



Livestock Farm Management Update

May 1, 2003

Prepared By Rodney Jones, Associate Professor / Extension Livestock Production Economist,
Kansas State University, May 1, 2003.

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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 April placements remained consistent with last month's projections. The projected break-evens, for cattle expected to finish in about September, are in the \$69.50 to \$70.50 per cwt. range for heifers and steers. Performance expectations for spring placements are at the seasonal peak. Both feed conversions and average daily gains for April placements are expected to be 4% to 5% better than annual averages. In addition, there is less uncertainty associated with the performance expectations of spring placed cattle relative to other times of the year.

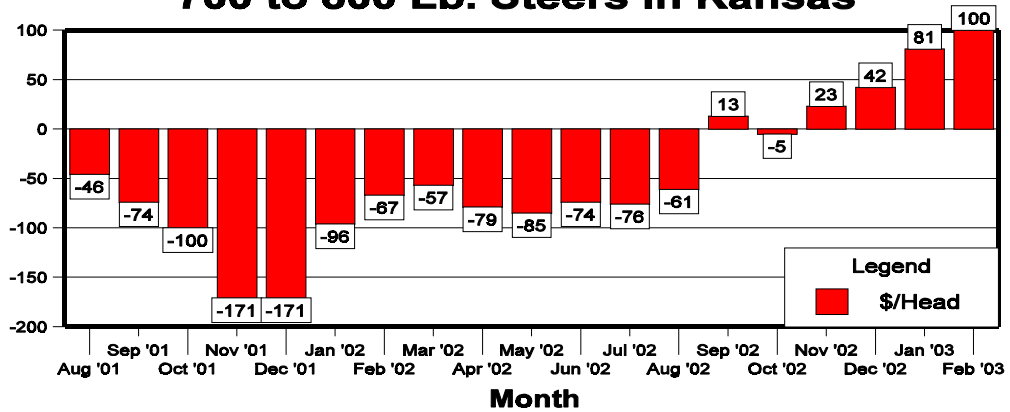
The ration charge projection reversed a declining trend this month, and actually increased somewhat relative to earlier projections. Hay markets have been surprisingly weak, however, feedgrain and particularly supplement prices have increased somewhat over the last month. Combining the ration charge projection with April placement performance expectations results in a feeding cost of gain projection of \$49.42 per cwt. for traditional weight April steer placements, and \$52.66 per cwt. for traditional weight April 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. To illustrate the risk associated with feed price uncertainty, based on performance expectations for steers each \$0.10 per bushel change in corn price changes feeding cost of gain by \$1.25 per cwt. In addition, each \$10.00 per ton change in hay price changes feeding cost of gain by \$0.49 per cwt. Forward pricing a portion of

feed needs on market dips may still be a prudent strategy for risk averse feeders.

As projected, the average February steer closeout returned an average of about \$100.00 per head. Though the final numbers are not yet in, early projections suggest that March and April closeouts generated larger positive returns than earlier projected. Profits likely averaged \$60 to \$70 per head over the past few months. Two factors will shrink net returns over the month of May. First, average feeder cattle prices jumped up in December of '02, increasing the cost of cattle finished in about May of '03. Second, futures-based price projections suggest that fed cattle prices will likely decline somewhat over the month of May. Even so, current projections suggest that cattle feeding returns will remain slightly positive until mid summer. Returns could turn negative in July, August, and September if current futures-based price forecasts turn out to be correct. Break-evens for cattle finished over the next several months will range from the low to mid \$70's in May, to the upper \$60's by mid to late summer.

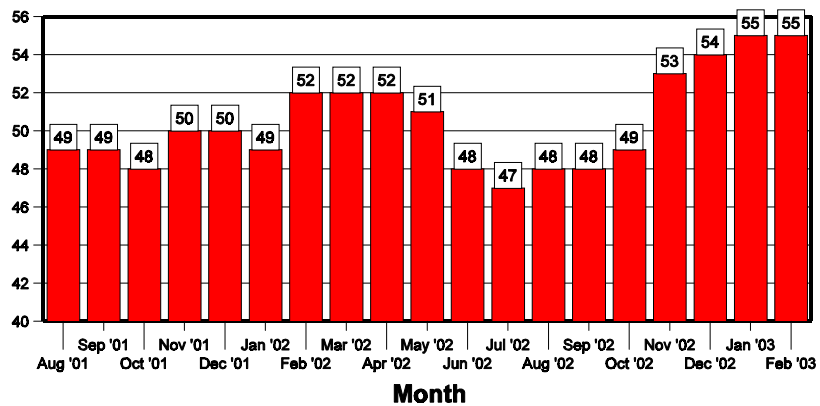
Continued sluggishness in the overall economy appears to be the primary factor weighing on price projections for late in the year. Longer term, continued reduction in the U.S. cow herd (due primarily to weather related factors) suggests that overall supplies of cattle should be manageable for the next few years. When widespread cow herd rebuilding begins, heifer development programs will be fairly profitable for a few years. Those producers who have been able to maintain a cow herd at a reasonable cost (in the face of tough environmental conditions for many) should enjoy another few years of attractive calf and feeder cattle prices.

