



Livestock Farm Management Update

June 6, 2003

Prepared By Rodney Jones, Associate Professor / Extension Livestock Production Economist,
Kansas State University, June 6, 2003.

In This Issue....

Cattle feeders enjoy unexpected large positive returns in early summer..... 2

Better returns finally arrive for pork producers..... 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 June placements increased considerably from recent projections. The projected break-evens, for cattle expected to finish in about November, are in the \$73.00 to \$74.50 per cwt. range for heifers and steers. The factor driving the increased break-evens is higher feeder cattle prices. Performance expectations for current placements are at the seasonal peak. Feed conversions and average daily gains for June placements are expected to be 4% to 5% better than annual averages, and there is less uncertainty associated with the performance expectations of late spring placed cattle relative to other times of the year.

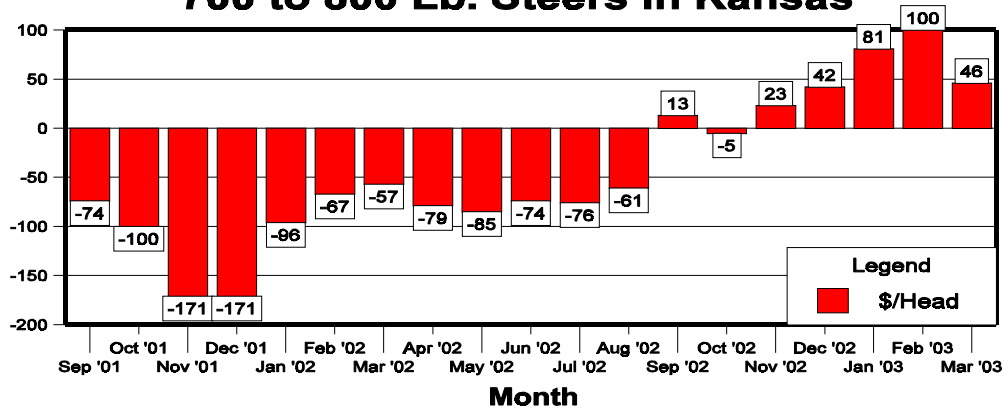
The ration charge projection remained consistent with earlier projections. Hay markets weakened as new crop forages became available, and the recent feedgrain price rally was modest and short lived. Combining the ration charge projection with June placement performance expectations results in a feeding cost of gain projection of \$49.60 per cwt. for traditional weight June steer placements, and \$52.64 per cwt. for traditional weight June 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. 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. There is still some risk of a summer feedgrain price rally. Recent market dips may provide an opportunity for risk averse producers to forward price a portion of late summer feed needs.

The average March steer closeout returned about \$46.00 per head based on calculations from a sample of surveyed feedyards. This is slightly lower than earlier projections. The survey results suggested that actual March closeout cost-of-gains were somewhat higher than my calculations had earlier projected, raising the break-evens. Feed conversions were consistent with expectations, suggesting that feed inventory costs were higher than the values I used in my earlier projections (I use feed ingredient prices that are concurrent with the feeding period). Early projections suggest that April and early May closeouts generated positive returns of \$60 to \$70 per head, assuming that final feeding costs do not continue to deviate from projections. The fed cattle price rally of late May and early June has resulted in positive returns approaching \$100.00 per head on some pens, a pleasant surprise relative to earlier projections.

How, and when, the Canadian trade issue is resolved will determine the magnitude of the summer price decline here in the U.S., and subsequently the cattle feeding profitability picture. Recent events, and surprisingly strong U.S. domestic demand for beef, may mitigate the summer price decline relative to earlier projections. I earlier projected that average cattle feeding returns could turn negative in mid to late summer. It now appears that the outlook is somewhat more favorable. Based on recent futures-based price forecasts, cattle feeding returns could remain modestly (\$15.00 to \$40.00 per head) profitable through the late summer.

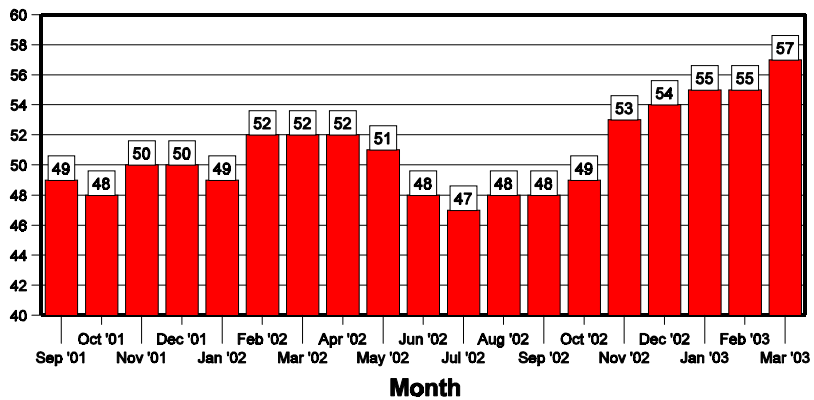
The optimism in the fed cattle market, along with continued weak feedgrain prices, has boosted feeder cattle price projections as well. It now appears that summer grazing programs have the potential to generate at least modest positive returns.

