

Defining the Problem...

Land and Pasture Cost Changes (and other cost issues for cow-calf producers)

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K-State Beef Conference
Frick Auditorium
KSU College of Veterinary Medicine
August 7-8, 2008

Theme: Managing Annual Cow Costs

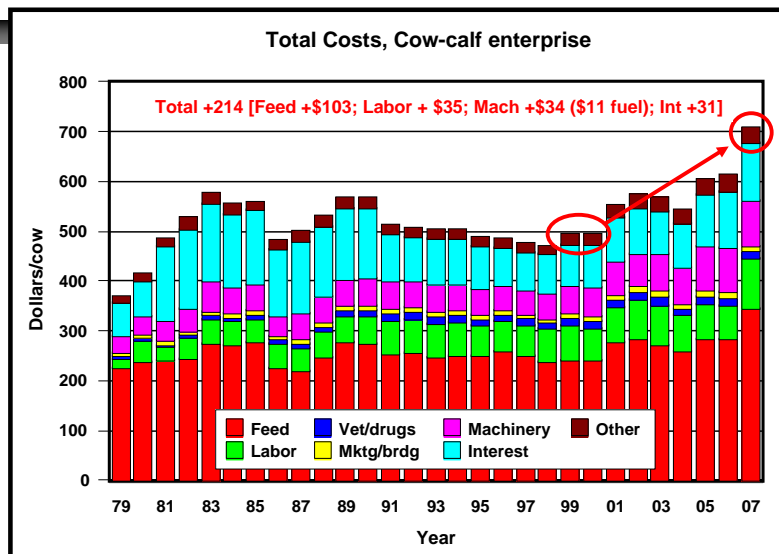


Historical Cost>Returns for Cow/Calf Enterprise

- **KFMA enterprise analysis**
 - Beef cow-calf averages, 1979-2007 (93 to 258 farms)
 - Dollars/cow and dollars/cwt
- **Variable costs:** hired labor, machinery repair, interest paid, feed purchased, machine hire-lease, farm org. fees/travel/pub, vet medicine/drugs, marketing/breeding, gas/fuel/oil, personal property tax, general farm insurance, utilities, auto expense
- **Fixed costs:** depreciation, real estate tax, unpaid operator labor, interest charge

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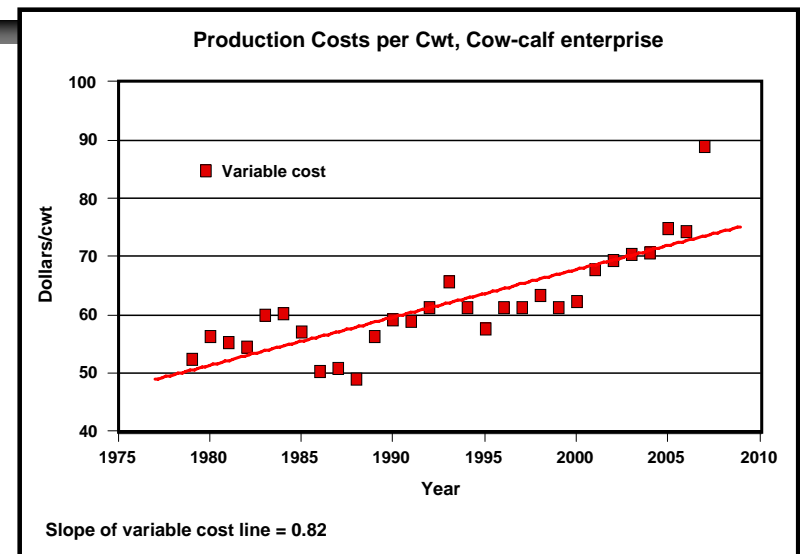
Costs have increased ~\$30/cow/year for the last seven years



Kansas Farm Management Association Enterprise Summaries

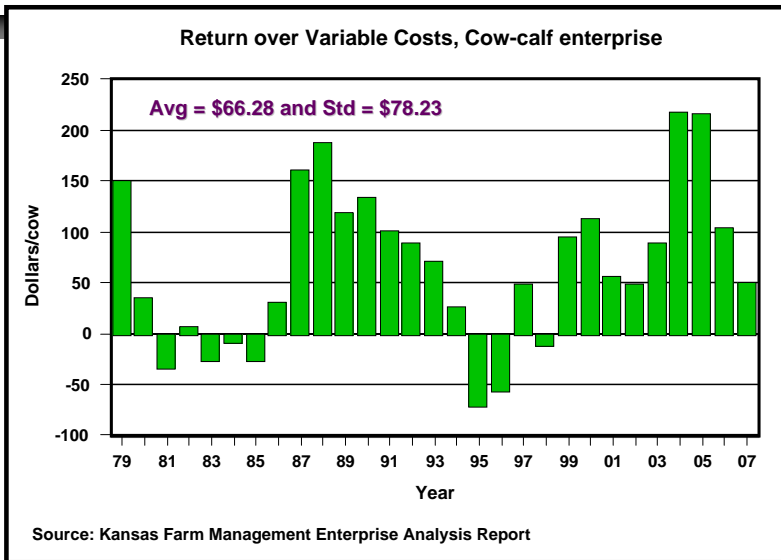
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2007 was major deviation from trend...

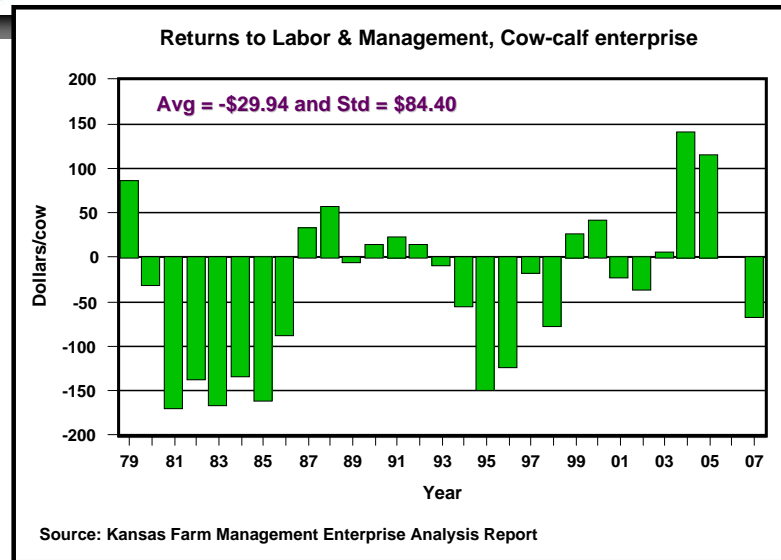


Kansas Farm Management Association Enterprise Summaries

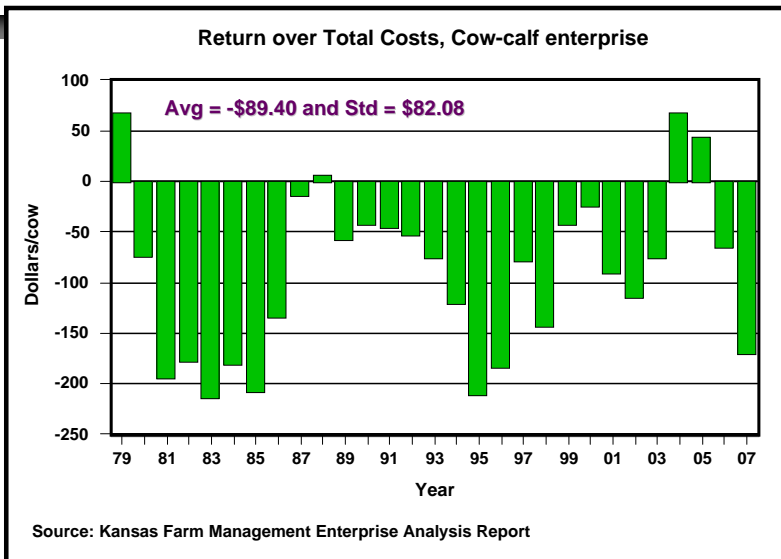
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~\$156 difference between averages of the "good" third and "bad" third years.

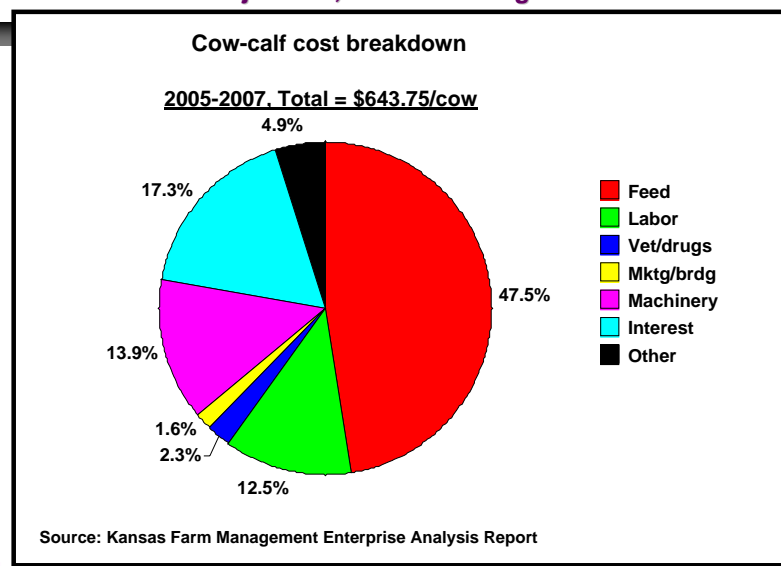


Not much returns to unpaid operator labor



No return to management – what do we expect this to be?

Pasture/feed is major cost, but other things matter too...





Cow/Calf Enterprise Cost>Returns – Variability between producers



Cost-return information ...