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



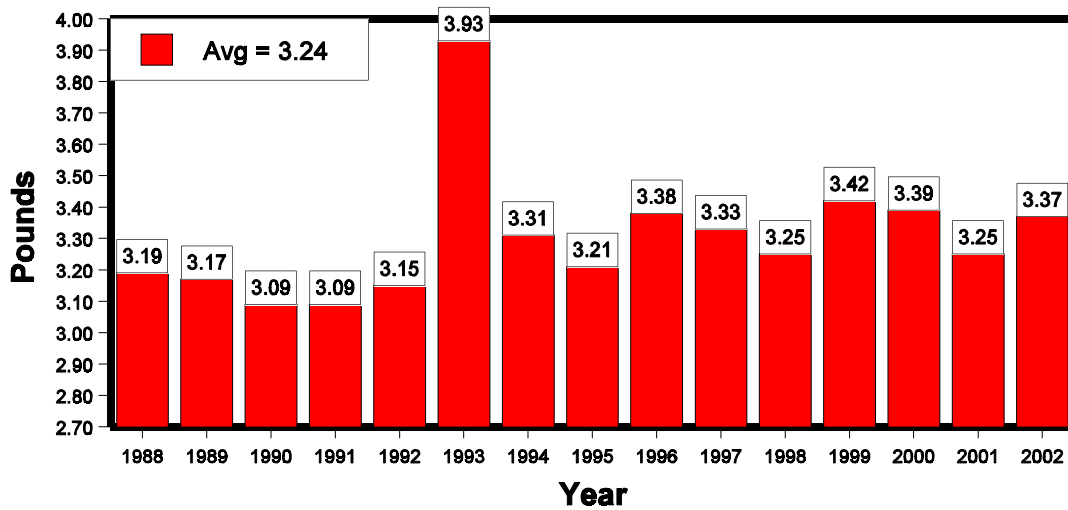
Source: KSU Cattle Return Series.

Monthly Feeding Cost of Gain 700 to 800 Lb. Steers in Kansas



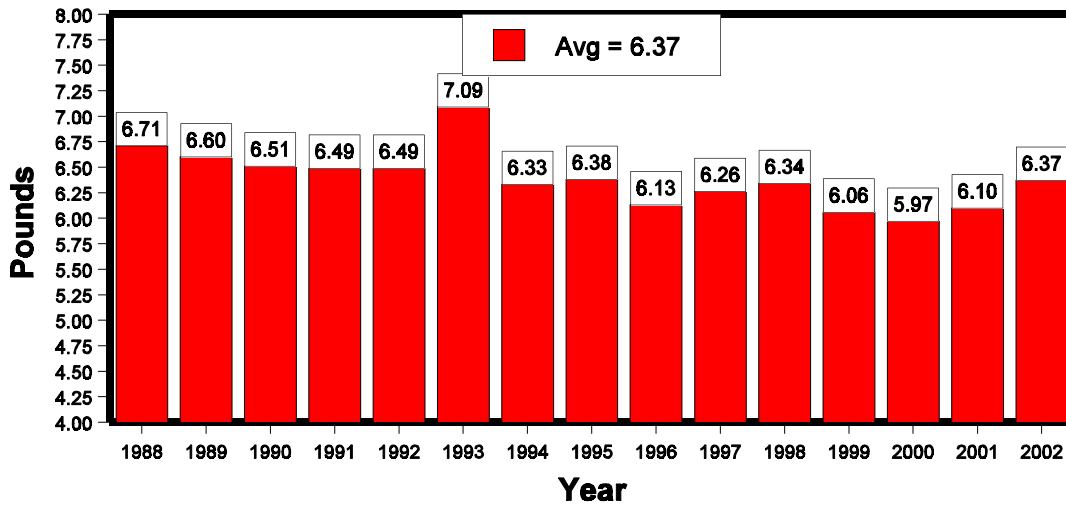
Source: KSU Cattle Return Series.

Annual Average Daily Gain for Finishing 700 to 800 Lb. Steers In Kansas



Source: KSU Cattle Return Series.

Annual Feed Conversion for Finishing 700 to 800 Lb. Steers In Kansas



Source: KSU Cattle Return Series.

