



Livestock Farm Management Update

December 31, 2003

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Kansas State University, December 31, 2003.

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The long string of historically high profits to cattle feeding comes to an abrupt end with the BSE incident in the United States 2

Cattle Production Budgets and Returns

By Rodney Jones, Extension Livestock Production Economics

Uncertainty Following BSE Incident

Break-even projections for cattle finishing programs are very difficult to calculate at the time of this writing, because feeder cattle trade is not well established this last week of December following the BSE news last week. For illustrative purposes I plugged in a purchase price of \$81.00 per cwt. for a 750 pound steer, and \$80.00 per cwt. for a 650 pound heifer, decreased of around \$20.00 per cwt. from last months projections. Based on these assumptions, the expected break-even prices for late December-early January placements are in the \$72.00 to \$73.00 per cwt. range for heifers and steers. Obviously, these break-even projections for May closeouts are down considerably from recent projections, and from the break-evens on current closeouts. 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. Factors other than the feeder cattle purchase price that could impact break-evens include feed costs and performance. The ration charge projection for December placements is very consistent with the projections of the past few months. Risk averse producers might consider locking in feedgrain prices on market dips to protect against the chance of a feedgrain price rally going into spring. Feed conversions and average daily gains for December placements are expected to be about 5% worse than annual averages. Performance of late fall and early winter placements is highly variable, and depends on winter feeding weather. However, performance expectations improve significantly for late winter and spring placements.

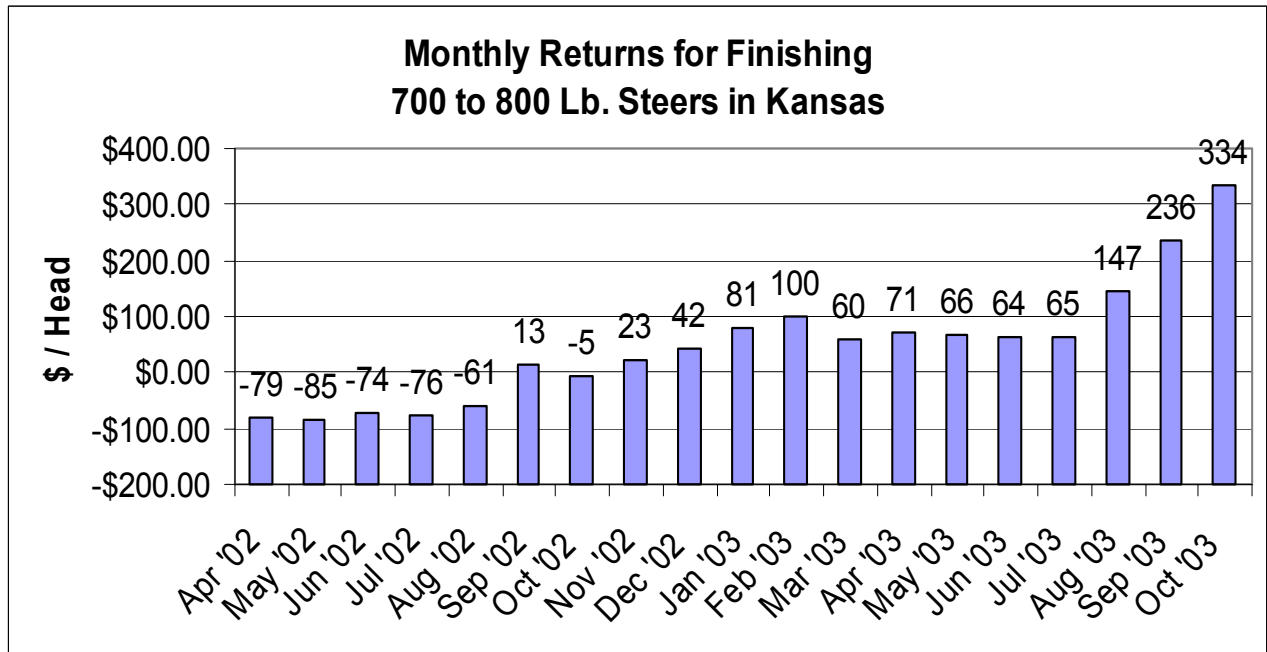
A use-weighted combination of placement month corn, hay, and supplement prices, and projections for ingredient prices over the following four months, is used to estimate a ration charge, and subsequently a feeding cost of gain projection for current placements. Combining the ration charge projection with late December placement performance expectations results in a feeding cost of gain projection of \$55.02 per cwt. for traditional weight December steer placements, and \$57.89 per cwt. for traditional weight December heifer placements. In addition to feed ingredients, yardage, processing, medication, and death loss are accounted for in feeding cost projections. Estimates are most sensitive to changes in feed conversions, daily gains, grain prices, and hay prices. Based on winter placed performance expectations, each \$0.10 per bushel change in corn price changes feeding cost of gain by \$1.30 per cwt. In addition, each \$10.00 per ton change in hay price changes feeding cost of gain by \$0.48 per cwt. Though the feeding cost of gain projections for closeouts over the next several months are relatively high, improving performance expectations for late winter and spring placements should reduce the cost of gain for summer closeouts if feed ingredient prices do not increase significantly from current levels.

