$1.80/ton. Milo price change of \$0.10/cwt. changes ration cost \$0.70/ton. Alfalfa hay price change of \$10/ton changes ration cost \$1.20/ton. Supplement price change of \$25/ton changes ration cost \$0.75/ton.

³Excludes interest on feeder.

Commercial Feedlot

Sensitivity Analysis of Breakeven Prices for 750 lb. Steers

	Feeder purchase price				
	\$87.00	\$89.00	\$91.00	\$93.00	\$95.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$41.00	70.71	71.96	73.21	74.46	75.71
\$42.00	71.11	72.36	73.61	74.86	76.11
\$43.00	71.51	72.76	74.01	75.26	76.51
\$44.00	71.91	73.16	74.41	75.66	76.91
\$45.00	72.31	73.56	74.81	76.06	77.31
\$46.00	72.71	73.96	75.21	76.46	77.71
\$47.00	73.11	74.36	75.61	76.86	78.11

Commercial Feedlot

Sensitivity Analysis of Breakeven Prices for 650 lb. Heifers

	Feeder purchase price				
	\$86.00	\$88.00	\$90.00	\$92.00	\$94.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$44.00	71.43	72.69	73.94	75.20	76.46
\$45.00	71.83	73.08	74.34	75.60	76.85
\$46.00	72.22	73.48	74.73	75.99	77.25
\$47.00	72.62	73.87	75.13	76.39	77.64
\$48.00	73.01	74.27	75.53	76.78	78.04
\$49.00	73.41	74.66	75.92	77.18	78.43
\$50.00	73.80	75.06	76.32	77.57	78.83

FEEDING COST OF GAIN FOR STEERS BY CLOSEOUT MONTH (\$/cwt.)

	% Change Previous Year	2001	2000	1999	1990-1999 Average
January	+ 7.7	46.44	43.11	47.65	53.10
February	+ 7.3	46.97	43.76	47.94	55.35
March	+12.7	50.69	44.97	47.66	55.99
April		48.00 ^P	44.55	47.94	53.86
May		46.50 ^P	43.29	45.56	53.26
June		45.00 ^P	43.20	42.62	51.19
July		44.50 ^P	43.01	42.30	50.24
August		45.00 ^P	43.43	43.15	50.82
September		45.00 ^P	43.10	42.41	51.09
October		45.00 ^P	43.24	42.19	51.15
November			44.05	42.04	51.69
December			44.65	43.37	52.48

Source: Focus on Feedlots Newsletter, KSU Extension Animal Science and Cooperating Feedyards.

BREAKEVEN PRICES FOR FINISHING 700 TO 800 LB. STEERS (\$/cwt.)

	% Change Previous Year	2001	2000	1999	1990-1999 Average
January	+11.0	72.93	65.68	61.92	72.34
February	+ 8.1	72.93	67.47	60.39	72.48
March	+ 9.9	74.90	68.15	61.51	72.03
April		74.12 ^P	69.61	61.63	71.63
May		74.77 ^P	71.27	59.71	71.28
June		73.56 ^P	71.72	62.21	69.67
July		71.44 ^P	69.99	63.05	69.67
August		72.72 ^P	69.69	61.90	68.61
September		74.04 ^P	69.82	61.29	68.48
October		74.04 ^P	69.92	60.70	68.68
November			72.56	64.73	70.52
December			73.62	65.02	71.26

^P Values for this month are projected

Hog Production Budgets and Returns

The hog finishing budget projects the economic outcome of taking a 10 pound early weaned pig through a combination nursery and finishing phase. The total feeding time is projected to be 170 days, so pigs started in May would be expected to finish in November. Ten pound weaned pigs are priced into the nursery using a formula based on current milo prices, current soybean meal prices, and 6 month out hog futures prices. The calculated price for 10 lb. pigs in late May declined slightly from last month, to \$30.28 per pig. Iowa direct weaned pig transfer prices have declined significantly over the past month as well, and are now averaging only slightly above the formula price. Alternative budget projections and sensitivity tables are included to assess the impact of alternative weaned pig prices on break-even projections.

The projected sale price needed to cover all costs associated with finishing formula priced early weaned pigs started on feed in May is \$40.89 per cwt. on a live weight basis, nearly identical to the projection of last month. Pricing the weaned pig into the nursery-finish program at the mid-point of the recent Iowa reported cash transfer price (\$31.00) results in a projected break-even to cover all costs of \$41.29 per cwt. Early weaned pig producers currently need about \$30.50 per pig to cover all costs, so current formula and spot market prices are barely covering break-evens.

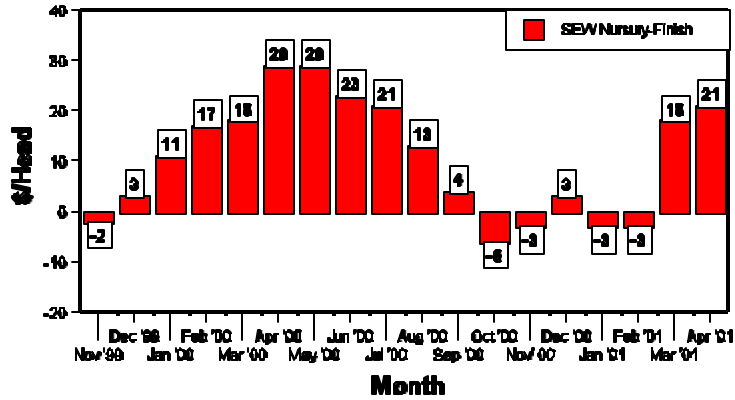
The example hog finishing budgets are calculated using a milo based feeding ration. Projected feed costs, based on current milo and supplement prices, are currently at \$16.99 per cwt. of pork produced in the SEW nursery finish program. This represents a

very slight increase from the feed cost projection of last month, but is down from the projections of a few month's ago. Feed costs are sensitive to changes in milo and soybean meal prices. For example, a milo price change of \$0.10 per cwt. changes feed costs per cwt. by \$0.22. A soybean meal price change of \$10 per ton changes feed costs by \$0.28 per cwt. Meal prices have increased slightly over the past month, resulting in the slightly higher feed cost projection. As has been the case for the past several months, risk averse producers may consider pricing late summer feed needs at these attractive feed price levels.

