



Livestock Farm Management Update

August 1, 2001

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Kansas State University, August 1, 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 July placements remained about the same as the projections of the previous month. The projected break-evens, for cattle expected to finish in about December, are in the \$75.00 to \$75.50 per cwt. range for heifers and steers. Both average feeder steer and average feeder heifer prices decreased slightly from the previous month, however feed cost projections increased. Performance expectations remain favorable for summer placements. Feed conversions and average daily gains of July placed cattle are expected to be 4 to 5% better than the annual average. For producers beginning to consider calf finishing programs, preliminary budget projections suggest that a 550 lb. Calf placed on feed in early August should have a break-even around \$75.00 per cwt. when finished in late February or March.

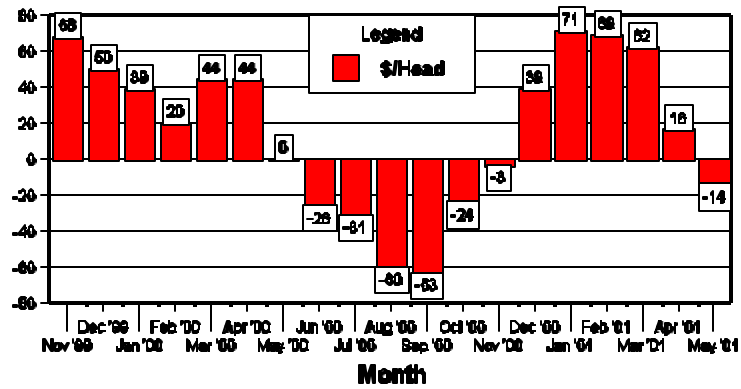
Due to a significant increase in feedgrain prices, the estimated ration charge increased by nearly 7% from last month. Combining the ration charge projection with July placement performance expectations results in a feeding cost of gain projection of \$46.66 per cwt. for July steer placements, and \$49.21 per cwt. for July heifer placements. The feeding cost of gain estimates depicted in the accompanying budgets are based on current feed prices and seasonal average performance, and are slightly lower than "futures based" feeding cost of gain projections that assume feed is purchased as needed throughout the feeding period. This observation reflects the uncertainty that is now priced into deferred feedgrain futures. 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 summer 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.

Poorer than expected performance continued to be reflected in the May closeout numbers. Actual calculated average steer returns came in at \$-13.70 per head, due in large part to higher than anticipated cost of gain. Preliminary projections suggest similar average losses on June and July closeouts. Projected break-evens over the next few months range from around \$73.00 per cwt. for August closeouts to \$76.00 per cwt. or even slightly higher for November and December closeouts.

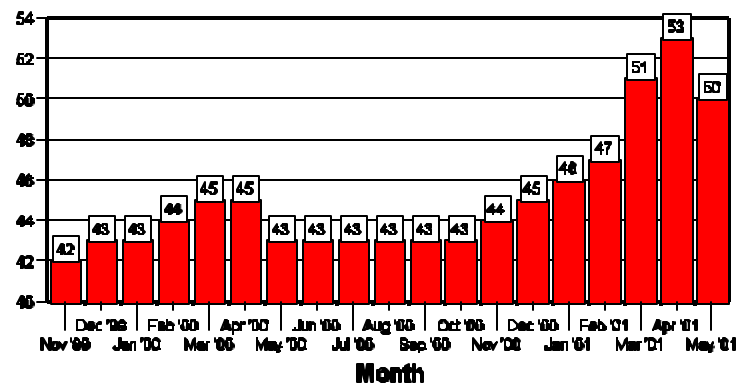
Even considering the recent modest declines in average feeder cattle prices, there is still some profit to be realized for average short season summer stocking programs if the cattle are sold coming off of grass. The most current projections suggest that retained ownership into a feeding program is expected to be about a "break-even" proposition. Each producer needs to carefully weigh the current bids for their grass cattle against their ability and willingness to endure the risk of a retained ownership program. In order for the feeding program to be profitable it appears that performance will need to be better than average, or fed cattle prices will need to rebound more than futures based price forecasts currently suggest.