Feeding Profits go from Historically High Levels to Zero

Final average October steer closeout returns came in about as expected. The average October steer closeout returned about \$334.00 per head. As was the case all fall, sale prices during October varied significantly from week to week and from pen to pen due to substantial quality premiums, so some closeouts returned

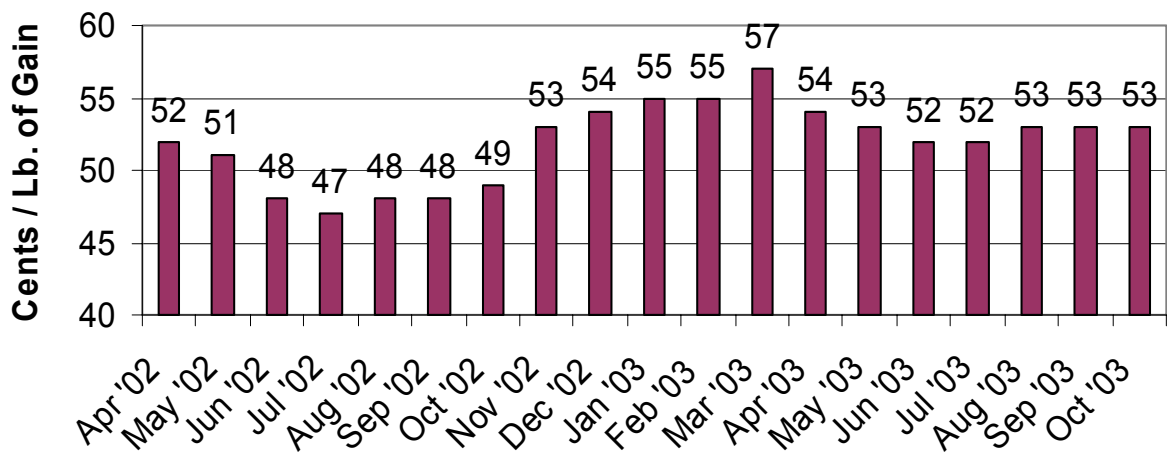
significantly more than the calculated monthly average, while others returned significantly less. Preliminary calculations suggest similar returns on November closeouts. Reported cash prices declined from week-to-week throughout December, causing actual net returns to be heavily influenced by the particular week the cattle were sold. With that said, prior to Christmas week, net returns to cattle feeding in December likely averaged around \$240.00 per head. Following the BSE incident fed cattle prices collapsed, and cash fed cattle prices fell into the mid to upper \$70's, resulting in average net returns much closer to \$0.00 for animals marketed the last week

in December. Break-evens are currently in the upper \$70's to low \$80's on a per cwt. live basis. Break-evens will increase to the upper \$80's, and will be above \$90 per cwt. on some pens finished in the March – April time period as higher priced feeder animals reach market weight. At the time of this writing the markets are very uncertain regarding spring price forecasts, however current futures quotes suggest that cash prices in the low \$70's are possible over the next several months. Net returns to cattle feeding will turn significantly negative in early 2004 unless prices come in considerably above 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
November 2003 Placements (750 lb. steers, 650 lb. hfrs)

