



Livestock Farm Management Update

November 11 2002

Prepared By Rodney Jones, Associate Professor / Extension Livestock Production Economist,
Kansas State University, November 11, 2002.

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Cattle Production Budgets and Returns

By Rodney Jones, Extension Livestock Production Economics

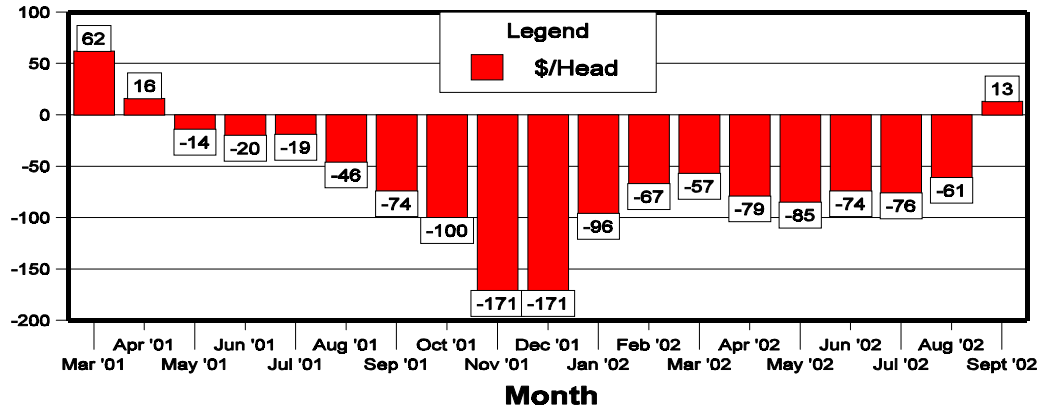
Based on this month's traditional cattle finishing budgets for 750 pound steers and 650 pound heifers, the expected break-even prices for November placements have increased relative to the projections of last few months. The projected break-evens, for cattle expected to finish in about April, are in the \$73.00 to \$74.25 per cwt. range for heifers and steers. Average traditional weight feeder cattle prices have increased somewhat in recent weeks, with recent price quotes over \$81.00 per cwt. for steers. Performance expectations remain at seasonal lows for November placements. For example, both feed conversions and average daily gains for November placements are expected to be 7% to 8% worse than annual averages.

Combining the ration charge projection with November placement performance expectations results in a feeding cost of gain projection of \$58.89 per cwt. for traditional weight November steer placements, and \$60.88 per cwt. for traditional weight November heifer placements. These are noticeable reductions from the projections of recent months, and are driven by weakening current feed prices combined with seasonal performance expectations. Alternative projections based on use-weighted futures based price projections for feed ingredients yield somewhat lower feeding cost of gain estimates. Watch for opportunities to price feed ingredients, especially grain, on price dips and / or weakening basis over the next several weeks. 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, each \$0.10 per bushel change in corn price changes feeding cost of gain by \$1.24 per cwt. In addition, each \$10.00 per ton change in hay price changes feeding cost of gain by \$0.49 per cwt.

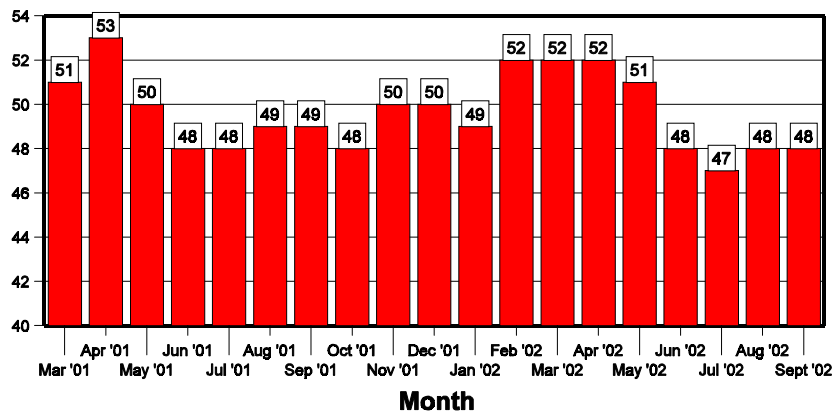
As expected, the average August steer closeout returned about \$-61.00 per head. Conversely, the average September steer closeout returned an average of about \$12.85 per head positive returns, revealing that after well over a year and a half of continuous losses it is still possible to have a positive closeout month. Reasons for the pleasantly surprising positive return results include lower break-evens due to the dramatic decline in feeder cattle prices from March into April last spring, lower than anticipated feeding cost of gains for September closeouts, and heavier finish weights that compounded the advantage of lower than expected feeding costs. Results for the remainder of the fall are difficult to predict, however returns will likely average slightly on one side or the other of zero, depending on the ability to sustain the recent fed cattle price strength, and the ability to sustain feeding costs that come in below expectations. Current projections suggest average break-evens will remain in the very high \$60's through the end of the year. Projections also suggest that break-evens will increase into the low \$70's after the first of the year, however recent futures based price expectations suggest that prices could rebound into the mid \$70's by early 2003, suggesting positive returns are quite likely on early 2003 closeouts. Weather related performance setbacks, increasing feed ingredient prices, or fed cattle prices that come in below current expectations could dampen this current optimism.

