



Livestock Farm Management Update

July 7, 2004

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Kansas State University, July 7, 2004.

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Cattle Production Budgets and Returns

By Rodney Jones, Extension Livestock Production Economics

Optimism In The Cattle Industry Continues, And Keeps Break-even Projections High

Fed cattle prices have been trading in a range that is considerably higher than projected at the time of the last newsletter a few months ago. In addition, feedgrain prices and price projections have steadily declined, lowering feed cost projections for cattle placed on feed over the summer. Consequently, cattle feeders have bid feeder cattle prices up to historically high levels, resulting in projected break-evens that are even higher than those observed prior to the BSE news late last year. Based on recent auction prices for 750 lb. steers and 650 lb. heifers, the average expected break-even prices for cattle expected to finish in about December are in the \$89.00 to \$90.00 per cwt. range for steers and heifers. The physical performance (feed conversion and average daily gain) of July placements is expected to be slightly better (3 to 4%) than the annual average.

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 decreased over the past few months as feedgrain price forecasts have decreased. In fact, the current ration charge projection (\$122.55 per ton) is nearly \$12.00 per ton lower than the projection of just a few months ago. Feedgrain market dips may provide some opportunities lock in feed needs and protect against the risk of a grain price rally going into the late summer.

Combining the ration charge projection with

July placement performance expectations results in a feeding cost of gain projection of \$53.73 per cwt. for traditional weight steer placements, and \$55.82 per cwt. for traditional weight heifer placements. These feeding cost projections are down 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 summer 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. 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.

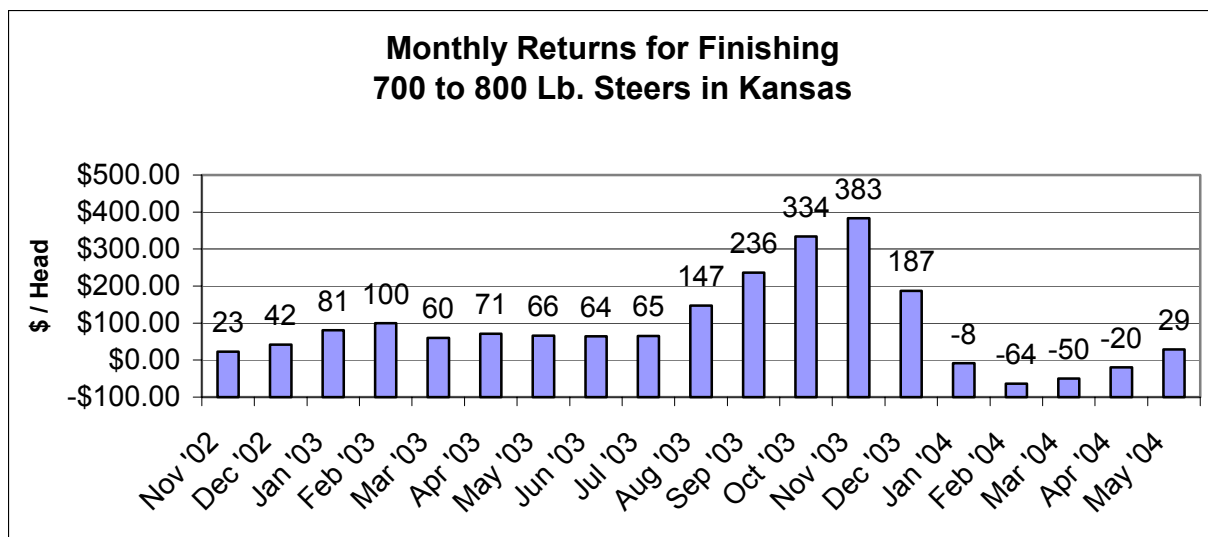
Spring Cattle Feeding Profits Much Better Than Anticipated

At the time of the last newsletter it appeared likely that cattle feeders would endure an extended period of significant losses early in 2004. As the actual events unfolded this spring, it became apparent that feeding returns would be much better than anticipated. January losses came in about as projected, averaging \$8.00 per head for steer closeouts. February losses were more severe, averaging \$64.00 per head. These losses were, however, far less than the \$100.00 per head losses that were projected earlier. By the same token, March losses averaged nearly \$50.00 per head, which was far less than projected as a result of cash fed cattle prices that rebounded going into March. The average April closeout resulted in a loss of nearly \$20.00 per head, however cash prices continued to rebound and by

May the average steer closeout in Kansas made a profit of around \$29.00 per head. Bear in mind that these are calculated averages. Sale prices continue to vary 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.

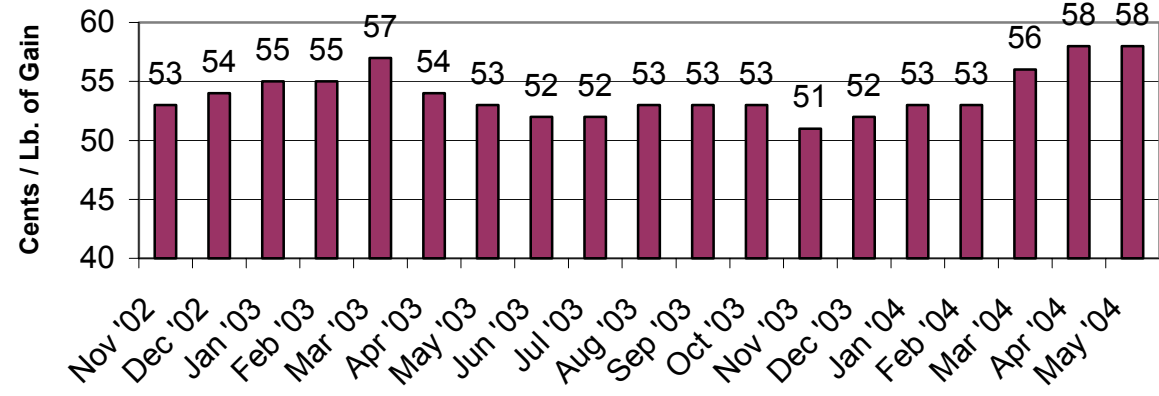
Average June results were much more positive than earlier in the spring. Based on an average cash selling price of nearly