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 2003 Placements (750 lb steers, 650 lb hfrs)**

Assumptions	Steers	Heifers
Cost of feeder (\$/cwt.) ¹	\$87.70	\$84.00
Interest rate	8.0%	8.0%
Ration charge (\$/ton) ²	\$112.41	\$112.41
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:	\$657.75	\$546.00
2. Interest on feeder:	\$ 20.95	\$ 17.30
Feed		
3. Total feed cost:	\$222.86	\$198.99
4. Interest on feed:	\$ 3.55	\$ 3.15
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.:	\$.34	\$.34
Breakeven selling price:	\$ 74.14	\$ 73.21
Total cost of gain/cwt:	\$ 53.79	\$ 56.71
Feeding cost of gain/cwt: ³	\$ 49.60	\$ 52.64

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

²Ration charge of \$112.41 based on corn price of \$2.66/bu., milo price of \$4.01/cwt., alfalfa hay price of \$85.00/ton, supplement price of \$216.50/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				
	\$83.00	\$85.00	\$87.00	\$89.00	\$91.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$47.00	70.19	71.42	72.66	73.90	75.14
\$48.00	70.59	71.82	73.06	74.30	75.54
\$49.00	70.99	72.22	73.46	74.70	75.94
\$50.00	71.39	72.62	73.86	75.10	76.34
\$51.00	71.79	73.02	74.26	75.50	76.74
\$52.00	72.19	73.42	74.66	75.90	77.14
\$53.00	72.59	73.82	75.06	76.30	77.54

Commercial Feedlot

Sensitivity Analysis of Breakeven Prices for 650 lb. Heifers

	Feeder purchase price				
	\$80.00	\$82.00	\$84.00	\$86.00	\$88.00
Feeding Cost of Gain (\$/cwt.)	-----Breakeven Price----- (\$/cwt.)				
\$50.00	69.67	70.92	72.17	73.42	74.66
\$51.00	70.07	71.32	72.56	73.81	75.06
\$52.00	70.46	71.71	72.96	74.21	75.45
\$53.00	70.86	72.11	73.35	74.60	75.85
\$54.00	71.25	72.50	73.75	75.00	76.24
\$55.00	71.65	72.90	74.14	75.39	76.64
\$56.00	72.04	73.29	74.54	75.79	77.03

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	+ 9.0	56.94	52.24	50.69	55.04
April		54.00 ^P	51.99	52.64	53.85
May		52.00 ^P	50.58	50.08	52.57
June		50.00 ^P	47.56	48.20	50.86
July		49.50 ^P	46.66	48.42	49.68
August		49.50 ^P	48.05	48.88	51.32
September			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	- 4.1	73.78	76.90	74.90	71.36
April		73.35 ^P	74.15	76.74	71.13
May		73.59 ^P	72.22	76.16	71.02
June		70.70 ^P	69.56	74.85	70.34
July		68.45 ^P	69.02	72.47	69.54
August		67.97 ^P	67.80	73.48	68.93
September			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 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 is \$30.40 per pig. The mid point of the reported Iowa direct weaned pig transfer price remains 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 June is \$43.01 per cwt. on a live weight basis, consistent with recent projections. Pricing the weaned pig into the nursery-finish program at the mid-point of the recent Iowa reported cash transfer price (\$26.65) 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 \$41.00 to \$42.00 per cwt. when converted to a live weight basis.

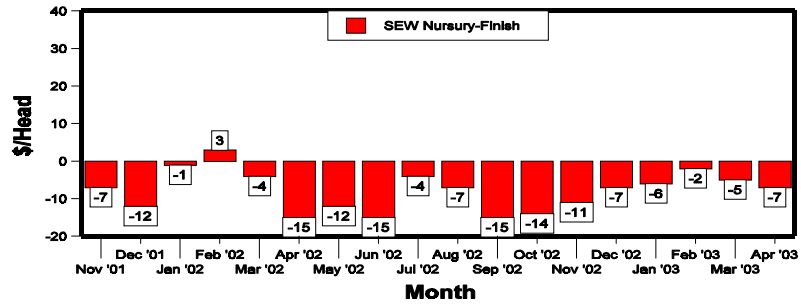
The example hog finishing budgets are calculated using a milo based feeding ration. Projected feed costs, based on current milo and supplement prices, are currently at \$19.34 per cwt. of live pork produced in the SEW nursery finish program.