KFMA enterprise analysis

- Beef cow-calf farm-level data
- 2003-2007 – minimum of 3-yr average
- 67 farms with avg weaning weight 450-650 lbs
- Sorted by return to management (i.e., return over total costs)



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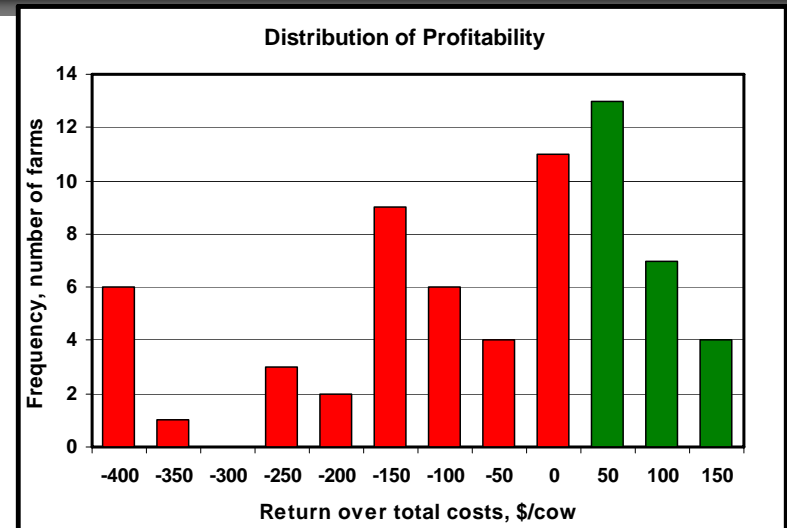


Kansas Farm Management Association Enterprise Summaries

	Profit Category			Difference between High 1/3 and Low 1/3	
	High 1/3	Mid 1/3	Low 1/3	Absolute	%
	Head / \$	Head / \$	Head / \$		
Number of Farms	22	23	22		
Number of Cows in Herd	168	118	74	94	127%
Number of Calves Sold	154	109	67	86	128%
Weight of Calves Sold	572	560	550	26%	4%
Calf Sales Price / Cwt	\$107.24	\$108.01	\$106.97	\$0.27	0%
Gross Income	\$582.04	\$543.33	\$491.73	\$90.31	18%
Feed	\$256.90	\$279.83	\$327.50	-\$70.60	-22%
Interest	\$81.58	\$104.18	\$122.00	-\$40.43	-33%
Vet Medicine / Drugs	\$12.15	\$14.38	\$15.34	-\$3.19	-21%
Livestock Marketing / Breeding	\$8.37	\$9.76	\$8.61	-\$0.23	-3%
Depreciation	\$21.76	\$30.89	\$40.05	-\$18.29	-46%
Machinery	\$45.31	\$53.89	\$70.99	-\$25.68	-36%
Labor	\$61.33	\$72.30	\$140.76	-\$79.43	-56%
Other	\$27.57	\$28.28	\$50.82	-\$23.25	-46%
Total Cost	\$514.97	\$593.51	\$776.06	-\$261.09	-34%
Net Return to Management	\$67.07	-\$50.18	-\$284.33	\$351.40	

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Average profitability distribution ...



Average returns for individual producers: 37% positive and 63% negative

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Correlations between several economic and production variables (weak analysis, but it is a start)...

(higher absolute values are an indication of stronger relationships)

	Profit	Total cost	Feed cost	Labor cost	Dep, mach, int	Gross per cow	Selling weight	Sale price	Herd size	Year
Profit	1.00	-0.89	-0.54	-0.66	-0.65	0.61	0.29	0.09	0.41	-0.28
Total cost	-0.89	1.00	0.66	0.62	0.74	-0.20	-0.02	-0.01	-0.41	0.28
Feed cost	-0.54	0.66	1.00	0.09	0.31	0.00	0.12	-0.05	-0.41	0.23
Labor cost	-0.66	0.62	0.09	1.00	0.21	-0.35	-0.12	-0.20	-0.29	0.06
Dep, mach, int	-0.65	0.74	0.31	0.21	1.00	-0.14	-0.05	0.16	-0.19	0.30
Gross per cow	0.61	-0.20	0.00	-0.35	-0.14	1.00	0.61	0.14	0.14	-0.12
Selling weight	0.29	-0.02	0.12	-0.12	-0.05	0.61	1.00	-0.34	-0.23	-0.19
Sale price	0.09	-0.01	-0.05	-0.20	0.16	0.14	-0.34	1.00	0.46	0.46
Herd size	0.41	-0.41	-0.41	-0.29	-0.19	0.14	-0.23	0.46	1.00	0.04
Year	-0.28	0.28	0.23	0.06	0.30	-0.12	-0.19	0.46	0.04	1.00

Little to no relationship between these variables ($r < |0.10|$)

Negative relationship between these variables ($r < -0.40$)

Positive relationship between these variables ($r > 0.40$)

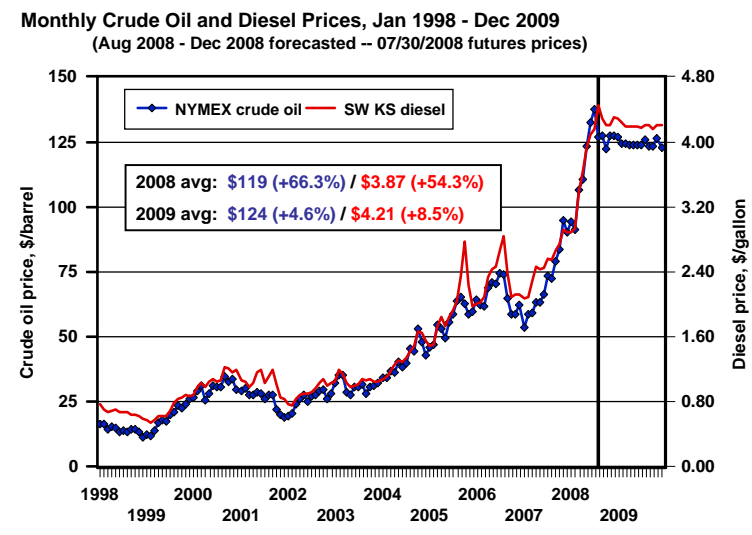
Summary of historical returns...

- Considerable variability in returns over time, but variability between producers at a point in time is much larger.
- Cost differences between producers explains much of the variability in profitability differences.
- Correlation between dep., mach., & int. costs and profit greater than feed costs and profit. Labor costs also stronger correlation with profit than feed costs.
- Larger cow-calf operations tend to have lower costs and be more profitable, but smaller operations can be competitive (it's just harder to do on average).

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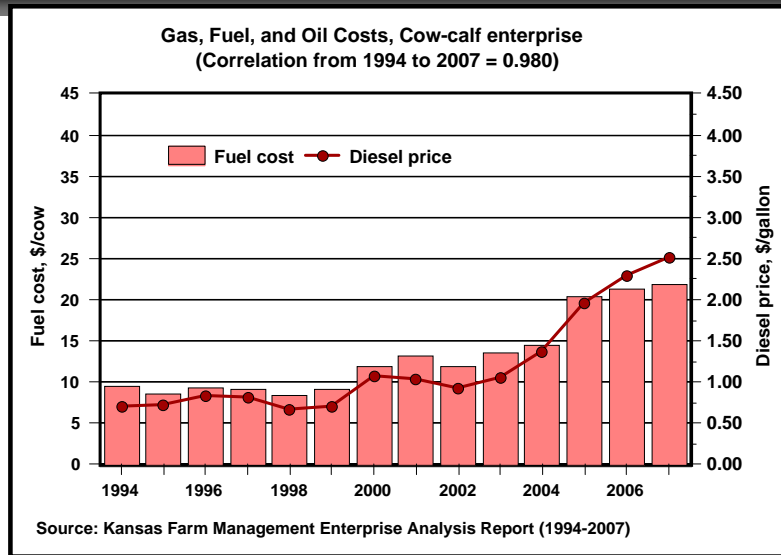
Historical and forecasted oil and diesel fuel prices

Fuel prices will remain high in 2009...



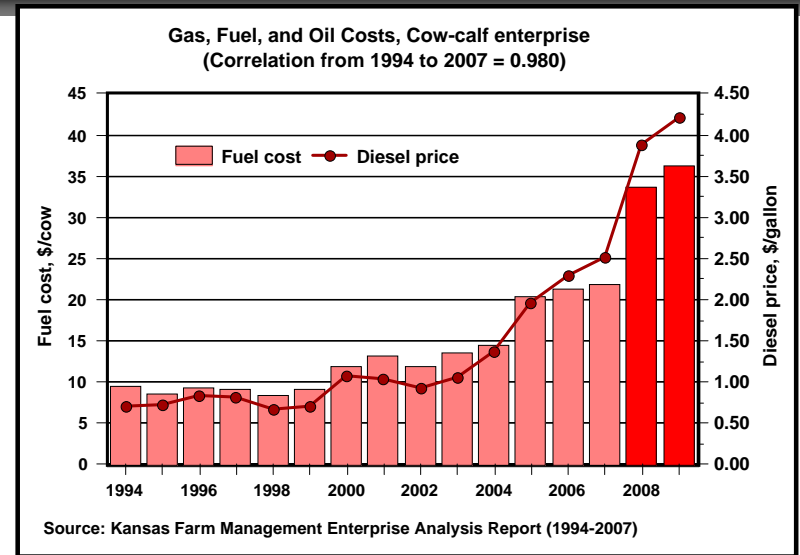
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Fuel costs/cow and price/gal are highly correlated...



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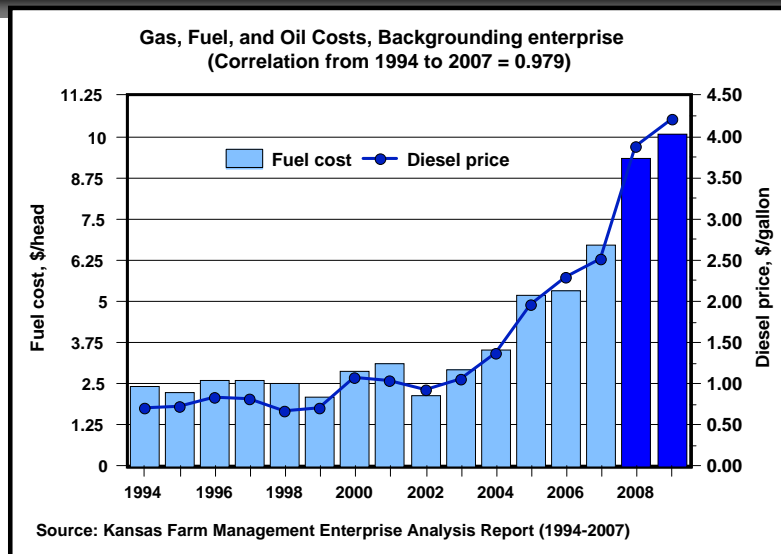
High fuel prices increase cow-calf costs...



Aug 2008 – Dec 2009 diesel price forecasts based on 7/30/08 crude oil futures prices.