\$89.00 per cwt., combined with an average break-even price of around \$79.00 per cwt., June closeouts returned an average of nearly \$124.00 profit per head to cattle feeders. Average break-evens are projected to be in the upper \$70's per cwt. for July and August closeouts, resulting in significant positive returns if current cash price forecasts hold true. Break-evens will increase rapidly into the fall, as higher priced feeder cattle begin to finish. Average returns are currently expected to decline, and perhaps turn negative by November unless prices end up 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
July 2004 Placements (750 lb. steers, 650 lb. hfrs)**

Assumptions	Steers	Heifers
Cost of Feeder (\$/cwt.) ¹	\$110.00	\$110.00
Interest Rate	7.0%	7.0%
Ration Charge (\$/ton) ²	\$122.55	\$122.55
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	147 days	147 days
Shrink	4.0 %	4.0 %
Pay weight to pay weight:		
Average daily gain	3.47 lbs.	3.07 lbs.
Feed conversion (as fed)	7.96 lbs.	8.21 lbs.
Death loss (in conversion)	0.50 %	0.50 %
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$825.00	\$715.00
2. Interest on feeder:	\$ 23.27	\$ 20.10
Feed		
3. Total feed cost:	\$243.58	\$226.39
4. Interest on feed:	\$ 3.43	\$ 3.18
Other Costs		
5. Yardage Charge:	\$ 7.35	\$ 7.33
6. Processing Charge:	\$ 7.00	\$ 7.00
7. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
8. Interest on other costs:	\$ 0.30	\$ 0.30
Break-even selling price:	\$ 89.36	\$ 89.66
Total cost of gain / cwt:	\$ 58.39	\$ 60.29
Feeding cost of gain / cwt: ³	\$ 53.73	\$ 55.82

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

² Ration charge of \$122.55 is a use-weighted projection over the feeding period based on a corn price of \$2.70 / bu., alfalfa hay price of \$80.00 / ton, supplement price of \$366.35 / 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				
	\$106.00	\$108.00	\$110.00	\$112.00	\$114.00
Feeding Cost Of Gain (\$ /cwt.)	-----Break-even Price----- (\$ / cwt.)				
\$51.00	85.76	86.99	88.22	89.46	90.69
\$52.00	86.49	87.39	88.62	89.86	91.09
\$53.00	86.90	87.79	89.02	90.26	91.49
\$54.00	87.31	88.19	89.42	90.66	91.89
\$55.00	87.72	88.59	89.82	91.06	92.29
\$56.00	88.12	88.99	90.22	91.46	92.69
\$57.00	88.53	89.39	90.62	91.86	93.09

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

	Feeder Purchase Price				
	\$106.00	\$108.00	\$110.00	\$112.00	\$114.00
Feeding Cost Of Gain (\$ /cwt.)	-----Break-even Price----- (\$ / cwt.)				
\$53.00	86.08	87.29	88.51	89.72	90.94
\$54.00	86.49	87.70	88.92	90.13	91.35
\$55.00	86.90	88.11	89.33	90.54	91.76
\$56.00	87.31	88.52	89.74	90.95	92.17
\$57.00	87.72	88.93	90.15	91.36	92.58
\$58.00	88.12	89.34	90.55	91.77	92.98
\$59.00	88.53	89.75	90.96	92.18	93.39

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

	% Change Previous Year	2004	2003	2002	1990-2002 Average
January	- 4.3	52.71	54.99	49.08	52.15
February	- 4.1	52.65	54.79	52.12	53.90
March	- 2.1	55.77	56.94	52.24	54.71
April	+ 7.4	58.06	54.08	51.99	53.76
May		57.54	52.60	50.58	52.38
June		59.10 ^P	51.85	47.56	50.66
July		57.53 ^P	52.16	46.66	49.58
August		56.49 ^P	52.53	48.05	51.13
September		55.26 ^P	53.31	47.96	50.28
October		54.80 ^P	52.69	49.16	50.73
November		53.86 ^P	51.10	52.64	51.10
December		53.73 ^P	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	+10.4	79.18	71.69	75.49	71.09
February	+15.9	83.46	71.98	76.77	71.59
March	+22.9	89.37	72.72	76.90	71.63
April	+18.8	87.15	73.33	74.15	71.58
May	+15.2	84.67	73.49	72.22	71.42
June		79.04 ^P	71.17	69.56	70.69
July		77.36 ^P	69.40	69.02	69.77
August		79.62 ^P	68.48	67.80	69.28
September		81.95 ^P	69.86	64.55	69.09
October		87.18 ^P	71.86	65.83	69.25
November		92.13 ^P	70.19	68.35	71.28
December		89.36 ^P	76.54	69.42	71.92

^P Values for this month are projected