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

Assumptions	Steers	Heifers
Cost of feeder (\$/cwt.) ¹	\$91.20	\$88.70
Interest rate	9.0%	9.0%
Ration charge (\$/ton) ²	\$105.52	\$105.52
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	146 days	143 days
Shrink	4.0%	4.0%
Pay weight to pay weight:		
average daily gain	3.42 lbs.	3.02 lbs.
Feed conversion (as fed)	7.88 lbs.	8.23 lbs.
Death loss (in conversion)	0.50%	0.50%
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$684.00	\$576.54
2. Interest on feeder:	\$ 24.66	\$ 20.01
Feed		
3. Total feed cost:	\$207.88	\$184.54
4. Interest on feed:	\$ 3.75	\$ 3.20
Other Costs		
5. Yardage Charge:	\$ 7.31	\$ 7.04
6. Processing Charge:	\$ 7.00	\$ 7.00
8. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
9. Interest on other V.C.:	\$.38	\$.36
Breakeven selling price:	\$ 75.36	\$ 74.95
Total cost of gain/cwt:	\$ 51.60	\$ 53.92
Feeding cost of gain/cwt: ³	\$ 46.66	\$ 49.21

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

²Ration charge of \$105.52 based on corn price of \$2.34/bu., milo price of \$3.66/cwt., alfalfa hay price of \$100.00/ton, supplement price of \$200.40/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.)				
\$43.00	71.28	72.53	73.77	75.01	76.25
\$44.00	71.68	72.93	74.17	75.41	76.65
\$45.00	72.08	73.33	74.57	75.81	77.05
\$46.00	72.48	73.73	74.97	76.21	77.45
\$47.00	72.88	74.13	75.37	76.61	77.85
\$48.00	73.28	74.53	75.77	77.01	78.25
\$49.00	73.68	74.93	76.17	77.41	78.65

Commercial Feedlot

Sensitivity Analysis of Breakeven Prices for 650 lb. Heifers

	Feeder purchase price				
	\$85.00	\$87.00	\$89.00	\$91.00	\$93.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$46.00	71.36	72.62	73.87	75.12	76.37
\$47.00	71.76	73.01	74.26	75.51	76.77
\$48.00	72.16	73.41	74.66	75.91	77.16
\$49.00	72.55	73.80	75.05	76.30	77.56
\$50.00	72.95	74.20	75.45	76.70	77.95
\$51.00	73.34	74.59	75.84	77.10	78.35
\$52.00	73.74	74.99	76.24	77.49	78.74

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	+18.2	52.64	44.55	47.94	53.86
May	+15.7	50.08	43.29	45.56	53.26
June		48.00 ^P	43.20	42.62	51.19
July		45.50 ^P	43.01	42.30	50.24
August		46.00 ^P	43.43	43.15	50.82
September		46.00 ^P	43.10	42.41	51.09
October		46.50 ^P	43.24	42.19	51.15
November		47.50 ^P	44.05	42.04	51.69
December		48.00 ^P	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	+10.2	76.74	69.61	61.63	71.63
May	+ 6.9	76.16	71.27	59.71	71.28
June		74.43 ^P	71.72	62.21	69.67
July		71.53 ^P	69.99	63.05	69.67
August		72.81 ^P	69.69	61.90	68.61
September		74.13 ^P	69.82	61.29	68.48
October		74.52 ^P	69.92	60.70	68.68
November		76.58 ^P	72.56	64.73	70.52
December		75.99 ^P	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 July would be expected to finish in January of 2002. 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 July decreased slightly from last month, to \$31.24 per pig. Iowa direct weaned pig transfer prices decreased somewhat over the past month as well, and are still averaging 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 July is \$42.48 per cwt. on a live weight basis, up somewhat from 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 (\$31.75) results in a projected break-even to cover all costs of \$42.71 per cwt. The formula price and the mid-point of the Iowa reported transfer price are now only slightly above calculated break-even levels for average farrowing operations producing early weaned pigs.

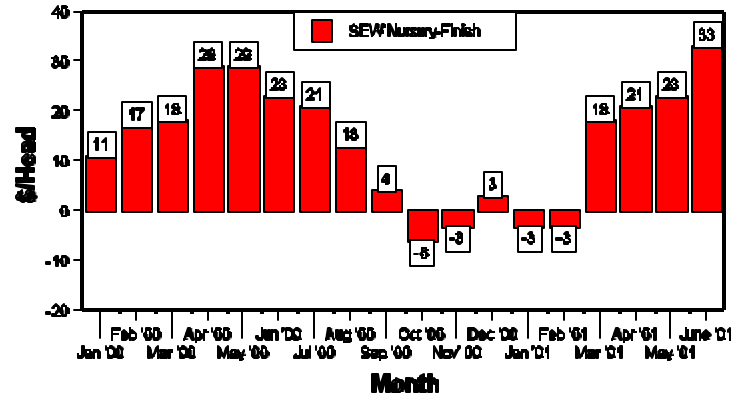
The example hog finishing budgets are calculated using a milo based feeding ration. Projected feed costs, based on current milo and supplement prices, are currently at \$18.18 per cwt. of pork produced in the SEW nursery finish program. This represents a

significant increase (about 6%) from the feed cost projection of last month. 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. Feedgrain prices have rapidly increased over the past month, resulting in the higher feed cost projection, and ultimately in the higher break-even projections.