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
November 2002 Placements (750 lb steers, 650 lb hfrs)

Assumptions	Steers	Heifers
Cost of feeder (\$/cwt.) ¹	\$81.30	\$78.00
Interest rate	8.5%	8.5%
Ration charge (\$/ton) ²	\$119.66	\$119.66
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	166 days	162 days
Shrink	4.0%	4.0%
Pay weight to pay weight:		
average daily gain	3.01 lbs.	2.63 lbs.
Feed conversion (as fed)	8.91 lbs.	9.12 lbs.
Death loss (in conversion)	0.50%	0.50%
Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	\$609.75	\$507.00
2. Interest on feeder:	\$ 23.59	\$ 19.08
Feed		
3. Total feed cost:	\$266.54	\$231.90
4. Interest on feed:	\$ 5.16	\$ 4.36
Other Costs		
5. Yardage Charge:	\$ 8.31	\$ 8.08
6. Processing Charge:	\$ 7.00	\$ 7.00
8. Vet, drugs, supplies:	\$ 7.00	\$ 7.00
9. Interest on other V.C.:	\$.43	\$.42
Breakeven selling price:	\$ 74.22	\$ 73.01
Total cost of gain/cwt:	\$ 63.60	\$ 65.37
Feeding cost of gain/cwt: ³	\$ 58.89	\$ 60.88

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

²Ration charge of \$119.66 based on corn price of \$2.73/bu., milo price of \$4.48/cwt., alfalfa hay price of \$114.00/ton, supplement price of \$193.00/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.)				
\$55.00	69.99	71.23	72.48	73.73	74.97
\$56.00	70.39	71.63	72.88	74.13	75.37
\$57.00	70.79	72.03	73.28	74.53	75.77
\$58.00	71.19	72.43	73.68	74.93	76.17
\$59.00	71.59	72.83	74.08	75.33	76.57
\$60.00	71.99	73.23	74.48	75.73	76.97
\$61.00	72.39	73.63	74.88	76.13	77.37

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.)				
\$57.00	68.96	70.22	71.47	72.73	73.98
\$58.00	69.36	70.61	71.87	73.12	74.38
\$59.00	69.75	71.01	72.26	73.52	74.77
\$60.00	70.15	71.40	72.66	73.91	75.17
\$61.00	70.54	71.80	73.05	74.31	75.56
\$62.00	70.94	72.19	73.45	74.70	75.96
\$63.00	71.33	72.59	73.84	75.10	76.35

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	+ 1.0	50.58	50.08	43.29	53.42
June	- 1.3	47.56	48.20	43.20	51.56
July	- 3.6	46.66	48.42	43.01	50.29
August	- 1.6	48.05	48.88	43.43	52.04
September	- 1.7	47.96	48.77	43.10	51.07
October		49.50 ^P	47.78	43.24	51.68
November		52.00 ^P	49.98	44.05	51.84
December		53.00 ^P	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	- 5.2	72.22	76.16	71.27	71.00
June	- 7.1	69.56	74.85	71.72	70.21
July	- 4.8	69.02	72.47	69.99	69.50
August	- 7.7	67.80	73.48	69.69	68.86
September	-13.2	64.55	74.39	69.82	68.54
October		67.84 ^P	74.20	69.92	68.74
November		68.79 ^P	77.46	72.56	70.60
December		69.81 ^P	76.46	73.62	71.35

^P Values for this month are projected

Hog Production Budgets and Returns

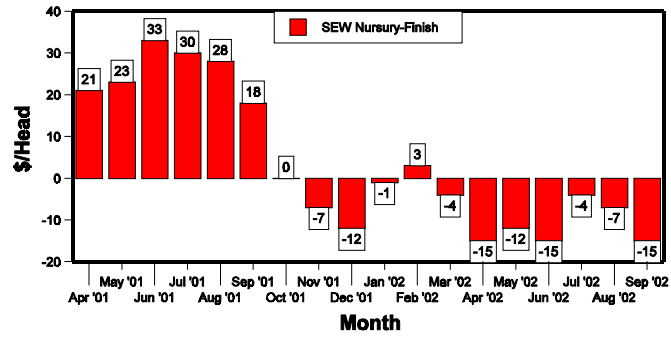
The hog finishing budget projects the economic outcome of taking a 10 pound early weaned pig through a combination nursery and finishing phase. The total feeding time is projected to be 170 days, so pigs started in November would be expected to finish in May of 2003. Ten pound weaned pigs are priced 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 November is \$33.22 per pig, up considerably from recent months. Hog futures prices have rebounded, and feed prices have declined somewhat resulting in higher weaned pig prices. Average Iowa direct weaned pig transfer prices remain considerably below the formula price. This is consistent with expectations, given that cash transfer prices are more strongly influenced by current hog market conditions. 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 November is \$44.72 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 (\$26.40) results in a projected break-even to cover all costs of \$41.68 per cwt. Pigs placed in a nursery-finish program now are being placed against a futures based price forecast in the mid \$40's on a live weight basis, suggesting the possibility for positive returns. Prospects are somewhat brighter for weaned pig producers as well, with break-evens to cover variable costs at about \$26.00 per pig and break-evens to cover all costs at about \$33.00 per pig.