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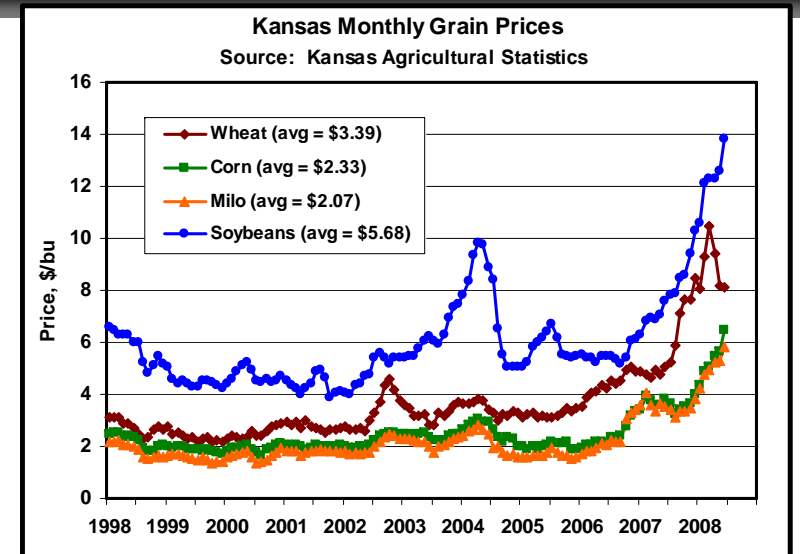
High fuel prices increase backgrounding costs...



Aug 2008 – Dec 2009 diesel price forecasts based on 7/30/08 crude oil futures prices.

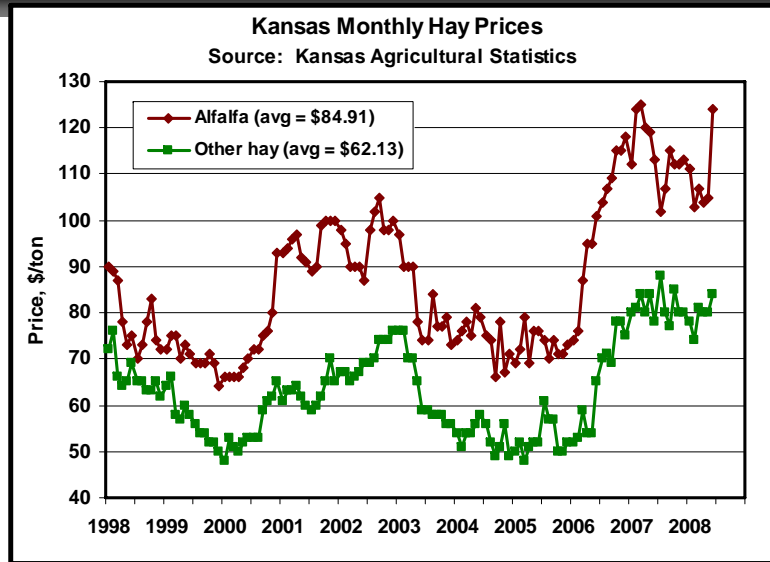
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It's not just energy prices that are high...



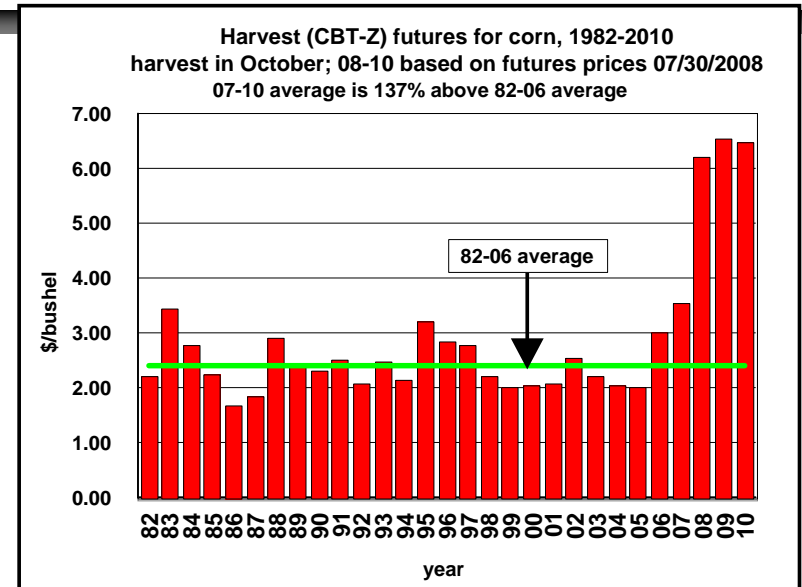
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Strength in crop markets impacts hay prices...



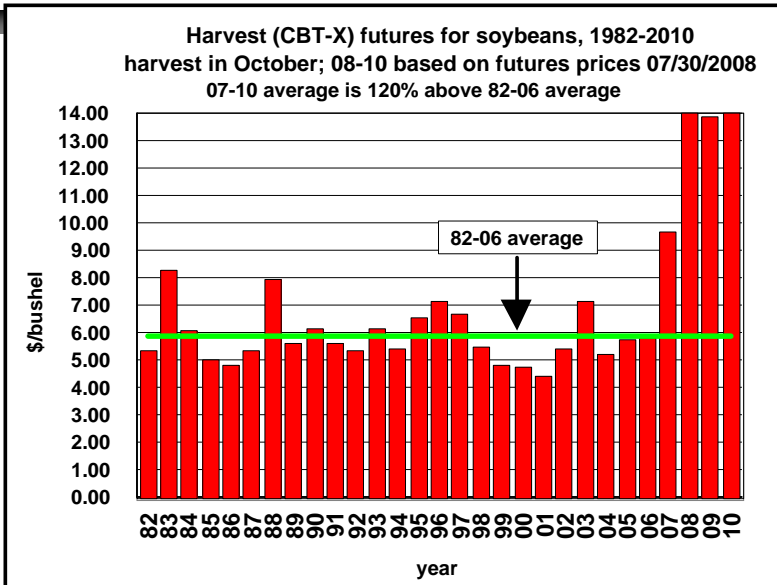
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How long will strong crop prices stick around?



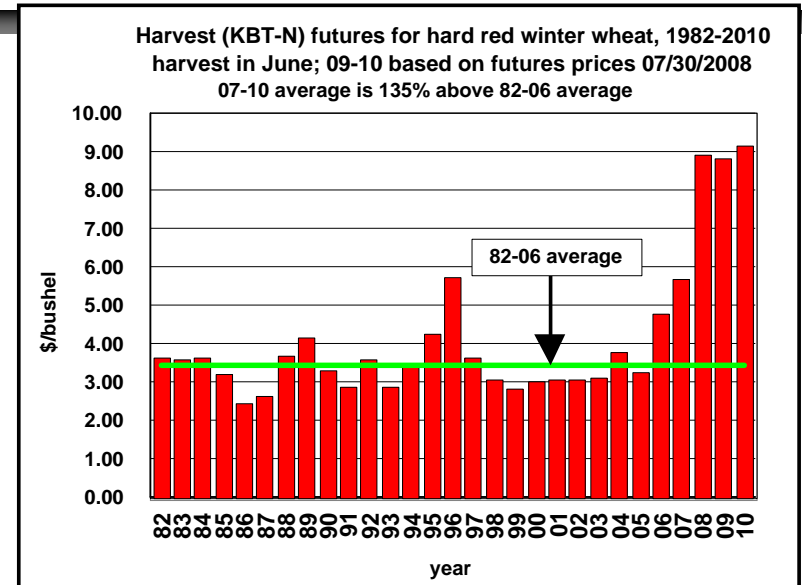
22

It's not just corn prices...



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It's not just corn prices...



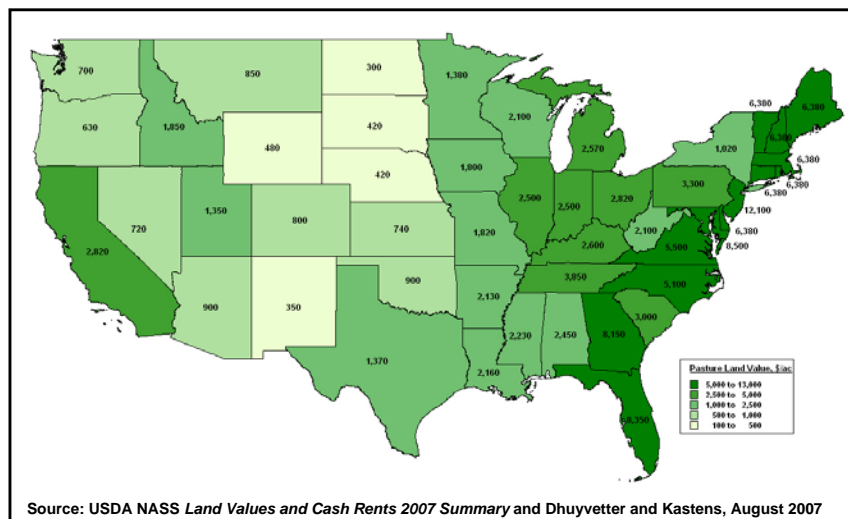
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Impact of high fuel and grain prices on crop and livestock operation costs...

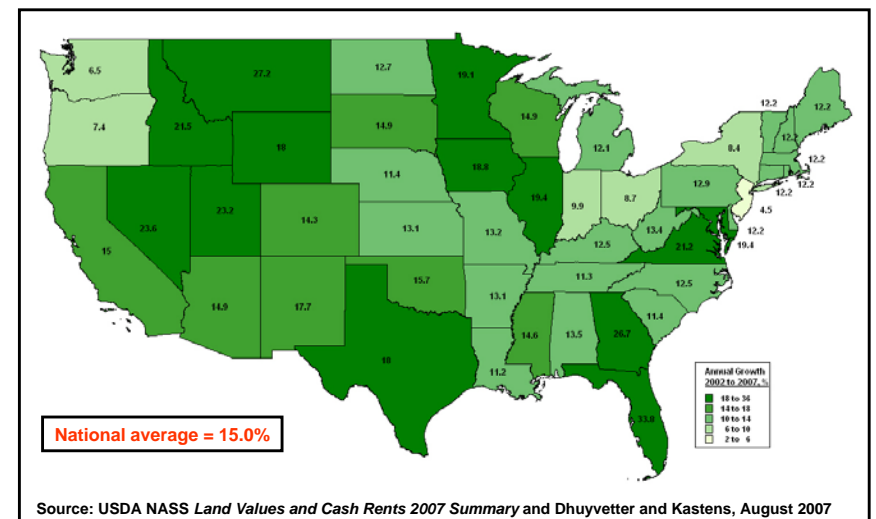
- **Inelastic demand for fuel**
 - Little can be done to manage higher fuel costs
 - Lower costs in other areas, such as land rent?
- **High grain prices**
 - Increase cost of gain → look for ways to lower costs of production
 - Increases demand for alternative feedstuffs (i.e., pasture)
 - Increases demand for farm ground
- **Which market force will be the strongest?**



