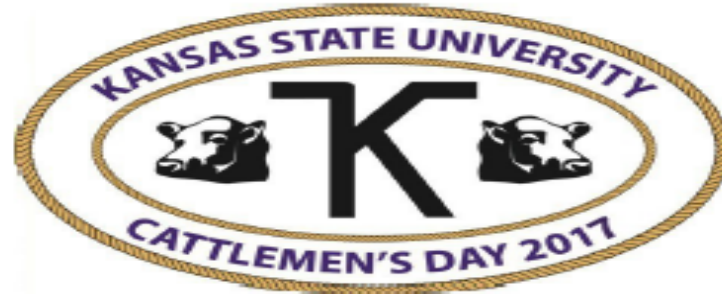


CATTLEMEN'S DAY 2017

104th ANNUAL

Kansas State University
Agricultural Experiment Station
Cooperative Extension Service



Animal Sciences & Industry
Weber Hall
Manhattan, Kansas

Beef Cattle Economics Trilogy: Beef Industry Outlook, Drivers of Profitability, and Better Use of Farm Management Budgets

Glynn Tonsor, Dustin Pendell, & Robin Reid
Dept. of Ag. Economics Kansas State University



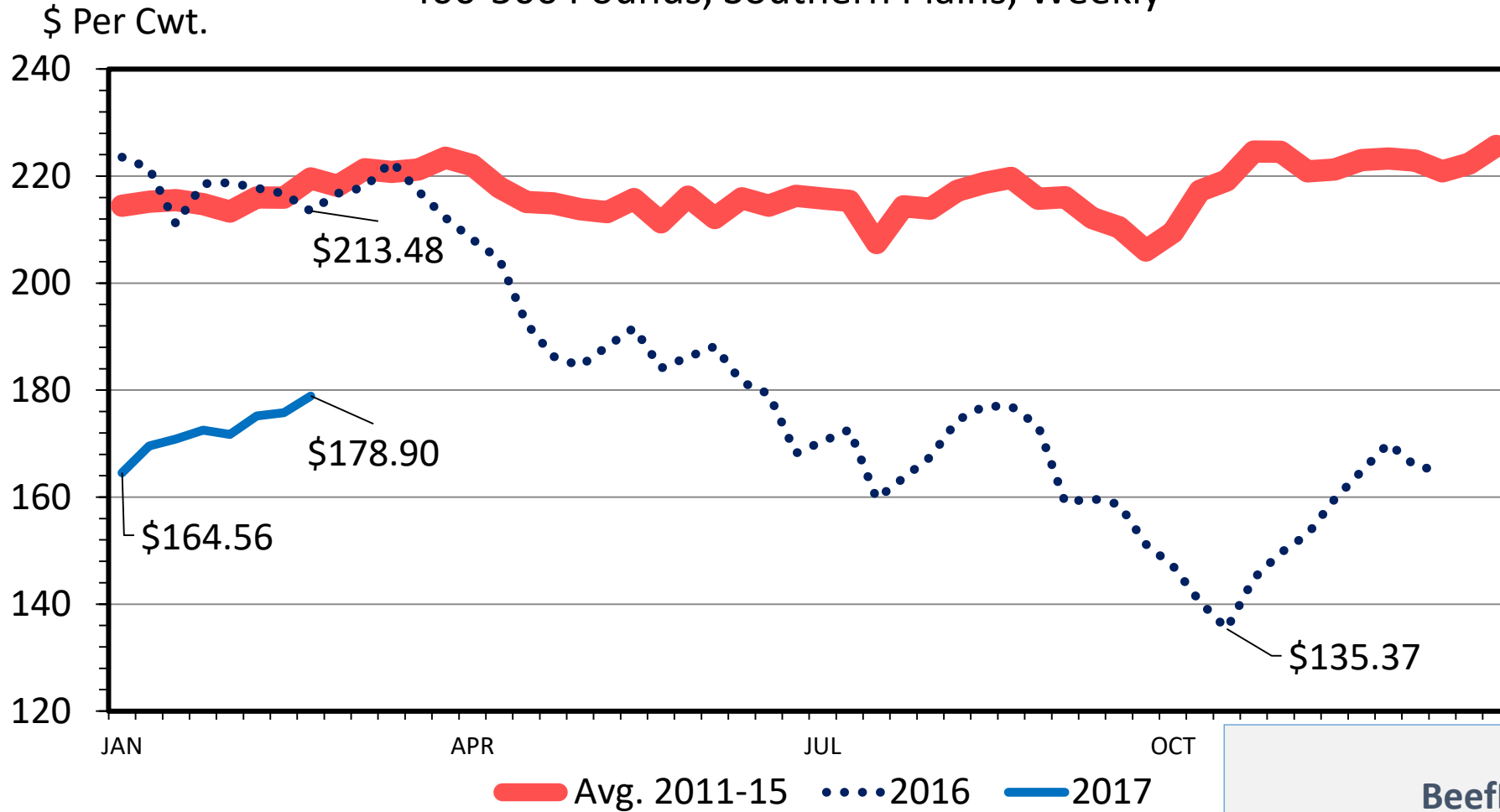
Overarching Beef Industry Economic Outlook



