K-STATE Kansas State University

# Beeftips

October 2000 Department of Animal Sciences and Industry

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## Profit outlook: Higher cattle prices ahead in 2001

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Cattle feeding returns improved dramatically during 1999, following a disastrous 1998. Cattle feeders that followed a routine program of placing 750-pound feeder steers in a commercial feedlot every month and selling the cattle for slaughter when they weighed 1,200 to 1,300 pounds earned a positive return of $48 per head in 1999. This was a dramatic improvement from the $98 loss that occurred using this strategy in 1998. Moreover, 1999 was Kansas' cattle feeders most profitable year since the early 1990s.

Cattle feeding was also profitable through midspring 2000. Returns to cattle feeders who routinely placed 750-pound steers on feed averaged $20 per head from January-June 2000. Cow-calf operators who retained ownership of calves in fall 1999 and sold them as slaughter steers in midspring earned average returns of $40 to $50 per head above the returns earned by selling the calves at weaning. Similarly, cow-calf operators who retained ownership of calves last fall in traditional drylot backgrounding programs for sale in midwinter also earned returns of $30 to $40 per head.

But feeding margins turned negative for most yearling programs in late spring and by midsummer, even programs based upon lightweight placements (which took full advantage of calender year 2000's relatively low costs of gain) were losing money. Average cattle feeding margins were negative through the rest of the summer and are expected to remain negative through most of the fall. Feeding

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## Beef Stocker conferences set for six locations

The KSU Beef Stocker 2000 program continues this fall with six sale barn conferences across the state. K-State specialists will present information on to stocker production. Topics include Antimicrobial Strategies for Control of BRD, Stocker Receiving Management and Ration Programs, Management and Health for Stocker Operators, and Cattle Ownership Programs: Economic Implications for 2000-2001. Dates and locations are as follows:

**Clay Center, Sept. 28, 6 p.m.**
Clay Center Livestock Sales Sale Barn

**Salina, Oct. 17, 6 p.m.**
Farmers & Ranchers Livestock Commission Co.

**Dodge City, Oct. 17, 6 p.m.**
Winter Livestock Co.

**Emporia, Oct. 18, 5:30 p.m.**
Emporia Livestock Sale Co.

**Norton, Nov. 13, 6 p.m**
Norton Livestock Auction

**St. Mary's, Nov. 16, 6 p.m.**
Rezac Livestock Commission Co.

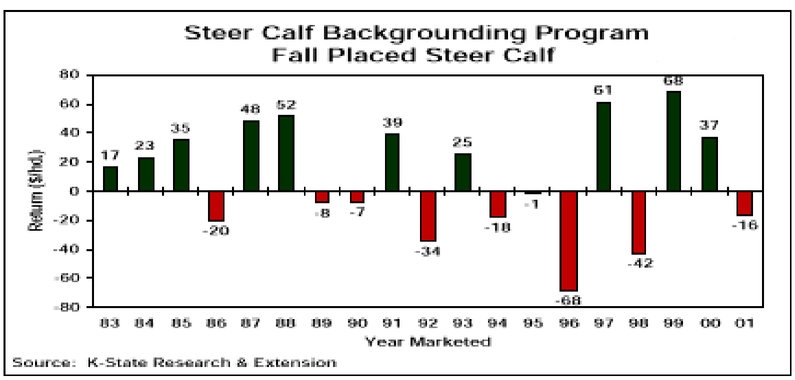
*PROFIT OUTLOOK, from page 1*

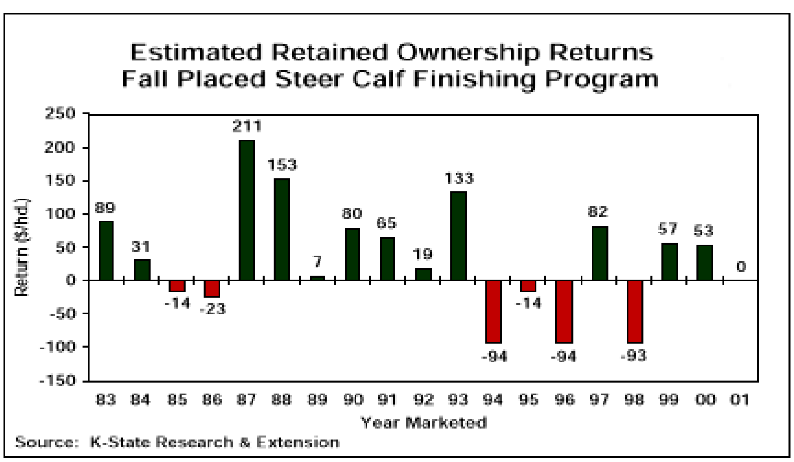
margins could turn positive by year’s end, but for that to happen, live cattle prices will have to rally from current futures-based price forecasts, or actual feeding costs will need to be lower than projected.

***Cattle feeders’ estimated break-evens for yearling cattle finished this fall range from about $70 to $73, with some cattle purchased at the July feeder cattle price peak carrying break-evens in the mid $70s.***

Estimated feeding costs of gain on steers purchased this fall (which excludes interest charges on the feeders’ purchase price) are projected to average around $45 per hundredweight this fall, and total costs of gain will likely be in the upper $40s. These projected feeding costs are higher than feeding costs on late summer closeouts because the feed conversions of fall placements are expected to be about 13 percent worse than spring placements, and average daily gains are expected to be about 11 percent worse than the gains of spring placements.

In addition, hay and supplement prices have risen about 15 percent from their summer lows. Cattle feeders' estimated breakevens for yearling cattle finished this fall range from about $70 to $73 with some cattle purchased at the July feeder cattle price peak carrying breakevens in the mid $70s.