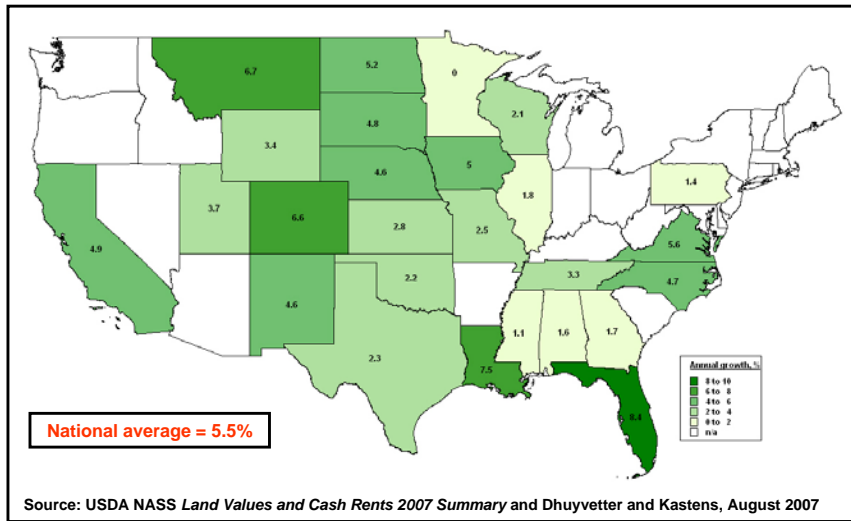
**Pasture Land Average Value per Acre
January 1, 2007**



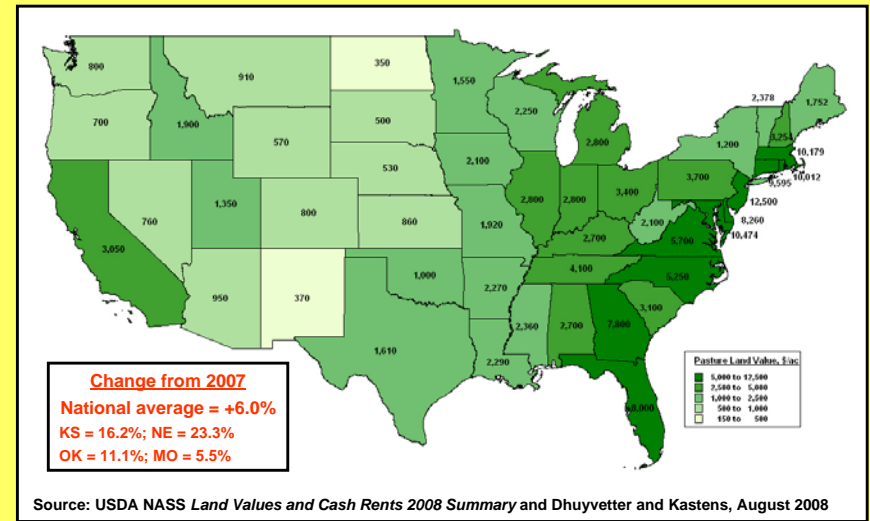
**Pasture Land Average Annual Growth Rate
Jan 1, 2002 to Jan 1, 2007, percent (geo mean)**



Pasture Rent Average Annual Growth Rate Jan 1, 2002 to Jan 1, 2007, percent (geo mean)

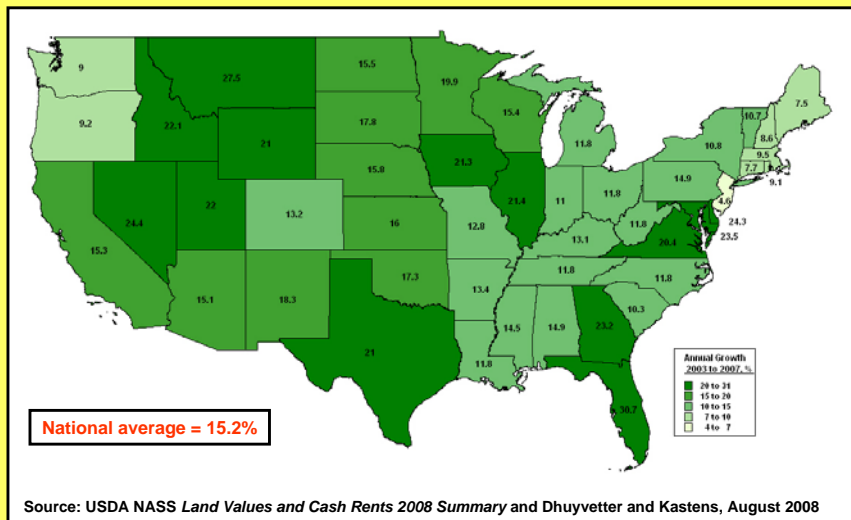


Pasture Land Average Value per Acre January 1, 2008

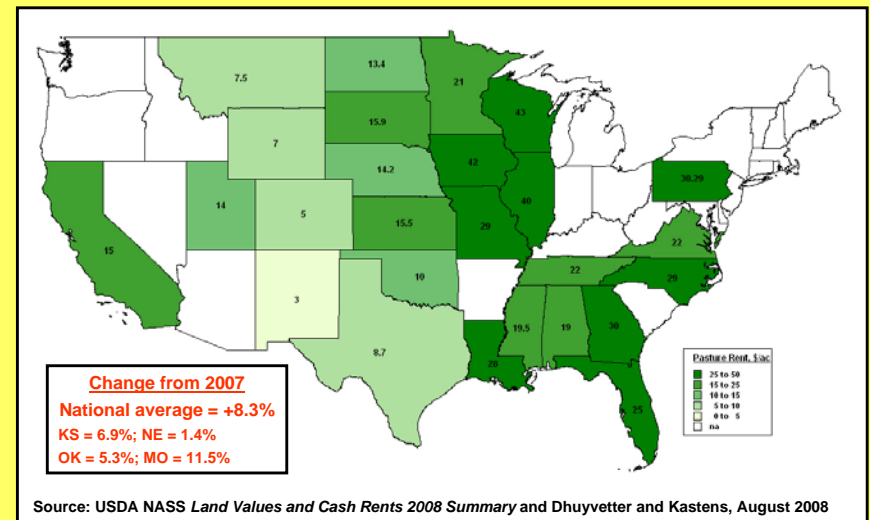


* Corresponding changes in crop land values were US=10.4%; KS=15.7%; NE=20.1%; OK=13.4%; and MO=8.6%.

Pasture Land Average Annual Growth Rate Jan 1, 2003 to Jan 1, 2008, percent (geo mean)

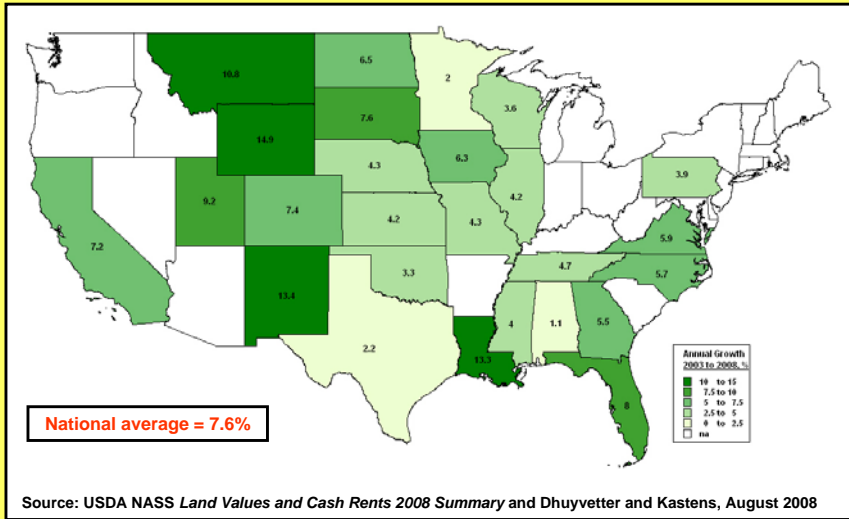


Pasture Land Average Rent per Acre 2008



* Corresponding changes in crop land rents were US=12.9%; KS=9.8%; NE=20.3%; OK=7.4%; and MO=7.6%.

Pasture Rent Average Annual Growth Rate Jan 1, 2003 to Jan 1, 2008, percent (geo mean)

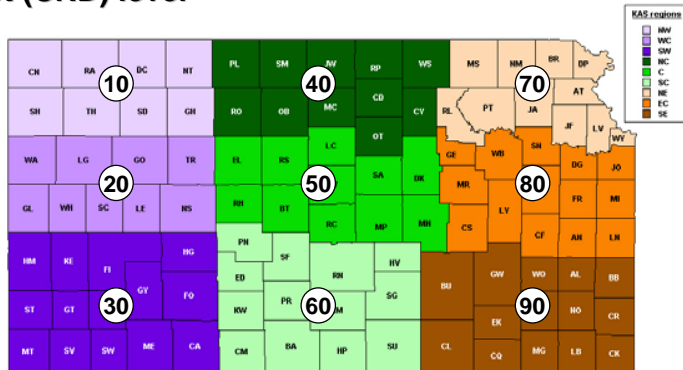


Market established rates...

- Kansas Agricultural Statistics (KAS) collects data annually from landowners and producers regarding land values and cash rents
 - Agricultural Land Values (SURVEY)
 - Bluestem Pasture (CENSUS)
- Local and regional surveys of leasing practices
- With surveys there is often a trade-off between statistical validity and level of aggregation

Market going rate ...

Kansas Agricultural Statistics (KAS) reports average cash rent values for non-irrigated, irrigated, and pasture land at the crop reporting district (CRD) level



KAS surveyed market rates ...

United States Department of Agriculture
National Agricultural Statistics Service, Kansas Field Office
AGRICULTURAL LAND VALUES & RENTS
Kansas Agricultural Statistics
Cooperating with the Kansas Department of Agriculture
HC Box 1034 • Topeka, KS 66603 • (785)232-2222 • www.kas.usda.gov • kassurvey@usda.gov
Released: August 18, 2007

Highlights
Kansas' average value of all farmland and buildings for 2007 is estimated to be \$1,090 per acre. This compares with \$940 in 2006 and \$850 in 2005. Kansas' average value of all farmland and buildings increased by 14 percent from 2006 to 2007. The total value of all farmland and buildings was \$51.4 billion dollars or an increase of almost 16 percent from last year. Irrigated cropland values rose 5 percent, non-irrigated was up 10.1 percent, and pasture land values increased 15.6 percent. Rental rates for non-irrigated cropland and buildings increased by 14 percent from 2006 to 2007. The average price for the past 12 months periods of land for very widely in production. This, same data we have aggressive the working needs than the evolving market value or recent rates for specific trends of demand.