Assumptions	Steers	Heifers
Cost of Feeder (\$/cwt.) ¹	\$81.00	\$80.00
Interest Rate	7.0%	7.0%
Ration Charge (\$/ton) ²	\$114.29	\$114.29
Yardage Charge (\$/head/day)	\$ 0.05	\$ 0.05
Beginning weight	750 lbs.	650 lbs.
Pay weight	1250 lbs.	1075 lbs.
Gain	500 lbs.	425 lbs.
Days on feed	167 days	160 days
Shrink	4.0 %	4.0 %
Pay weight to pay weight:		
Average daily gain	2.99 lbs.	2.65 lbs.
Feed conversion (as fed)	8.70 lbs.	9.07 lbs.
Death loss (in conversion)	0.50 %	0.50 %
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$607.50	\$520.00
2. Interest on feeder:	\$ 19.48	\$ 15.99
Feed		
3. Total feed cost:	\$248.39	\$220.28
4. Interest on feed:	\$ 3.98	\$ 3.39
Other Costs		
5. Yardage Charge:	\$ 8.36	\$ 8.02
6. Processing Charge:	\$ 7.00	\$ 7.00
7. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
8. Interest on other costs:	\$ 0.36	\$ 0.34
Break-even selling price:	\$ 72.17	\$ 72.75
Total cost of gain / cwt:	\$ 58.91	\$ 61.65
Feeding cost of gain / cwt: ³	\$ 55.02	\$ 57.89

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

² Ration charge of \$114.29 is a use-weighted projection over the feeding period based on a corn price of \$2.54 / bu., alfalfa hay price of \$79.65 / ton, supplement price of \$254.25 / 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				
	\$77.00	\$79.00	\$81.00	\$83.00	\$85.00
Feeding Cost Of Gain (\$ /cwt.)	-----Break-even Price----- (\$ / cwt.)				
\$52.00	68.47	69.71	70.94	72.18	73.42
\$53.00	68.87	70.11	71.34	72.58	73.82
\$54.00	69.27	70.51	71.74	72.98	74.22
\$55.00	69.67	70.91	72.14	73.38	74.62
\$56.00	70.07	71.31	72.54	73.78	75.02
\$57.00	70.47	71.71	72.94	74.18	75.42
\$58.00	70.87	72.11	73.34	74.58	75.82

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

	Feeder Purchase Price				
	\$76.00	\$78.00	\$80.00	\$82.00	\$84.00
Feeding Cost Of Gain (\$ /cwt.)	-----Break-even Price----- (\$ / cwt.)				
\$55.00	69.11	70.36	71.60	72.85	74.10
\$56.00	69.51	70.75	72.00	73.25	74.49
\$57.00	69.90	71.15	72.39	73.64	74.89
\$58.00	70.30	71.54	72.79	74.04	75.28
\$59.00	70.69	71.94	73.19	74.43	75.68
\$60.00	71.09	72.33	73.58	74.83	76.07
\$61.00	71.48	72.73	73.98	75.22	76.47

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

	% Change Previous Year	2004	2003	2002	1990-2002 Average
January		51.62 ^P	54.99	49.08	52.15
February		55.23 ^P	54.79	52.12	53.90
March		56.72 ^P	56.94	52.24	54.71
April		56.23 ^P	54.08	51.99	53.76
May		55.02 ^P	52.60	50.58	52.38
June		51.80 ^P	51.85	47.56	50.66
July	+11.7		52.16	46.66	49.58
August	+ 9.3		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			49.34 ^P	52.64	51.10
December			49.92 ^P	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		80.03 ^P	71.69	75.49	71.09
February		84.96 ^P	71.98	76.77	71.59
March		90.15 ^P	72.72	76.90	71.63
April		87.82 ^P	73.33	74.15	71.58
May		81.45 ^P	73.49	72.22	71.42
June		72.01 ^P	71.17	69.56	70.69
July	+ 0.6		69.40	69.02	69.77
August	+ 1.0		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			73.83 ^P	68.35	71.28
December			76.74 ^P	69.42	71.92

^P Values for this month are projected