Commercial Feedlot Cattle Finishing Budget
April 2003 Placements (750 lb steers, 650 lb hfrs)

Assumptions	Steers	Heifers
Cost of feeder (\$/cwt.) ¹	\$81.30	\$77.65
Interest rate	8.0%	8.0%
Ration charge (\$/ton) ²	\$112.60	\$112.60
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	147 days	145 days
Shrink	4.0%	4.0%
Pay weight to pay weight:		
average daily gain	3.40 lbs.	2.94 lbs.
Feed conversion (as fed)	7.88 lbs.	8.32 lbs.
Death loss (in conversion)	0.50%	0.50%
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$609.75	\$504.73
2. Interest on feeder:	\$ 19.65	\$ 15.99
Feed		
3. Total feed cost:	\$221.81	\$199.07
4. Interest on feed:	\$ 3.57	\$ 3.15
Other Costs		
5. Yardage Charge:	\$ 7.35	\$ 7.23
6. Processing Charge:	\$ 7.00	\$ 7.00
8. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
9. Interest on other V.C.:	\$.34	\$.34
Breakeven selling price:	\$ 70.12	\$ 69.26
Total cost of gain/cwt:	\$ 53.35	\$ 56.42
Feeding cost of gain/cwt: ³	\$ 49.42	\$ 52.66

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

²Ration charge of \$112.60 based on corn price of \$2.60/bu., milo price of \$4.17/cwt., alfalfa hay price of \$87.50/ton, supplement price of \$215.00/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				
	\$77.00	\$79.00	\$81.00	\$83.00	\$85.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$47.00	66.49	67.73	68.97	70.21	71.44
\$48.00	66.89	68.13	69.37	70.61	71.84
\$49.00	67.29	68.53	69.57	71.01	72.24
\$50.00	67.69	68.93	70.17	71.41	72.64
\$51.00	68.09	69.33	70.57	71.81	73.04
\$52.00	68.49	69.73	70.97	72.21	73.44
\$53.00	68.89	70.13	71.37	72.61	73.84

Commercial Feedlot

Sensitivity Analysis of Breakeven Prices for 650 lb. Heifers

	Feeder purchase price				
	\$74.00	\$76.00	\$78.00	\$80.00	\$82.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$50.00	65.93	67.18	68.42	69.67	70.92
\$51.00	66.32	67.57	68.82	70.07	71.32
\$52.00	66.72	67.97	69.22	70.46	71.71
\$53.00	67.12	68.36	69.61	70.86	72.11
\$54.00	67.51	68.76	70.01	71.25	72.50
\$55.00	67.91	69.15	70.40	71.65	72.90
\$56.00	68.30	69.55	70.80	72.04	73.29

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

	% Change Previous Year	2003	2002	2001	1990-2001 Average
January	+12.0	54.99	49.08	46.44	52.63
February	+ 5.1	54.79	52.12	46.97	54.48
March		55.00 ^P	52.24	50.69	55.04
April		53.00 ^P	51.99	52.64	53.85
May		51.00 ^P	50.58	50.08	52.57
June		49.50 ^P	47.56	48.20	50.86
July		49.50 ^P	46.66	48.42	49.68
August			48.05	48.88	51.32
September	- 1.7		47.96	48.77	50.41
October	+ 2.9		49.16	47.78	50.98
November	+ 5.3		52.64	49.98	51.19
December	+ 8.4		53.69	49.52	51.43

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	2003	2002	2001	1990-2001 Average
January	- 5.0	71.69	75.49	72.93	70.94
February	- 6.2	71.98	76.77	72.93	71.48
March		72.63 ^P	76.90	74.90	71.36
April		72.95 ^P	74.15	76.74	71.13
May		73.19 ^P	72.22	76.16	71.02
June		70.50 ^P	69.56	74.85	70.34
July		68.45 ^P	69.02	72.47	69.54
August			67.80	73.48	68.93
September	-13.2		64.55	74.39	68.65
October	-11.3		65.83	74.20	68.84
November	-11.8		68.35	77.46	70.76
December	- 9.2		69.42	76.46	71.54

^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 April would be expected to finish in October. 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 April is \$29.36 per pig, a reduction from the calculation of last month. The mid point of the Iowa direct weaned pig transfer price remains well below the calculated 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 April is \$42.84 per cwt. on a live weight basis, exactly the same as last month's projection. Pricing the weaned pig into the nursery-finish program at the mid-point of the recent Iowa reported cash transfer price (\$26.00) results in a projected break-even to cover all costs of \$41.34 per cwt. Pigs placed in a nursery-finish program now are being placed against a futures based price forecast of around \$40.00 per cwt. on a live weight basis.