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. Though feedgrain prices have retreated somewhat from a bump up in recent weeks, there is still significant potential for a weather related rally later this summer. Locking in some portion of future feed needs on market dips may still be a prudent strategy for risk averse producers.

As expected, returns to labor and management averaged about \$-5.06 per pig for hogs exiting Kansas SEW nursery-finish barns in March, and \$-6.93 for hogs finished in April. Hog prices have recovered in recent weeks enough to generate modest positive returns. Break-evens to cover all costs are currently in the low to mid \$40's on a live basis (\$58 to \$61 on a carcass basis).

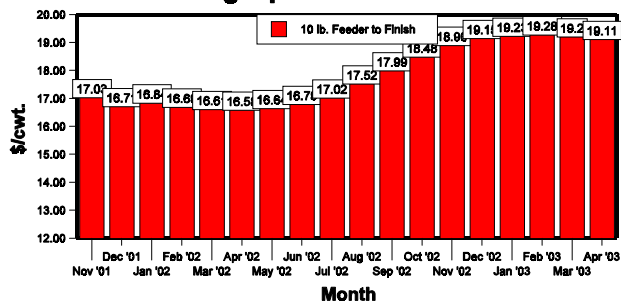
Average farrow-to-finish producers can cover variable costs in the mid \$30's, but need prices near the mid \$40's to cover all costs of production (\$60 to \$61 on a carcass basis). Current prices, and short term futures based price forecasts, suggest that average and low costs producers at all levels of the pork production chain should be enjoying much needed positive returns, after an extended period of equity losses.

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, 2003

Assumptions	Barrows and Gilts
Initial weight of weaned pig	10 lbs.
Cost of weaned pig ¹	\$30.40
Interest rate	8.0 %
Feed conversion	3.00 lbs.
Death loss	5.00 %
Milo price	\$4.01 / cwt.
Soybean meal price	\$191.50 / ton.

¹ Weaned pig prices based on KSU formula.

COST BUDGET FOR FINISHING PIGS

FEEDER	
1. Cost of weaned pig	\$30.40
2. Interest on weaned pig	\$ 1.13
FEED	
3. Grain	\$20.07
4. Soybean meal	\$12.35
5. Vitamins and minerals	\$ 8.74
6. Starter	\$ 1.93
7. Interest on feed	\$ 0.80
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	\$37.87
Sale Price Needed to Cover Total Costs	\$43.01
Feed Cost Per Cwt. of Pork Produced	\$19.34

SEW Nursery-Finishing

Sensitivity Analysis of Break-even Sale Price

	Purchase Price for 10 Lb. Weaned Pig				
	\$27.00	\$29.00	\$31.00	\$33.00	\$35.00
Feed Cost Per Cwt.	Break-even Sale Price for Market Hog (\$/cwt. Live Basis)				
\$17.00	39.23	40.13	41.02	41.91	42.80
\$18.00	40.21	41.10	41.99	42.88	43.77
\$19.00	41.18	42.07	42.96	43.86	44.75
\$20.00	42.16	43.05	43.94	44.83	45.72
\$21.00	43.13	44.02	44.91	45.80	46.69
\$22.00	44.10	44.99	45.89	46.78	47.67
\$23.00	45.08	45.97	46.86	47.75	48.64

SEW Nursery-Finishing

Sensitivity Analysis of Maximum Weaned Pig Price

	Expected Sale Price for Market Hogs (Live Basis)				
	\$37.00	\$39.00	\$41.00	\$43.00	\$45.00
Feed Cost Per Cwt.	Maximum Purchase Price for 10 lb. Weaned Pig				
\$17.00	21.98	26.47	30.95	35.43	39.92
\$18.00	19.80	24.29	28.77	33.25	37.74
\$19.00	17.62	22.11	26.59	31.07	35.56
\$20.00	15.44	19.93	24.41	28.89	33.38
\$21.00	13.26	17.75	22.23	26.71	31.20
\$22.00	11.08	15.57	20.05	24.53	29.02
\$23.00	8.90	13.39	17.87	22.35	26.84