Kansas Farmland Values and Rents*, 1996-2007

Year	Cropland			Pasture and Rangeland		All Farmland and Buildings	
	Irrigated	Non-Irrigated	All Crop Land	Value	Rent	Value	Total Value
1996	968	607	638	68.30	32.70	261	11.90
1997	990	615	649	69.00	34.50	305	11.60
1998	1,010	620	655	67.00	35.50	367	13.00
1999	1,020	625	660	69.00	35.00	370	13.30
2000	1,040	630	666	67.00	35.50	380	13.80
2001	1,040	635	670	72.00	36.00	390	14.00
2002	1,090	640	678	70.00	36.00	400	14.20
2003	1,080	645	684	68.00	36.00	410	14.60
2004	1,110	665	705	72.00	37.50	430	15.20
2005	1,240	810	849	73.00	38.50	530	15.40
2006	1,300	860	927	74.00	39.00	640	15.70
2007	1,410	950	1,020	82.00	41.00	740	14.50

* Rental rates are per acre only.

Survey Background
The Agricultural Land Values & Rents Survey was conducted during May/June 2007. Survey respondents were asked to provide information on the value of the land they operate and the rental rates for any land they rented. Additional land value and rent data were collected in the June Agricultural Survey. The average values in this report encompass a wide range of soil types and pastures. These data are more appropriate for studying overall trends and should not be used to establish rental rates or market values.

Farmland Management Guide MF-1100
Kansas Land Prices and Cash Rental Rates
Department of Agricultural Economics • www.agricoe.k-state.edu
Kansas State University Agricultural Experiment Station and Cooperative Extension Service

Kurtis C. Dhuyvetter
Farm Manager

Terry L. Skyles
Agricultural Economist
Crop Production

This from the Department of Agricultural Economics (KAS) reports Kansas land prices and cash rents for 2007. These data are based on data reported by landowners and producers in the 105 crop reporting districts. The data are presented in this report as a summary of the average values for each crop reporting district. The land prices reported also include the value of any buildings that are on the land. The value of the buildings represents a small portion of the total value, as average, and this data reported should not be used to establish the accuracy of land values reported.

Kansas Land Prices
Table 1 through 5 show average prices of land and buildings in each district for the year for the most recent 10 years reported. They show the value of the land, the value of the buildings, and the total value of the land and buildings. The rental rates reported are for the most recent 10 years reported. The rental rates are for the most recent 10 years reported. The rental rates are for the most recent 10 years reported.

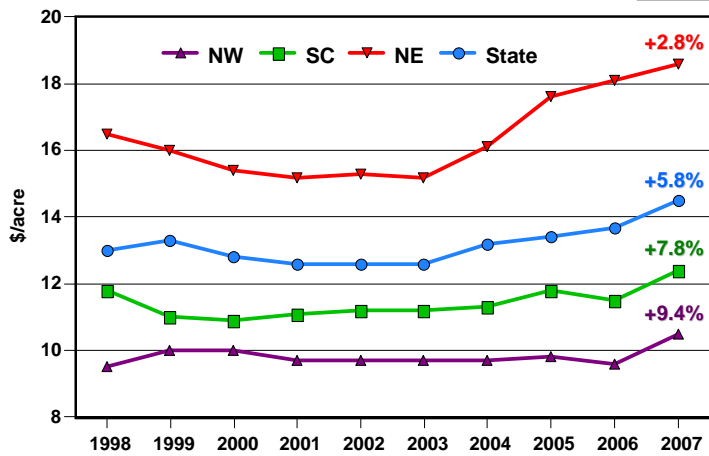
Kansas Agricultural Statistics
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Table 1. Price per acre of all land in Kansas and buildings. Census Agricultural Statistics Districts, 2007-2007*

Year	SW	WC	SW	WC	C	NE	SE	Total
1997	\$118	\$118	\$113	\$109	\$148	\$113	\$108	\$171
1998	124	124	121	117	145	116	114	173
1999	131	131	127	123	152	123	121	180
2000	138	138	134	130	160	130	128	187
2001	145	145	141	137	168	137	135	194
2002	152	152	148	144	176	144	142	201
2003	160	160	156	152	184	152	150	208
2004	168	168	164	160	192	160	158	215
2005	176	176	172	168	200	168	166	222
2006	184	184	180	176	208	176	174	229
2007	192	192	188	184	216	184	182	236

* Rental rates are per acre only.

Kansas Pasture Cash Rent



Source: Kansas Agricultural Statistics

Do regional averages reflect your situation?

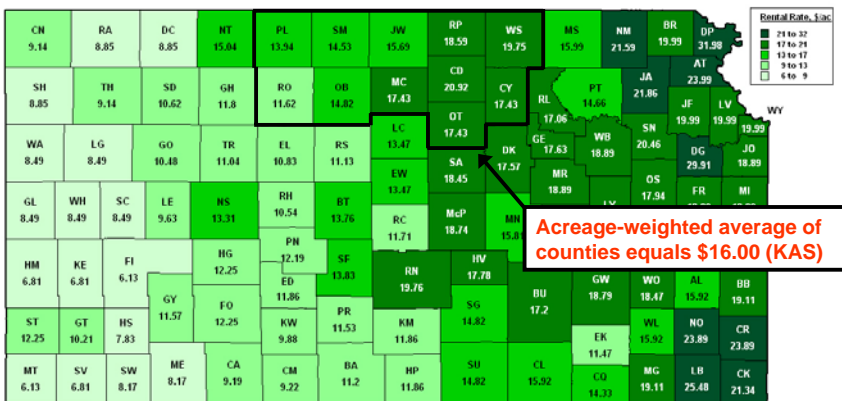
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County-level cash rents ...

- County-level cash rents were estimated for non-irrigated crop and pasture land based upon the KAS reported CRD values
- CRD values prorated to individual counties based on 3-year average of county-level rents from FSA and 2002 census acreage data
- Weighted average county-level cash rents are exactly equal to the KAS reported district value
- Similar procedure was done for land values

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Kansas county-level pasture cash rents ...



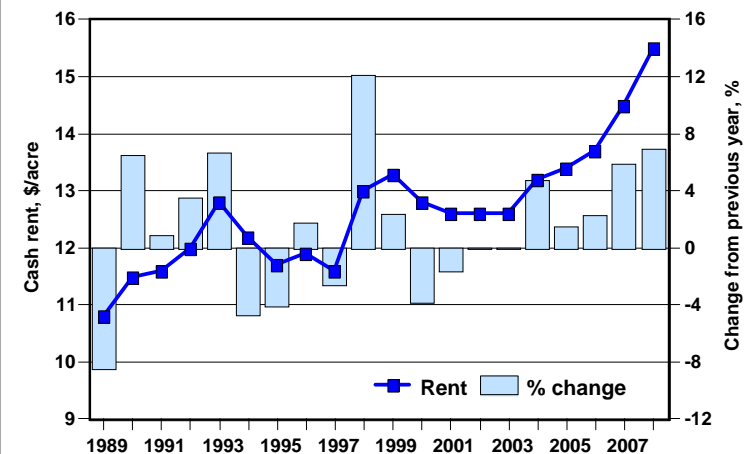
Based on KAS reported values for January 1, 2007

Related information available at www.agmanager.info/farmmg/land/land_buy/default.asp

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Negotiate rent based on local conditions, and then...

Kansas Cash Rent for Pasture



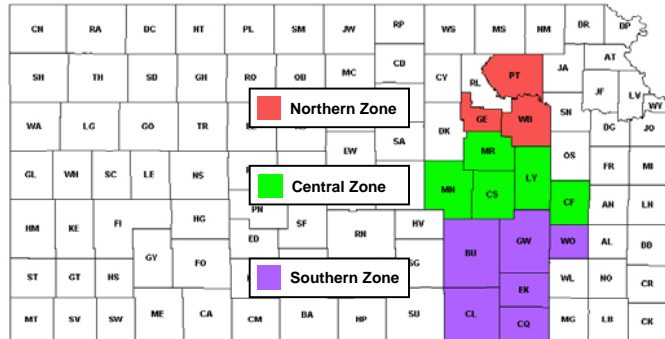
Source: Kansas Agricultural Statistics

... use KAS averages as an index for making year-to-year changes.

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Market going rate ...

Kansas Agricultural Statistics (KAS) reports average pasture cash rent values and stocking rates for cow-calf and stockers for the 14-county region of the Flint Hills



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KAS surveyed market rates ...

BLUESTEM PASTURE RELEASE



Released: April 24, 2008

Bluestem pasture condition in the Flint Hills region is rated at 1 percent very poor, 2 percent poor, 13 percent adequate, 56 percent good, and 24 percent excellent going into the 2008 grazing season. As of April 20, 2008, 10,000 head of cattle were in the Flint Hills region. Sources of stock water being used are ponds, 53 percent streams, 28 percent wells, 8 percent and spring developments, 1 percent. Water supplies are used available to supply, with 10 percent reporting adequate or better supplies.

The percentage of available pasture already contracted, as of mid-April, stood at 67 percent. Of the acres contracted, 49 percent are under full summer season contracts, 21 percent under partial season contracts, and 20 percent leased for the full year. Partial season grazing may include both early intensive grazing and three-quarter season reports. The average grazing season start date for full summer season contracts is April 25. The average ending date for the grazing season is October 11. The average starting date for partial season or intensive grazing is April 23. The average number of grazing days for steers and heifers under 100 pounds is 100 days.

Partial season contracts have been broken into two subgroups, contracts with newly grazed acres and contracts with more than ninety grazing days.

Partial season contracts with ninety grazing days or less reported an average per acre lease rate of \$25.00 where care is provided and \$12.20 where no care is provided. Price per head with care for steers and heifers under 100 pounds averaged \$67.40 with a guarantee of 2.4 acres. Without care, the price per head averaged \$45.20 with 2.7 acres guaranteed.

The average price per acre for partial season contracts of more than ninety days was \$20.00 per acre where care is provided and \$12.20 per acre where no care is provided. Price per head with care for steers and heifers under 100 pounds averaged \$67.40 with a guarantee of 2.4 acres. Without care, the price per head averaged \$45.20 with 2.7 acres guaranteed.

When the stocking rate is based on pounds of live cattle per acre, for a full summer season the average beginning weight is 100 pounds. The average beginning weight for a partial summer season is 100 pounds. The average live pounds per acre for a full summer season is 274 pounds and for a partial summer season the average is 250 live pounds per acre. For a full summer season, the average price per acre with care is \$25.00, while the average price per acre without care is \$12.20. For a partial summer season, the average price per acre with care is \$22.00, while the average price per acre without care is \$12.00. There were not enough reports to publish a price for full summer season with care when the stocking rate is based on pounds of live cattle per acre.

Thirty-one reports indicated contracts based on price per pound of gain. Prices varied from 5 to 79 cents per pound of gain and averaged 38 cents.

The average lease rate per cow with calf reported under full year leasing arrangements is \$14.00 with 9.6 acres guaranteed. Lease rates on a per acre basis averaged \$17.60 for the full year.

