



Livestock Farm Management Update

July 2, 2002

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Kansas State University, July 2, 2002.

In This Issue....

Rising feed prices drive up cost of gain projections, and increase the cost of maintaining cows on supplemental feed..... 2

Rising feed prices drive up break-evens while hog producers suffer from continued low market prices..... 7

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 June placements have increased relative to the projections of a few months ago. The projected break-evens, for cattle expected to finish in about November, are in the \$66.50 to \$67.50 per cwt. range for steers and heifers. Average traditional weight feeder cattle prices have increased slightly to the upper \$70's area. Despite the huge equity losses of the past year, and the tightening credit conditions for cattle feeders, there is still a willingness to bid feeder cattle up to fairly high levels. Feedgrain, protein, and hay prices have all increased recently, reflecting continued weather related production concerns. Accordingly, the overall ration charge projection has increased nearly 10% from last month's projection. The performance expectations of early summer placements are quite good, with both feed conversions and average daily gains expected to be 3% to 5% better than annual averages.

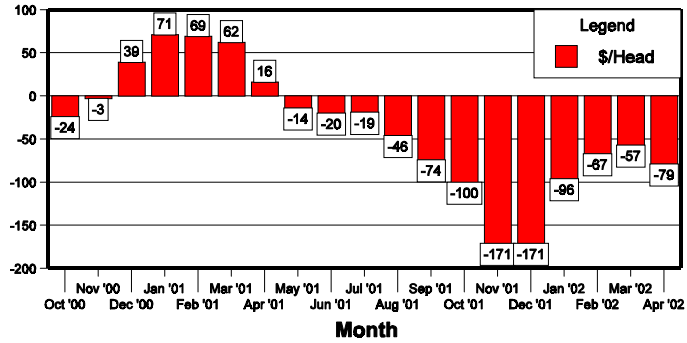
Combining the ration charge projection with late June placement performance expectations results in a feeding cost of gain projection of \$47.31 per cwt. for traditional weight June steer placements, and \$50.23 per cwt. for traditional weight June heifer placements. These estimates have increased considerably (6 - 10%) from the estimated feeding costs of the past few months. The feeding cost of gain estimates depicted in the accompanying budgets are based on current feed prices and seasonal average performance. Alternative projections based on use-weighted futures based price projections for feed ingredients yield somewhat higher feeding cost of gain estimates. 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.

Calculated losses on average April finished cattle were severe, but not quite as negative as earlier projected. The average April steer closeout returned about \$-79.41 per head, adding to the extended period of severe financial losses. Preliminary estimates suggest average returns of \$-100.00 per head on May closeouts, and summer closeouts are currently projected to lose between \$70.00 and \$85.00 per head. Break-even prices for average feeders are currently in the low \$70's, but will decline to the upper \$60's in the early fall.

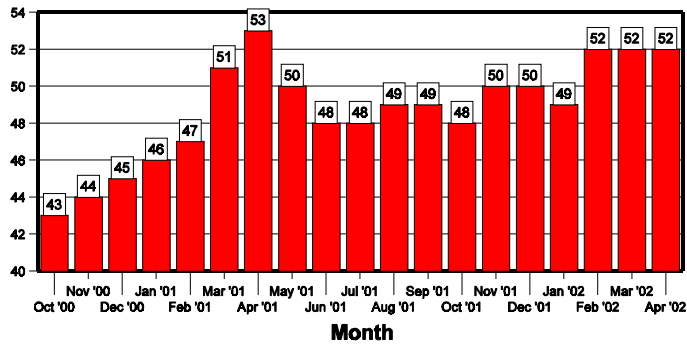
Last month I explored the options available to cow-calf producers in drought stressed areas of the state. For many producers these options are limited to 1) liquidating cows, 2) moving cows to locations further east where grazing resources are in better condition, or 3) exploring alternative feeding strategies. Before the recent run-up in feedgrain, supplement, and hay prices (i.e. last month) estimates suggested that pairs could be drylot summered on either a concentrate based diet, or a shipped in roughage based diet for around 20 to 30 % higher cost than typical per cow summer pasture costs. Based on the nearly 10% increase in feed ingredient prices over the past month, I have revised the estimated maintenance cost to 30 to 40% higher than typical pasture costs. This increased cost makes the choice even more difficult for those producers who were previously leaning toward the option of maintaining the cow-herd using alternative feeding strategies.