Calculated average returns to labor and management were at attractive positive levels for hogs exiting Kansas SEW nursery-finishing barns in June, averaging about \$32.73 per head. Positive returns are expected to continue for the next few months. Projected break-even prices to cover all costs for average producers have increased to around \$42.50 per cwt. on a live weight basis. 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. Returns are expected to decline later in the year, however, as hog prices decline and the impact of increasing feed costs begins to be reflected in hog closeouts.

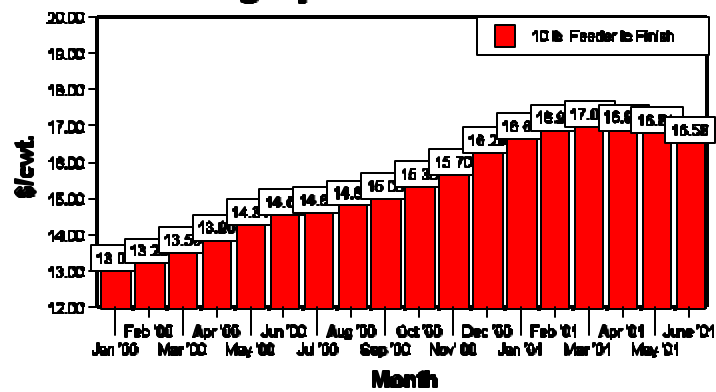
Break-evens to cover all costs for average farrow-to-finish producers have increased to around \$42.85 per cwt. on a live weight basis. This increase of nearly \$1.00 per cwt. over the past month is attributed to the increase in feed ingredient prices.

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

July, 2001

Assumptions	Barrows and Gilts
Initial weight of weaned pig	10 lbs.
Cost of weaned pig ¹	\$31.24
Interest rate	10.0 %
Feed conversion	3.00 lbs.
Death loss	5.00 %
Milo price	\$3.66 / cwt.
Soybean meal price	\$175.40 / ton.

¹ Weaned pig prices based on KSU formula.

COST BUDGET FOR FINISHING PIGS

FEEDER

1. Cost of weaned pig	\$31.24
2. Interest on weaned pig	\$ 1.46

FEED

3. Grain	\$18.32
4. Soybean meal	\$ 11.31
5. Vitamins and minerals	\$ 8.41
6. Starter	\$ 2.45
7. Interest on feed	\$ 0.94

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	\$37.34
Sale Price Needed to Cover Total Costs	\$42.48

Feed Cost Per Cwt. of Pork Produced	\$18.18
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SEW Nursery-Finishing

Sensitivity Analysis of Break-even Sale Price

	Purchase Price for 10 Lb. Weaned Pig				
	\$28.00	\$30.00	\$32.00	\$34.00	\$36.00
Feed Cost Per Cwt.	Break-even Sale Price for Market Hog (\$/cwt.)				
\$16.00	38.91	39.81	40.71	41.61	42.51
\$17.00	39.89	40.79	41.69	42.59	43.49
\$18.00	40.87	41.77	42.67	43.56	44.46
\$19.00	41.84	42.74	43.64	44.54	45.44
\$20.00	42.82	43.72	44.62	45.52	46.42
\$21.00	43.80	44.70	45.60	46.50	47.40
\$22.00	44.78	45.68	46.58	47.48	48.38

SEW Nursery-Finishing

Sensitivity Analysis of Maximum Weaned Pig Price

	Expected Sale Price for Market Hogs				
	\$38.00	\$40.00	\$42.00	\$44.00	\$46.00
Feed Cost Per Cwt.	Maximum Purchase Price for 10 lb. Weaned Pig				
\$16.00	25.98	30.44	34.90	39.34	43.78
\$17.00	23.80	28.26	32.72	37.16	41.60
\$18.00	21.62	26.08	30.54	34.98	39.42
\$19.00	19.44	23.90	28.36	32.80	37.24
\$20.00	17.26	21.72	26.18	30.62	35.06
\$21.00	15.08	19.54	24.00	28.44	32.88
\$22.00	12.90	17.36	21.82	26.26	30.70