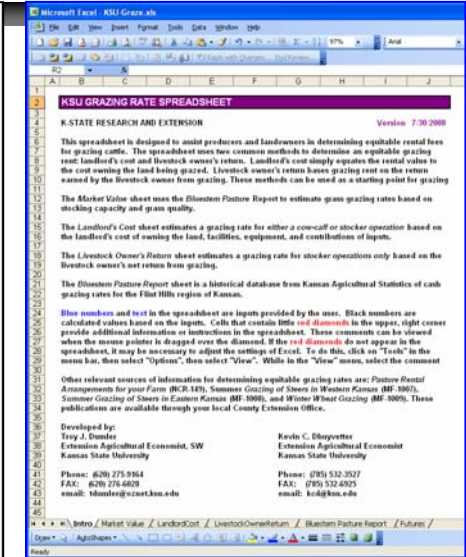
In winter stocker grazing arrangements, the average reported price is \$8.00 per head per month with 3.6 acres guaranteed. For winter cow grazing arrangements, the average reported price is \$11.00 per head per month with 7.2 acres guaranteed.

Eighty-four percent of the respondents reported burning of pastures, up 35 percentage points from last year. The average burning date was April 9.

Services provided by the landlord or caretaker in full summer season leasing arrangements are reported as follows: burning, 75 percent; fence maintenance, 71 percent; guaranteed stock, 28 percent; salt, 49 percent; and other miscellaneous services, 12 percent.

Services provided by the landlord or caretaker in partial summer season leasing arrangements are reported as follows: burning, 63 percent; fence maintenance, 61 percent; guaranteed stock, 20 percent; salt, 49 percent; and other miscellaneous services, 13 percent.

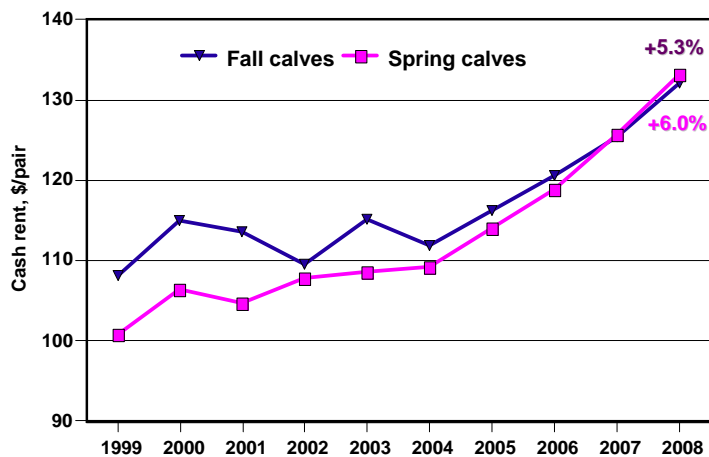
KAS report



KSU spreadsheet (data back to 1978)

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Flint Hills Cash Rent for Pasture -- Cow-calf pairs

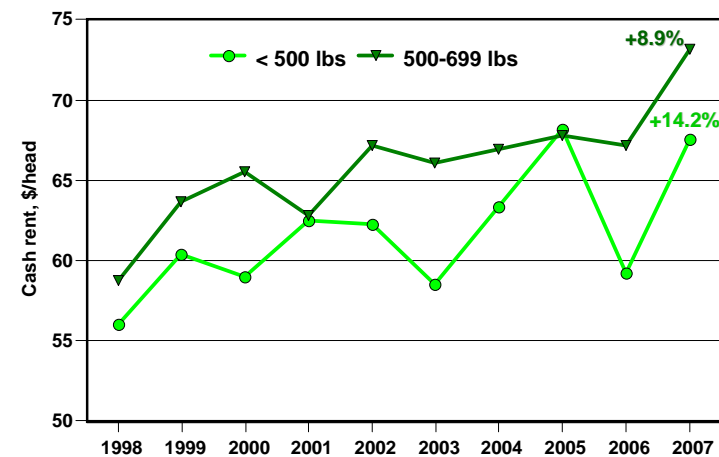


Source: Kansas Agricultural Statistics

Use \$/pair average as a starting point for determining local rate

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Flint Hills Cash Rent for Pasture -- Stockers

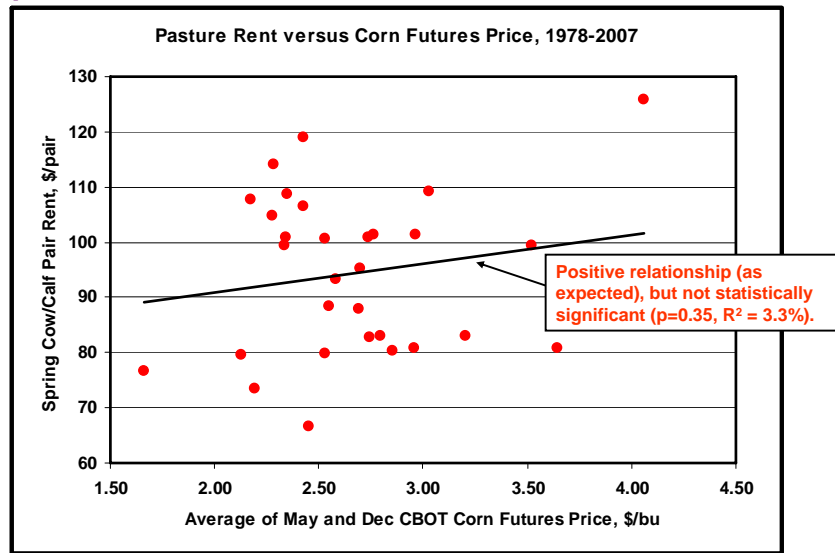


Source: Kansas Agricultural Statistics

Use \$/head average as a starting point for determining local rate

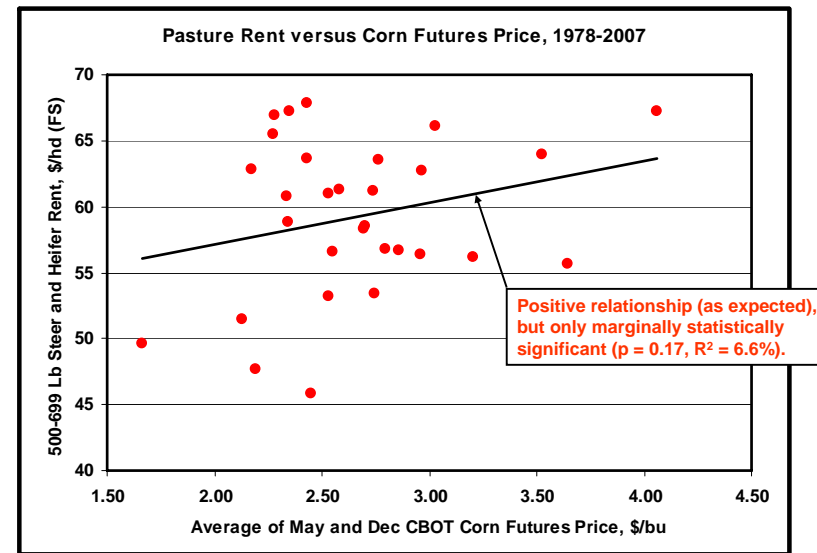
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What is the relationship between corn price and pasture rent?



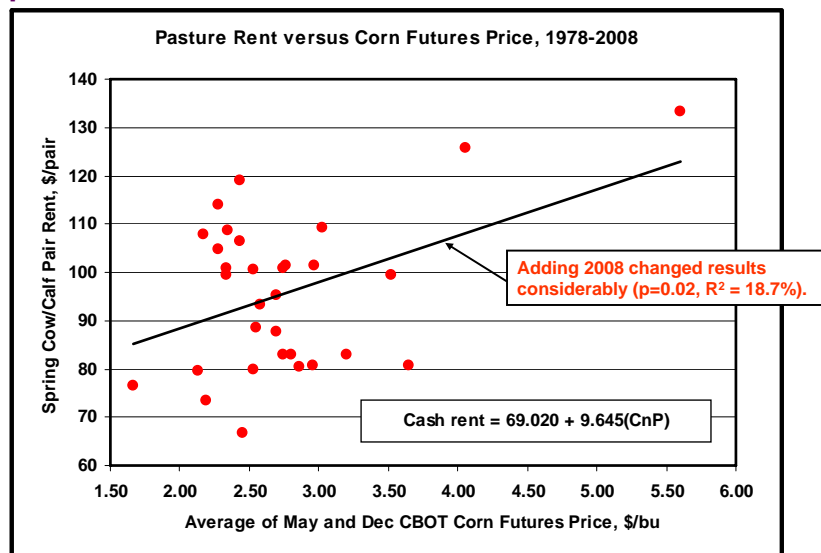
Source: Kansas Ag Statistics *Bluestem Pasture Report* and Dhuyvetter (KSU)

What is the relationship between corn price and pasture rent?



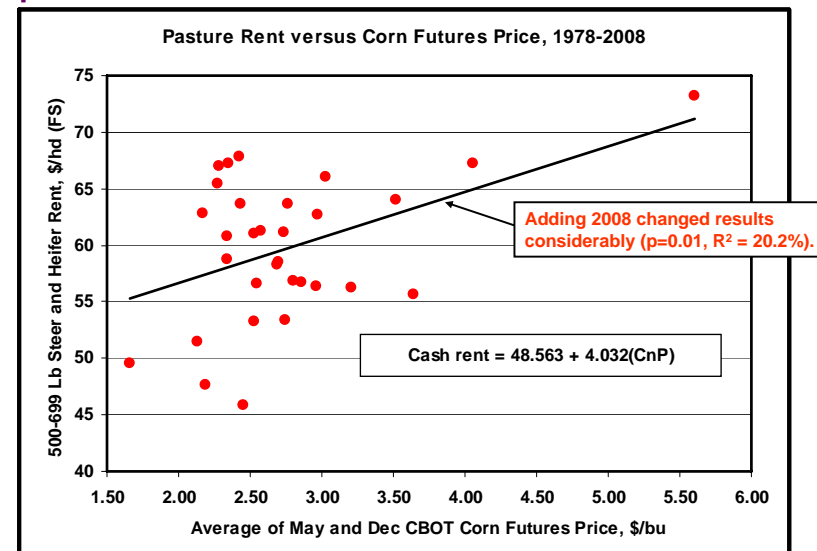
Source: Kansas Ag Statistics *Bluestem Pasture Report* and Dhuyvetter (KSU)

What is the relationship between corn price and pasture rent?



Source: Kansas Ag Statistics *Bluestem Pasture Report* and Dhuyvetter (KSU)

What is the relationship between corn price and pasture rent?



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Beef budgets used to estimate feed costs...