- Supplies
 - Growing meat supplies +
Some trade “challenges” = more lbs at home
 - Herd expansion stopped?
- Demand
 - Widely missed factor in industry profits
 - Weaker in 2016

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



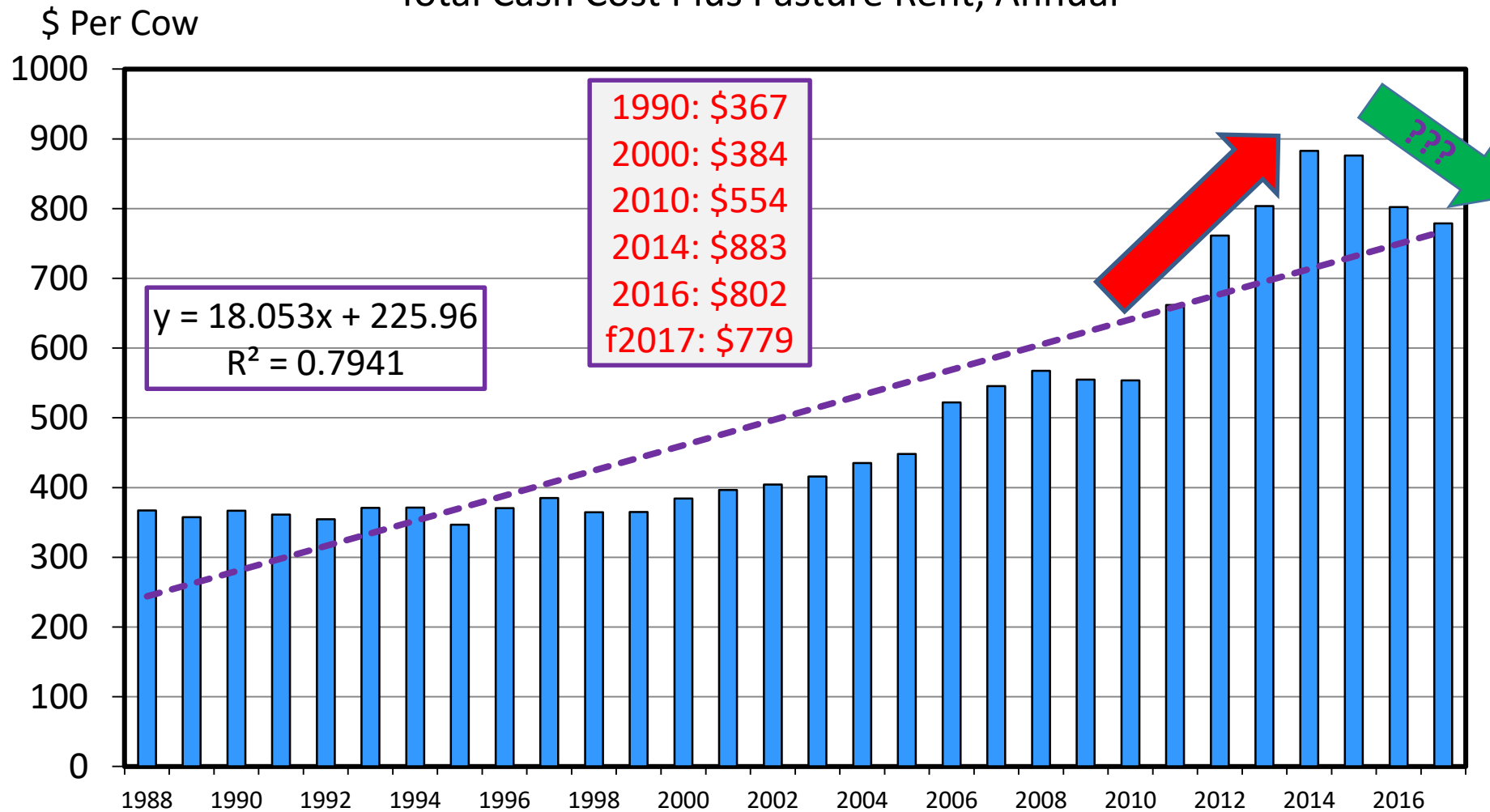
Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-49A
02/27/17