The example hog finishing budgets are calculated using a milo based feeding ration. Decreasing feed ingredient prices are impacting break-even projections. Projected feed costs, based on current milo and supplement prices, are currently at \$19.80 per cwt. of live pork produced in the SEW nursery finish program. This projection represents a slight decrease from the estimates of recent months due to somewhat lower soybean meal and milo price projections. 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.

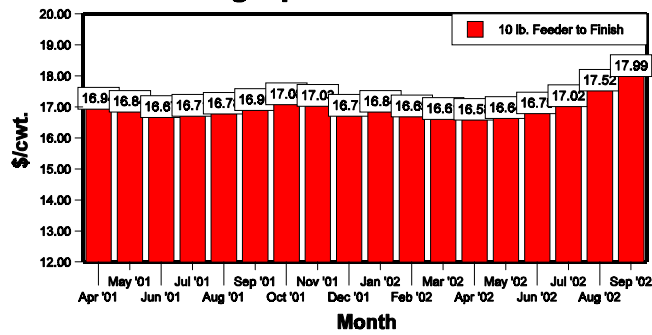
Returns to labor and management averaged about \$-7.00 per pig for hogs exiting Kansas SEW nursery-finishing barns in August. As expected financial returns are worsening as the fall progresses, with returns to labor and management averaging about \$-15.00 per pig for hogs finished in September. Average nursery-finish producers likely fell about \$14.00 per head short of covering all costs in October, and similar losses are expected in November. Due largely to lower priced weaned pigs entering barns through the summer, break-evens for average nursery-finish producers will average in the upper \$30's per cwt. on a live weight basis for the next several months, before increasing to the low \$40's as higher priced weaned pigs work their way through the system. Combining these break-evens with recent futures based price forecasts suggests that positive returns could return by early 2003.

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
, 2002

Assumptions	Barrows and Gilts
Initial weight of weaned pig	10 lbs.
Cost of weaned pig ¹	\$33.22
Interest rate	8.0 %
Feed conversion	3.00 lbs.
Death loss	5.00 %
Milo price	\$4.48 / cwt.
Soybean meal price	\$168.00 / ton.

¹ Weaned pig prices based on KSU formula.

COST BUDGET FOR FINISHING PIGS

FEEDER	
1. Cost of weaned pig	\$33.22
2. Interest on weaned pig	\$ 1.24
FEED	
3. Grain	\$22.42
4. Soybean meal	\$10.84
5. Vitamins and minerals	\$ 8.41
6. Starter	\$ 2.45
7. Interest on feed	\$ 0.82
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	\$39.58
Sale Price Needed to Cover Total Costs	\$44.72
Feed Cost Per Cwt. of Pork Produced	\$19.80

SEW Nursery-Finishing

Sensitivity Analysis of Break-even Sale Price

	Purchase Price for 10 Lb. Weaned Pig				
	\$29.00	\$31.00	\$33.00	\$35.00	\$37.00
Feed Cost Per Cwt.	Break-even Sale Price for Market Hog (\$/cwt.)				
\$17.00	40.13	41.02	41.91	42.80	43.69
\$18.00	41.10	41.99	42.88	43.77	44.66
\$19.00	42.07	42.96	43.86	44.75	45.64
\$20.00	43.05	43.94	44.83	45.72	46.61
\$21.00	44.02	44.91	45.80	46.69	47.59
\$22.00	49.99	44.89	46.78	47.67	48.56
\$23.00	45.97	46.86	47.75	48.64	49.53

SEW Nursery-Finishing

Sensitivity Analysis of Maximum Weaned Pig Price

	Expected Sale Price for Market Hogs				
	\$41.00	\$43.00	\$45.00	\$47.00	\$49.00
Feed Cost Per Cwt.	Maximum Purchase Price for 10 lb. Weaned Pig				
\$17.00	30.95	35.44	39.92	44.41	48.90
\$18.00	28.77	33.26	37.74	42.23	46.72
\$19.00	26.59	31.08	35.56	40.05	44.54
\$20.00	24.41	28.90	33.38	37.87	42.36
\$21.00	22.23	26.72	31.20	35.69	40.18
\$22.00	20.05	24.54	29.02	33.51	38.00
\$23.00	17.87	22.36	26.84	31.33	35.82