<p>Farm Management Guide MF-266</p> <p>Beef Cow-Calf Enterprise</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>	<p>Farm Management Guide MF-1009</p> <p>Winter Wheat Grazing</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>
<p>Farm Management Guide MF-2564</p> <p>Raising Beef Replacement Heifers</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>	<p>Farm Management Guide MF-600</p> <p>Drylot Backgrounding of Beef</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>
<p>Farm Management Guide MF-1007</p> <p>Summer Grazing of Steers in Western Kansas</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>	<p>Farm Management Guide MF-592</p> <p>Finishing Beef</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>
<p>Farm Management Guide MF-1008</p> <p>Summer Grazing of Steers in Eastern Kansas</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>	<p>Farm Management Guide MF-593</p> <p>Drylot Backgrounding and Finishing Beef</p> <p>Department of Agricultural Economics — www.agmanager.info</p> <p>Kansas State University Agricultural Experiment Station and Cooperative Extension Service</p>

Budgets were simply used to calculate feed cost of gain and how it is impacted under various price scenarios to examine relative changes...

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Budget feed price assumptions...

Feed prices	Unit	2003-07 Guides	2008 Guides	% chg
Corn	\$/bu	\$2.67	\$3.85	44.2%
Grain sorghum	\$/bu	\$2.34	\$3.55	51.5%
Supplement	\$/ton	\$211.62	\$281.42	33.0%
Sorghum silage	\$/ton	\$17.09	\$24.64	44.2%
Alfalfa	\$/ton	\$83.47	\$111.33	33.4%
Crop residue	\$/ton	\$10.00	\$16.00	60.0%
Prairie hay	\$/ton	\$58.10	\$80.33	38.3%
Cane hay	\$/ton	\$45.57	\$65.71	44.2%
Pasture charges				
AUM	\$/AUM	\$13.26	\$16.13	21.6%
Western KS -- SL	\$/head	\$52.03	\$65.69	26.3%
Western KS -- IES	\$/head	\$41.53	\$49.67	19.6%
Eastern KS -- SL	\$/head	\$61.44	\$77.28	25.8%
Eastern KS -- IES	\$/head	\$48.86	\$58.44	19.6%
Wheat grazing	\$/cwt/mo	\$1.80	\$3.00	66.7%
Wheat graze-out	\$/cwt/mo	\$2.03	\$3.00	47.8%

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Budget feed price assumptions...

Feed prices	Unit	2003-07 Guides	2008 Guides	% chg	Future*	% chg
Corn	\$/bu	\$2.67	\$3.85	44.2%	\$5.50	42.9%
Grain sorghum	\$/bu	\$2.34	\$3.55	51.5%	\$4.83	36.0%
Supplement	\$/ton	\$211.62	\$281.42	33.0%	\$360.00	27.9%
Sorghum silage	\$/ton	\$17.09	\$24.64	44.2%	\$35.20	42.9%
Alfalfa	\$/ton	\$83.47	\$111.33	33.4%	\$127.23	14.3%
Crop residue	\$/ton	\$10.00	\$16.00	60.0%	\$20.00	25.0%
Prairie hay	\$/ton	\$58.10	\$80.33	38.3%	\$90.19	12.3%
Cane hay	\$/ton	\$45.57	\$65.71	44.2%	\$93.87	42.9%
Pasture charges						
AUM	\$/AUM	\$13.26	\$16.13	21.6%	\$19.35	20.0%
Western KS -- SL	\$/head	\$52.03	\$65.69	26.3%	\$78.83	20.0%
Western KS -- IES	\$/head	\$41.53	\$49.67	19.6%	\$59.60	20.0%
Eastern KS -- SL	\$/head	\$61.44	\$77.28	25.8%	\$92.74	20.0%
Eastern KS -- IES	\$/head	\$48.86	\$58.44	19.6%	\$70.13	20.0%
Wheat grazing	\$/cwt/mo	\$1.80	\$3.00	66.7%	\$3.60	20.0%
Wheat graze-out	\$/cwt/mo	\$2.03	\$3.00	47.8%	\$3.60	20.0%

* Based on futures prices as much as possible along with historical relationships between different feedstuffs

Kevin's guess

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Breeding enterprises...

COST PROJECTIONS --- BEEF COW-CALF AND REPLACEMENT HEIFER ENTERPRISES*

Price scenario = 2008 Guides

	Cow-calf -- Weaning %		Replacement Heifer	Replacement Heifer
	88%	94%		
PRODUCTION INFORMATION				
Steer weaning weight	560	560	Beginning weight	550
Heifer weaning weight	540	540	Ending weight	1,100.00
Hundredweight weaned	4.84	5.17	Total days	535
Cull cows, %	16%	16%		
AUMs per cow unit	9.1	9.1	Pasture days	155
Harvested forage per cow, lbs	3,629	3,629	Harvested forage, lbs	3,840
Crop residue per cow, lbs	1,500	1,500	Grain, lbs	1,320
COSTS PER HEAD				
Pasture	\$147.32	\$147.32		\$70.83
Crop residue, hay, and silage	144.48	144.48		154.23
Grain, protein and mineral	31.72	31.72		163.91
Labor	54.00	54.00		54.00
Veterinary, drugs, and supplies	15.00	15.00		26.00
Marketing costs	11.00	11.00		12.00
Utilities, fuel, and oil	40.00	40.00		20.00
Facility and equipment repairs	40.00	40.00		13.00
Capital replacement	113.43	113.43		
Annual bull cost	13.00	13.00		25.00
Interest on breeding stock	75.14	75.14		
Insurance on breeding stock	8.84	8.84		84.81
Miscellaneous	12.00	12.00		7.00
Facilities and equipment -- DITI	31.70	31.70		41.80
SUB TOTAL	\$737.63	\$737.63		\$672.58
Interest on operating costs	21.52	21.52		33.60
TOTAL COSTS PER HEAD	\$759.16	\$759.16		\$706.18
Breakeven to cover TC (adjusted for cull income)	\$132.90	\$124.42		
Feed cost per cwt	\$66.84	\$62.58	Total cost/head/day	\$1.32

* Budgets are based on MF-266 and MF-2566 with adjustments made for simplification and current market conditions.

Wheat grazing enterprises...

COST PROJECTIONS --- BEEF WHEAT GRAZING ENTERPRISES*

Price scenario = 2008 Guides

	Steers (with grain)		Heifers (with grain)		Steers (graze-out)		Heifers (graze-out)	
	Above Avg	Below Avg	Above Avg	Below Avg	Above Avg	Below Avg	Above Avg	Below Avg
PRODUCTION INFORMATION								
Days on feed/pasture	120	120	120	120	180	180	180	180
Average daily gain, lbs	2.20	1.80	2.00	1.60	2.20	1.80	2.00	1.60
Feed conversion (as fed)	---	---	---	---	---	---	---	---
Purchase weight, lbs	450	450	425	425	450	450	425	425
Sale weight, lbs	714	666	665	617	846	774	785	713
Death loss, %	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Hundredweight produced	2.50	2.03	2.27	1.80	3.79	3.09	3.44	2.74
COSTS PER HEAD								
Pasture	\$69.84	\$66.96	\$65.40	\$62.52	\$116.64	\$110.16	\$108.90	\$102.42
Crop residue, hay, and silage	14.06	14.06	14.06	14.06	14.06	14.06	14.06	14.06
Grain, protein and mineral	22.71	22.71	22.71	22.71	34.07	34.07	34.07	34.07
Labor	10.36	10.36	10.36	10.36	13.48	13.48	13.48	13.48
Veterinary, drugs, and supplies	11.00	11.00	11.00	11.00	14.00	14.00	14.00	14.00
Marketing costs	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00
Utilities, fuel, and oil	3.00	3.00	3.00	3.00	4.00	4.00	4.00	4.00
Facility and equipment repairs	7.50	7.50	7.50	7.50	8.00	8.00	8.00	8.00
Capital replacement								
Annual bull cost								
Interest on breeding stock								
Insurance on breeding stock								
Miscellaneous	4.00	4.00	4.00	4.00	4.50	4.50	4.50	4.50
Facilities and equipment -- DITI	9.29	9.29	9.29	9.29	9.29	9.29	9.29	9.29
SUB TOTAL	\$161.76	\$158.88	\$157.32	\$154.44	\$229.04	\$222.56	\$221.30	\$214.82
Interest on operating costs	1.99	1.95	1.93	1.89	4.38	4.24	4.21	4.08
TOTAL COSTS PER HEAD	\$163.75	\$160.83	\$159.25	\$156.33	\$233.41	\$226.80	\$225.51	\$218.89
Feed cost per cwt	\$42.69	\$51.18	\$45.07	\$55.27	\$43.47	\$51.31	\$45.61	\$55.00

* Budgets are based on MF-1009 with adjustments made for simplification and current market conditions.

Summer grazing enterprises...

COST PROJECTIONS --- BEEF STEER GRASS ENTERPRISES*

Price scenario = 2008 Guides

	Season-Long Western KS		Early-Intensive Western KS		Season-Long Eastern KS		Early-Intensive Eastern KS	
	Above Avg	Below Avg	Above Avg	Below Avg	Above Avg	Below Avg	Above Avg	Below Avg
PRODUCTION INFORMATION								
Days on feed/pasture	150	150	75	75	150	150	75	75
Average daily gain, lbs	1.50	1.20	1.90	1.50	1.75	1.45	2.20	1.80
Feed conversion (as fed)	---	---	---	---	---	---	---	---
Purchase weight, lbs	550	550	550	550	550	550	550	550
Sale weight, lbs	775	730	693	663	813	768	715	685
Death loss, %	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Hundredweight produced	2.13	1.69	1.32	1.03	2.50	2.06	1.54	1.25
COSTS PER HEAD								
Pasture	\$65.69	\$65.69	\$49.67	\$49.67	\$77.28	\$77.28	\$58.44	\$58.44
Crop residue, hay, and silage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grain, protein and mineral	5.00	5.00	2.50	2.50	5.00	5.00	2.50	2.50
Labor	8.64	8.64	6.48	6.48	8.64	8.64	6.48	6.48
Veterinary, drugs, and supplies	13.00	13.00	10.00	10.00	13.00	13.00	10.00	10.00
Marketing costs	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Utilities, fuel, and oil	9.00	9.00	8.00	8.00	9.00	9.00	8.00	8.00
Facility and equipment repairs	9.00	9.00	7.00	7.00	9.00	9.00	7.00	7.00
Capital replacement								
Annual bull cost								
Interest on breeding stock								
Insurance on breeding stock								
Miscellaneous	10.00	10.00	8.00	8.00	10.00	10.00	8.00	8.00
Facilities and equipment -- DITI	3.55	3.55	1.77	1.77	3.55	3.55	1.77	1.77
SUB TOTAL	\$128.88	\$128.88	\$98.42	\$98.42	\$140.47	\$140.47	\$107.19	\$107.19
Interest on operating costs	2.10	2.10	0.80	0.80	2.30	2.30	0.88	0.88
TOTAL COSTS PER HEAD	\$130.98	\$130.98	\$99.22	\$99.22	\$142.77	\$142.77	\$108.07	\$108.07
Feed cost per cwt	\$33.13	\$41.82	\$39.49	\$50.87	\$32.87	\$39.94	\$39.50	\$48.86

* Budgets are based on MF-1007 and MF-1008 with adjustments made for simplification and current market conditions.