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
June 2002 Placements (750 lb steers, 650 lb hfrs)**

Assumptions	Steers	Heifers
Cost of feeder (\$/cwt.) ¹	\$77.00	\$76.00
Interest rate	8.5%	8.5%
Ration charge (\$/ton) ²	\$106.61	\$106.61
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	145 days	145 days
Shrink	4.0%	4.0%
Pay weight to pay weight:		
average daily gain	3.44 lbs.	2.94 lbs.
Feed conversion (as fed)	7.93 lbs.	8.33 lbs.
Death loss (in conversion)	0.50%	0.50%
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$577.50	\$494.00
2. Interest on feeder:	\$ 19.55	\$ 16.63
Feed		
3. Total feed cost:	\$211.36	\$188.72
4. Interest on feed:	\$ 3.58	\$ 3.18
Other Costs		
5. Yardage Charge:	\$ 7.27	\$ 7.23
6. Processing Charge:	\$ 7.00	\$ 7.00
8. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
9. Interest on other V.C.:	\$.36	\$.36
Breakeven selling price:	\$ 66.69	\$ 67.36
Total cost of gain/cwt:	\$ 51.22	\$ 54.14
Feeding cost of gain/cwt: ³	\$ 47.31	\$ 50.23

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

²Ration charge of \$106.61 based on corn price of \$2.44/bu., milo price of \$3.68/cwt., alfalfa hay price of \$90.00/ton, supplement price of \$211.50/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				
	\$73.00	\$75.00	\$77.00	\$79.00	\$81.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$45.00	63.28	64.52	65.76	67.00	68.25
\$46.00	63.68	64.92	66.16	67.40	68.65
\$47.00	64.08	65.32	66.56	67.80	69.05
\$48.00	64.48	65.72	66.96	68.20	69.45
\$49.00	64.88	66.12	67.36	68.60	69.85
\$50.00	65.28	66.52	67.76	69.00	70.25
\$51.00	65.68	66.92	68.16	69.40	70.65

Commercial Feedlot

Sensitivity Analysis of Breakeven Prices for 650 lb. Heifers

	Feeder purchase price				
	\$72.00	\$74.00	\$76.00	\$78.00	\$80.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$47.00	63.58	64.83	66.08	67.33	68.58
\$48.00	63.98	65.23	66.48	67.73	68.98
\$49.00	64.37	65.62	66.87	68.12	69.37
\$50.00	64.77	66.02	67.27	68.52	69.77
\$51.00	65.16	66.41	67.66	68.91	70.16
\$52.00	65.56	66.81	68.06	69.31	70.56
\$53.00	65.95	67.20	68.45	69.70	70.95

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

	% Change Previous Year	2002	2001	2000	1990-2000 Average
January	+ 5.6	49.08	46.44	43.11	53.49
February	+11.0	52.12	46.97	43.76	55.45
March	+ 3.1	52.24	50.69	44.97	55.96
April	- 1.4	51.99	52.64	44.55	54.70
May		50.00 ^P	50.08	43.29	53.42
June		48.00 ^P	48.20	43.20	51.56
July		48.50 ^P	48.42	43.01	50.29
August		50.00 ^P	48.88	43.43	52.04
September		51.00 ^P	48.77	43.10	51.07
October			47.78	43.24	51.68
November	+13.5		49.98	44.05	51.84
December	+10.9		49.52	44.65	52.05

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	1990-2000 Average
January	+ 3.5	75.49	72.93	65.68	71.42
February	+ 5.3	76.77	72.93	67.47	71.84
March	+ 2.6	76.90	74.90	68.15	71.65
April	- 3.4	74.15	76.74	69.61	71.27
May		72.00 ^P	76.16	71.27	71.00
June		70.45 ^P	74.85	71.72	70.21
July		71.22 ^P	72.47	69.99	69.50
August		70.54 ^P	73.48	69.69	68.86
September		68.90 ^P	74.39	69.82	68.54
October			74.20	69.92	68.74
November	+ 6.8		77.46	72.56	70.60
December	+ 3.9		76.46	73.62	71.35

^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 June would be expected to finish in December. 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 June remained consistent with last month's calculation, at \$21.62 per pig. Hog price expectations have improved slightly, however, feed ingredient prices have also increased, keeping pressure on weaned pig transfer prices. Average Iowa direct weaned pig transfer prices remain slightly below the formula price. Alternative budget projections and sensitivity tables are included to assess the impact of alternative weaned pig prices on break-even projections. Average weaned pig prices are now well below break-even levels for average farrowing operations.

The projected sale price needed to cover all costs associated with finishing formula priced early weaned pigs started on feed in June is \$38.42 per cwt. on a live weight basis. Pricing the weaned pig into the nursery-finish program at the mid-point of the recent Iowa reported cash transfer price (\$20.00) results in a projected break-even to cover all costs of \$37.69 per cwt. These projections represent significant increases from last month.