Yearling (750-pound) steers purchased this fall at prices in the mid $80s and marketed during the first half of 2001 are also projected to have breakevens in the low $70s. Not surprisingly, early projections for calf finishing programs over the upcoming winter reveal breakevens in the low $70s based on recent calf prices. Current futures prices adjusted for expected basis suggest cash slaughter cattle prices will remain in the upper $60s through year end, and will trade near $70 during winter 2001. Slaughter cattle prices are expected to rise seasonally in spring 2001, climbing into the low $70s.

Traditional winter drylot backgrounding program projections suggest breakevens in the mid $80s for 750-pound steers in February or March. Current futures-based price projections indicate a chance for small positive returns to backgrounding programs, particularly for those producers with low-valued feed resources already on hand. But most backgrounding programs will only generate significant positive returns if late winter and early spring 2001 feeder cattle futures prices rise over the winter.

Kansas cattle summer grazing operations generally follow either a short- or a full-season grazing program. Following a tough year economically in 1998, these programs returned to more profitable levels in 1999. Good grazing conditions during spring and summer contributed to the profitability improvement, as did rising prices for heavyweight feeders, especially during the fall of 1999. Returns for traditional eastern Kansas full-season grazing programs averaged around $25 per head in 1999. Full-season grazing programs were generally more profitable in 1999 than short-season programs because operators following full-season programs owned the cattle long enough to capture most of 1999’s feeder cattle price rise. Short-season grazing programs alone were not quite as profitable in 1999, with returns ranging from a loss of $10 to $15 per head to about breakeven. However, many short-season grazing programs actually involve retaining ownership of the cattle through the fall at a commercial feedyard until the cattle reach slaughter weight, and these programs were profitable during 1999 as they captured the fall cattle price rally.

Preliminary estimates of grazing returns in 2000 provide mixed results, and suggest that actual returns will be sensitive to location. For example, dry conditions in many locations forced operators to pull cattle from pastures early with less than normal weight gains. But in areas where dry conditions did not hamper production plans, 700-pound steers marketed from short-season programs were sold in the low $90s during mid-July, when feeder cattle prices peaked. Under a cost structure similar to the previous year, these programs would generate positive returns in the range of $10 to $15 per head, despite the fact that 550-pound calves were purchased this past spring at more than $100 per hundredweight. Surveys indicate, however, that in many locations the optimism in the cattle sector was quickly bid into summer grass rental charges, which in many cases increased between $5 and $10 per head relative to 1999. When grazing costs are increased by this magnitude, returns are quickly reduced to near breakeven levels. Depending on summer grazing performance, most full-season grazing programs have breakeven prices ranging from the mid-$80s to the high $80s. Recent cash feeder cattle prices are slightly below breakeven levels for most operators.

Most Kansas cow-calf operations returned to profitability in 1999 after failing to cover even variable costs three out of the previous four years. The cow-calf sector was profitable from 1986 through 1994, but experienced large losses in 1995, 1996 and 1998, with only a brief interlude of returns above variable costs in 1997. Preliminary estimates for 2000 indicate that the average Kansas cow-calf operation will enjoy returns above variable costs of close to $100 per cow and, furthermore, profits are likely to increase yet again next year as cow-calf operations benefit from another year of strong calf prices in 2001.

A small increase in commercial beef production, strong exports and an increase in the U.S. population mean per capita beef supplies during 2000 will wind up near last year's level. And per capita beef supplies are expected to fall significantly below the previous year's level during 2001, as placements on feed finally start to decline this fall. But, in the short run, a large cattle-on-feed inventory and heavy marketing weights will keep beef production above a year ago through the most of the fall.

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Cash slaughter cattle prices are expected to recover somewhat as fall progresses, reaching the high $60s by year-end, as beef supplies begin to moderate. Longer term, slaughter cattle prices are expected hit $70 this winter and climb into the low $70s next spring, as supplies fall below year ago levels. And when slaughter cattle prices rally, feeder and calf prices will also increase. Finally, it is important to remember that the highest prices of this cattle cycle are still ahead as year-to-year supply reductions will not appear in earnest until 2001.

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## Kansas Feedlot Performance and Feed Cost Summary*

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**August 2000 Closeout Information****

| Sex/No. | Final Weight | Avg. Days on Feed | Avg. Daily Gain | Feed/Gain (Dry Basis) | % Death Loss | Avg. Cost of Gain/Cwt. | Projected Cost of Sept.-Placed Cattle |
|---|---|---|---|---|---|---|---|
| Steers/21,030 | 1,283 | 140 | 3.56 | 5.76 | 1.14 | $43.43 | $40.88 |
| | | (127-156) | (3.36-3.75) | (5.40-6.04) | | (39.44-45.42) | (37.00-44.50) |
| Heifers/20,419 | 1,158 | 155 | 3.05 | 6.15 | 1.07 | $46.34 | $42.62 |
| | | (130-177) | (2.84-3.40) | (5.72-6.74) | | (43.36-49.72) | (39.00-46.50) |

| Current Feed Inventory Costs: Mid-July Avg. Prices | | Range | No. Yards |
|---|---|---|---|
| Corn | $ 2.02/bu | $ 1.70-2.31 | 7 |
| Ground Alfalfa Hay | $80.64/ton | $71.45–98.00 | 7 |

*Appreciation is expressed to these Kansas feedyards: Brookover Ranch Feed Yard, Decatur County Feed Yard, Fairleigh Feed Yard, Hy-Plains Feed Yard, Kearny County Feeders, Pawnee Valley Feeders, and Supreme Cattle Feeders.

**Closeout figures are the means of individual feed yard monthly averages and include feed, yardage, processing, medication, death loss and usually sold FOB the feedlot with a 4% pencil shrink. Interest charges normally are not included.



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