Feeding enterprises...

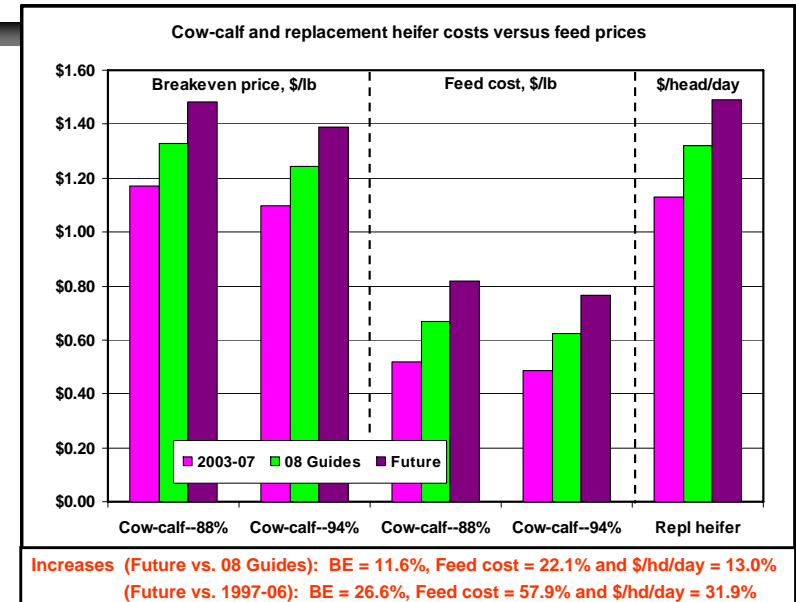
COST PROJECTIONS --- BEEF STEER FEEDING ENTERPRISES*

Price scenario = 2008 Guides

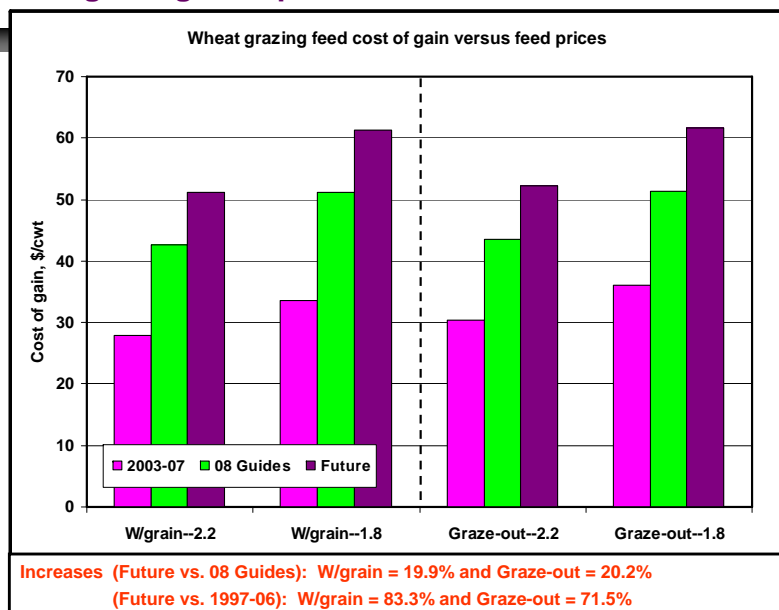
	Backgrounding		Finishing		Background & Finish	
	Above Avg	Below Avg	Above Avg	Below Avg	Above Avg	Below Avg
PRODUCTION INFORMATION						
Days on feed/pasture	90	111	142	156	232	267
Average daily gain, lbs	2.22	1.80	3.35	3.04	2.91	2.53
Feed conversion (as fed)	18.50	19.50	7.90	8.70	12.01	13.19
Purchase weight, lbs	550	550	750	750	550	550
Sale weight, lbs	750	750	1,225	1,225	1,225	1,225
Death loss, %	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%
Hundredweight produced	1.93	1.93	4.63	4.63	6.57	6.57
COSTS PER HEAD						
Pasture	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Crop residue, hay, and silage	37.15	39.16	25.07	27.60	61.95	66.74
Grain, protein and mineral	56.27	59.31	228.29	251.41	284.96	310.76
Labor	8.64	8.64	8.64	8.64	17.28	17.28
Veterinary, drugs, and supplies	15.50	15.50	12.00	12.00	16.00	16.00
Marketing costs	7.00	7.00	6.00	6.00	7.00	7.00
Utilities, fuel, and oil	7.25	7.25	7.00	7.00	7.00	7.00
Facility and equipment repairs	10.00	10.00	8.00	8.00	10.00	10.00
Capital replacement						
Annual bull cost						
Interest on breeding stock						
Insurance on breeding stock						
Miscellaneous	4.00	4.00	4.50	4.50	5.00	5.00
Facilities and equipment -- DITI	33.22	33.22	33.22	33.22	45.25	45.25
SUB TOTAL	\$179.02	\$184.07	\$332.71	\$358.37	\$454.44	\$485.03
Interest on operating costs	1.45	1.86	4.85	5.80	10.86	13.45
TOTAL COSTS PER HEAD	\$180.48	\$185.93	\$337.57	\$364.17	\$465.31	\$498.49
Feed cost per cwt	\$48.53	\$51.15	\$54.75	\$60.29	\$52.83	\$57.49

* Budgets are based on MF-600, MF-592, and MF-593 with adjustments made for simplification and current market conditions.

Breeding enterprises...

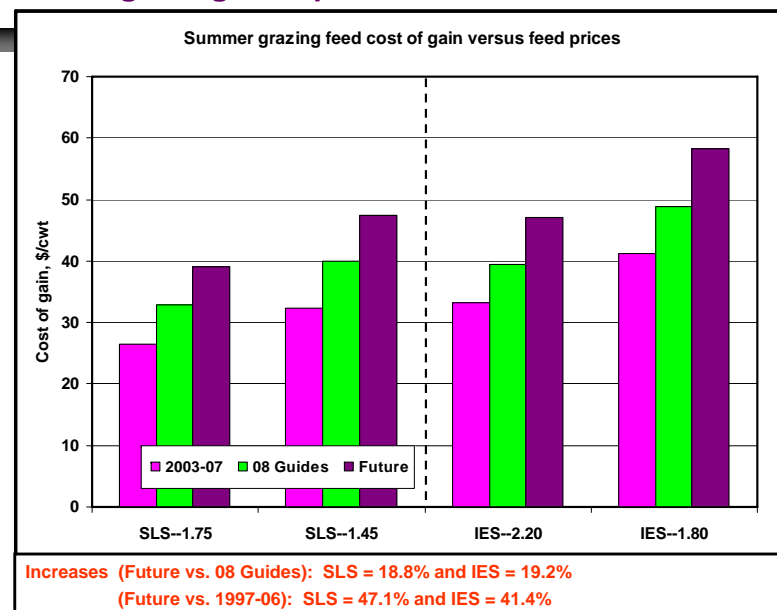


Wheat grazing enterprises...



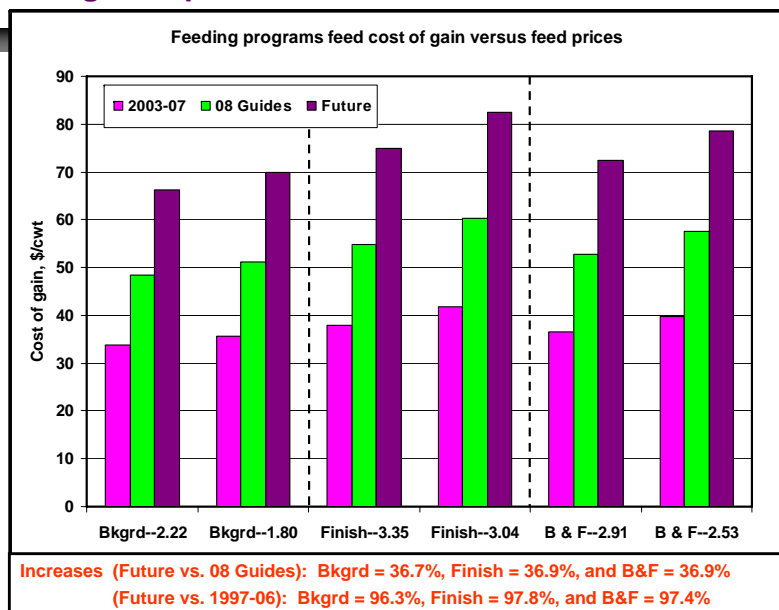
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Summer grazing enterprises...



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Feeding enterprises...



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What does all this mean?

- Feed COG in feeding programs currently about double relative to historical time period
- This compares to ~40-50% for grass grazing programs and ~70-80% for wheat grazing (based on my +120% assumption)
- What do you do about this?
 - Pay less for cattle
 - Find ways of putting on gain at lower cost
 - Leave cattle on grass longer
 - Background to heavier weights
 - Find alternative feedstuffs

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Find ways of putting on gain at lower cost...

- How high might grazing rates (summer grass and wheat programs) increase?
- Calculated pasture rates such that relationship between future drylot backgrounding cog and grazing programs are similar to historical values
- Increases to 2008 budgeted rates that result in cog for grazing programs, relative to drylot backgrounding, that are proportional to what they were with 2003-07 prices -- summer grass +66% and wheat pasture +39%.
- Rents will increase, question is – how much?

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Summary...

- Energy prices have direct impact on livestock enterprises costs of production – no immediate relief in sight for high fuel prices...
- Ethanol production → high price for corn ripples through to other crops (including hay)
- Historically, little relationship between corn price and pasture rents. Things likely will be different this time around...
- Pasture land values have been increasing rapidly in recent years, but rents have not increased at same rate. Things could be different going forward...

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Questions?

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- Paper on BeefBasis presented at the 2008 annual meeting of the Western Agricultural Economics Association in Big Sky, MT on June 27, 2008. Download

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- 2007 KFMA Annual Profit Link Summary
- Impact of High Corn Prices on Ethanol Profitability (Updated)
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- Feed Grains and Livestock: Imp
- World Grain Supply and Demand
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Events

- 2008 Ag Lenders Conferences
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