The example hog finishing budgets are calculated using a milo based feeding ration. Increasing feed ingredient prices are bumping up break-even projections. Projected feed costs, based on current milo and supplement prices, are currently at \$18.54 per cwt. of live pork produced in the SEW nursery finish

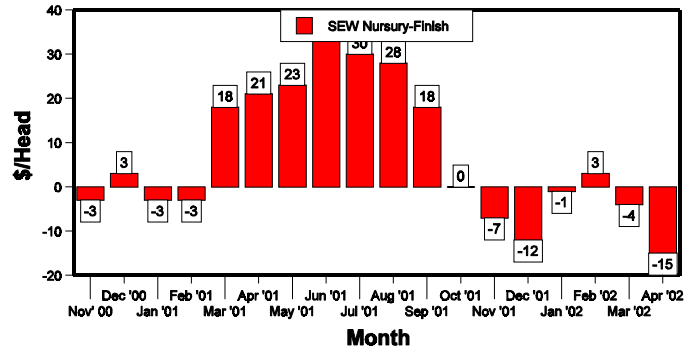
program. This projection represents an increase of about \$1.50 per cwt. of pork produced over the estimate from last month.

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.

Returns to labor and management averaged about \$-14.81 per pig for hogs exiting Kansas SEW nursery-finishing barns in April. Current calculations suggest that average returns declined in May as hog prices broke sharply. Returns to labor and management for the next several months will likely average in the \$-10.00 to \$-15.00 per head range. Break-even prices to cover all costs for average producers are currently in the low \$40's on a live weight basis, and may increase if feed prices continue to climb.

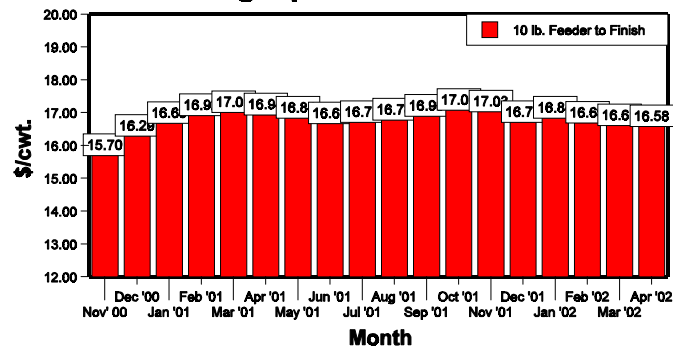
Projected break-evens to cover all costs for average Kansas farrow-to-finish producers are currently around \$44.00 per cwt. on a live basis for pigs produced under current feed cost conditions. These increasing break-evens will strain producers financially as hog prices remain under pressure this fall. In fact, futures based price forecasts indicate that producers will struggle to even cover cash variable costs, which appear likely to average in the mid \$30's per cwt. on a live weight basis for both farrow-to-finish and nursery-finish producers.

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

June, 2002

Assumptions	Barrows and Gilts
Initial weight of weaned pig	10 lbs.
Cost of weaned pig ¹	\$21.62
Interest rate	9.0 %
Feed conversion	3.00 lbs.
Death loss	5.00 %
Milo price	\$3.68 / cwt.
Soybean meal price	\$186.50 / ton.

¹ Weaned pig prices based on KSU formula.

COST BUDGET FOR FINISHING PIGS

FEEDER	
1. Cost of weaned pig	\$21.62
2. Interest on weaned pig	\$ 0.91
FEED	
3. Grain	\$18.42
4. Soybean meal	\$12.03
5. Vitamins and minerals	\$ 8.41
6. Starter	\$ 2.45
7. Interest on feed	\$ 0.87
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	\$ 0.26
FIXED COSTS	
15. Buildings and equipment	\$11.97
Sale Price Needed to Cover Variable Costs	\$33.27
Sale Price Needed to Cover Total Costs	\$38.42
Feed Cost Per Cwt. of Pork Produced	\$18.54

SEW Nursery-Finishing

Sensitivity Analysis of Break-even Sale Price

	Purchase Price for 10 Lb. Weaned Pig				
	\$18.00	\$20.00	\$22.00	\$24.00	\$26.00
Feed Cost Per Cwt.	Break-even Sale Price for Market Hog (\$/cwt.)				
\$16.00	36.29	37.18	38.08	38.97	39.87
\$17.00	37.26	38.16	39.05	39.95	40.84
\$18.00	38.24	39.13	40.03	40.92	41.82
\$19.00	39.21	40.11	41.00	41.90	42.79
\$20.00	40.19	41.09	41.98	42.88	43.77
\$21.00	41.17	42.06	42.96	43.85	44.75
\$22.00	42.14	43.04	43.93	44.83	45.72

SEW Nursery-Finishing

Sensitivity Analysis of Maximum Weaned Pig Price

	Expected Sale Price for Market Hogs				
	\$26.00	\$28.00	\$30.00	\$32.00	\$34.00
Feed Cost Per Cwt.	Maximum Purchase Price for 10 lb. Weaned Pig				
\$16.00			3.95	8.43	12.89
\$17.00			1.77	6.25	10.71
\$18.00				4.07	8.53
\$19.00				1.89	6.35
\$20.00					4.17
\$21.00					1.99
\$22.00					