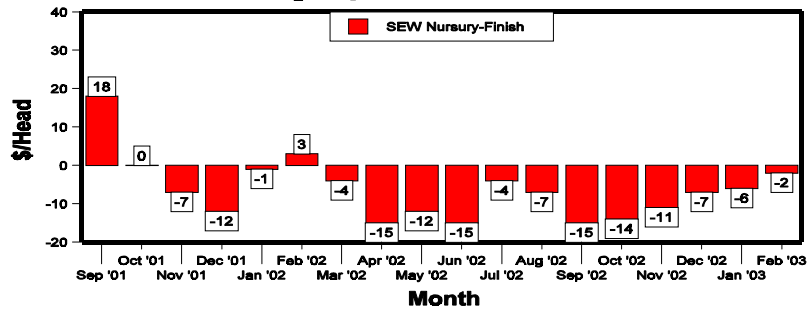
The example hog finishing budgets are calculated using a milo based feeding ration. Projected feed costs, based on current milo and supplement prices, are currently at \$19.64 per cwt. of live pork produced in the SEW nursery finish program.

Feed costs are primarily impacted by 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 inched up slightly from last month. More importantly, soybean meal prices continued to increase throughout the last month. Locking in some portion of future feed needs on market dips may still be a prudent strategy for risk averse producers.

Returns to labor and management averaged about \$-2.00 per pig for hogs exiting Kansas SEW nursery-finishing barns in February. Preliminary calculations suggest that losses were slightly larger in March and April. Hog prices are expected to recover enough to generate modest positive returns by mid summer. Break-evens to cover total costs will increase to near the mid \$40's on a live basis, however, average cash hog prices are projected to increase to levels slightly above those break-evens.

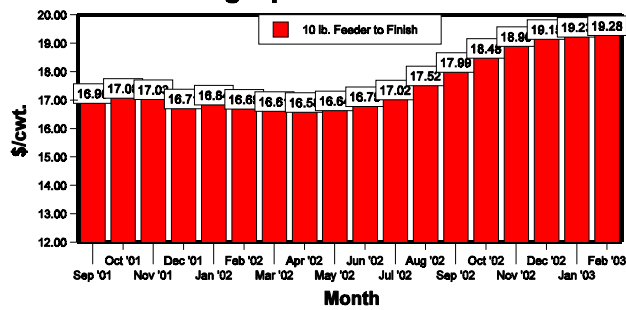
Average farrow-to-finish producers can cover variable costs in the mid \$30's, but need prices near the mid \$40's to cover all costs of production. Current cash equivalent prices are barely covering out-of-pocket costs, and have not generated enough revenue to facilitate equipment replacement, etc, for several months. A similar situation exists for average weaned pig producers. Pig transfer prices are barely covering variable costs of production, with fixed costs being absorbed by producer equity.

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

April, 2003

Assumptions	Barrows and Gilts
Initial weight of weaned pig	10 lbs.
Cost of weaned pig ¹	\$29.36
Interest rate	8.0 %
Feed conversion	3.00 lbs.
Death loss	5.00 %
Milo price	\$4.16 / cwt.
Soybean meal price	\$190.00 / ton.

¹ Weaned pig prices based on KSU formula.

COST BUDGET FOR FINISHING PIGS

FEEDER	
1. Cost of weaned pig	\$29.36
2. Interest on weaned pig	\$ 1.09
FEED	
3. Grain	\$20.82
4. Soybean meal	\$12.26
5. Vitamins and minerals	\$ 8.74
6. Starter	\$ 1.93
7. Interest on feed	\$ 0.81
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	\$ 0.23
FIXED COSTS	
15. Buildings and equipment	\$11.97
Sale Price Needed to Cover Variable Costs	\$37.69
Sale Price Needed to Cover Total Costs	\$42.84
Feed Cost Per Cwt. of Pork Produced	\$19.64

SEW Nursery-Finishing

Sensitivity Analysis of Break-even Sale Price

	Purchase Price for 10 Lb. Weaned Pig				
	\$24.00	\$26.00	\$28.00	\$30.00	\$32.00
Feed Cost Per Cwt.	Break-even Sale Price for Market Hog (\$/cwt.)				
\$17.00	37.90	38.79	39.68	40.57	41.46
\$18.00	38.87	39.76	40.65	41.54	42.44
\$19.00	39.84	40.74	41.63	42.52	43.41
\$20.00	40.82	41.71	42.60	43.49	44.38
\$21.00	41.79	42.68	43.57	44.47	45.36
\$22.00	42.77	43.66	44.55	45.44	46.33
\$23.00	43.74	44.63	45.52	46.41	47.31

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				
\$17.00	19.73	24.22	28.71	33.20	37.68
\$18.00	17.55	22.04	26.53	31.02	35.50
\$19.00	15.37	19.86	24.35	28.84	33.32
\$20.00	13.19	17.68	22.17	26.66	31.14
\$21.00	11.01	15.50	19.99	24.48	28.96
\$22.00	8.83	13.32	17.81	22.30	26.78
\$23.00	6.65	11.14	15.63	20.12	24.60