Calculated average returns to labor and management were positive for hogs exiting Kansas SEW nursery-finishing barns in April, averaging about \$20.66 per head. Current indications suggest strong positive returns for the next several months. Break-even prices to cover all costs for average producers are now around \$42.00 per cwt. on a live weight basis. Given these break-even levels, recent cash sale prices should be resulting in returns to labor and management of \$20 to \$25 per pig sold for average nursery finish producers over the next few months. Returns are projected to decline with finished hog price declines into the fall.

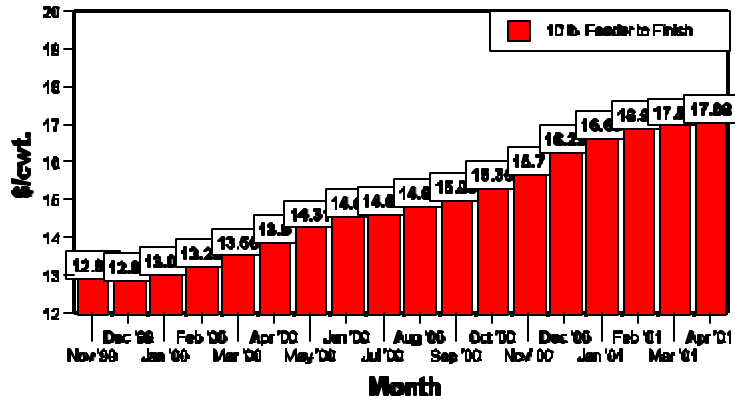
Break-evens to cover all costs for average farrow-to-finish producers are currently around \$41.75 per cwt. on a live weight basis. Break-evens will likely average around \$42.00 for the entire second quarter.

Returns to Labor and Management Finishing Operations in Kansas



Source: KSU Swine Return Series.

Feed Costs Per Cwt. SEW Nursery Finishing Operations in Kansas



Source: KSU Swine Return Series.

SEW NURSERY- FINISHING BUDGET

May, 2001

Assumptions	Barrows and Gilts
Initial weight of weaned pig	10 lbs.
Cost of weaned pig ¹	\$30.28
Interest rate	10.0 %
Feed conversion	3.00 lbs.
Death loss	5.00 %
Milo price	\$3.27 / cwt.
Soybean meal price	\$164.60 / ton.

¹ Weaned pig prices based on KSU formula.

COST BUDGET FOR FINISHING PIGS

FEEDER

1. Cost of weaned pig	\$30.28
2. Interest on weaned pig	\$ 1.42

FEED

3. Grain	\$16.37
4. Soybean meal	\$ 10.62
5. Vitamins and minerals	\$ 8.41
6. Starter	\$ 2.45
7. Interest on feed	\$ 0.88

OTHER VARIABLE COSTS

8. Feed processing	\$ 2.99
9. Labor	\$ 2.88
10. Veterinary, drugs, and supplies	\$ 1.30
11. Utilities	\$ 0.50
12. Repairs	\$ 1.57
13. Miscellaneous	\$ 3.25
14. Interest on other variable costs	\$ 0.29

FIXED COSTS

15. Buildings and equipment	\$11.97
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Sale Price Needed to Cover Variable Costs	\$35.74
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Sale Price Needed to Cover Total Costs	\$40.89
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Feed Cost Per Cwt. of Pork Produced	\$16.99
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SEW Nursery-Finishing

Sensitivity Analysis of Break-even Sale Price

	Purchase Price for 10 Lb. Weaned Pig				
	\$27.00	\$29.00	\$31.00	\$33.00	\$35.00
Feed Cost Per Cwt.	Break-even Sale Price for Market Hog (\$/cwt.)				
\$14.00	36.50	37.40	38.30	39.20	40.10
\$15.00	37.48	38.38	39.28	40.18	41.08
\$16.00	38.46	39.36	40.25	41.15	42.05
\$17.00	39.43	40.33	41.23	42.13	43.03
\$18.00	40.41	41.31	42.21	43.11	44.01
\$19.00	41.39	42.29	43.19	44.09	44.99
\$20.00	42.37	43.27	44.17	45.07	45.97

SEW Nursery-Finishing

Sensitivity Analysis of Maximum Weaned Pig Price

	Expected Sale Price for Market Hogs				
	\$36.00	\$38.00	\$40.00	\$42.00	\$44.00
Feed Cost Per Cwt.	Maximum Purchase Price for 10 lb. Weaned Pig				
\$14.00	25.92	30.35	34.80	39.24	43.70
\$15.00	23.74	28.17	32.62	37.06	41.52
\$16.00	21.56	25.99	30.44	34.88	39.34
\$17.00	19.38	23.81	28.26	32.70	37.16
\$18.00	17.20	21.63	26.08	30.52	34.98
\$19.00	15.02	19.45	23.90	28.34	32.80
\$20.00	12.84	17.27	21.72	26.16	30.62