BeefBasis.com
Salina, KS Projections (as of 3/2):
Oct 11th: \$143

ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



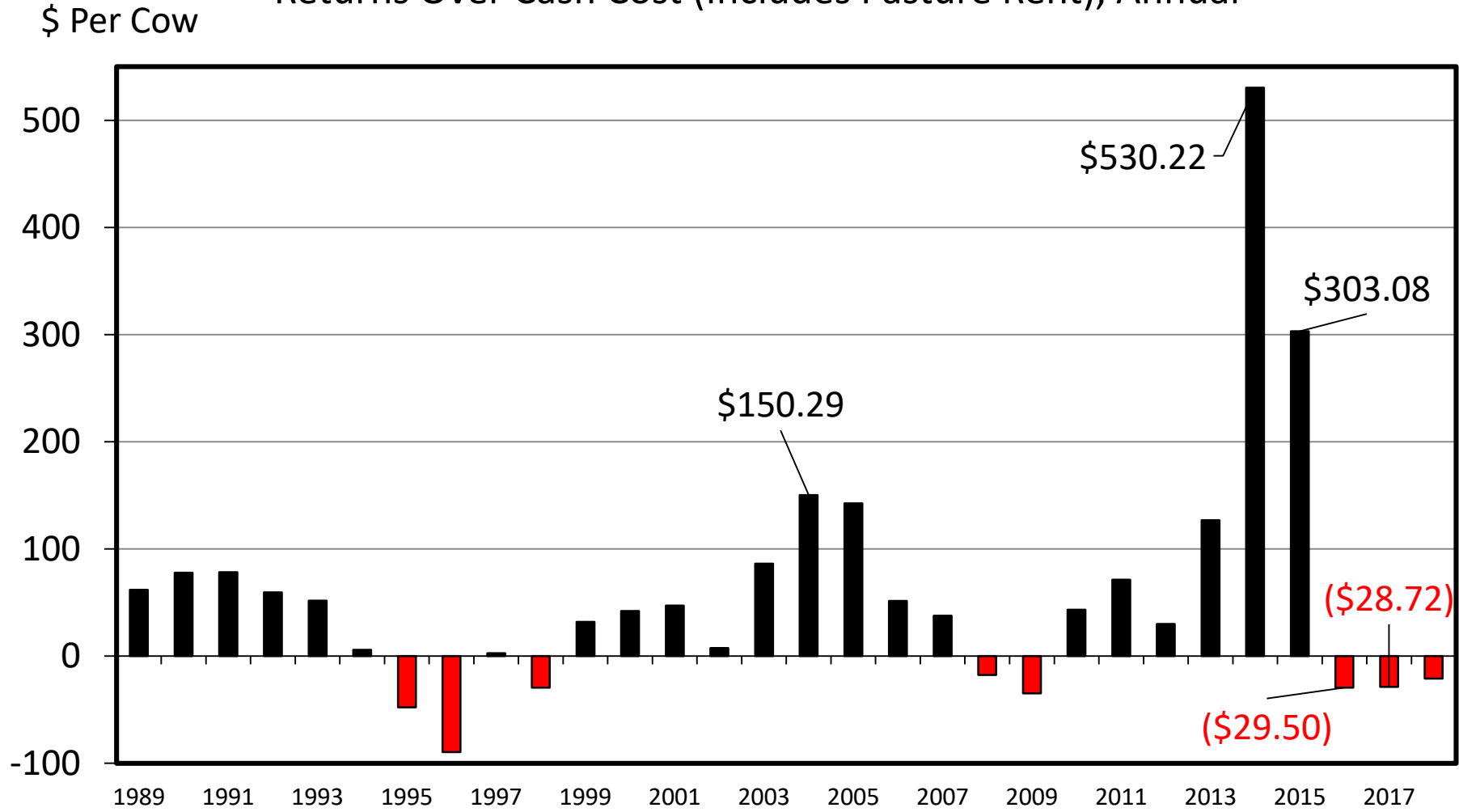
Data Source: USDA & LMIC, Compiled by LMIC

Livestock Marketing Information Center

02/05/17

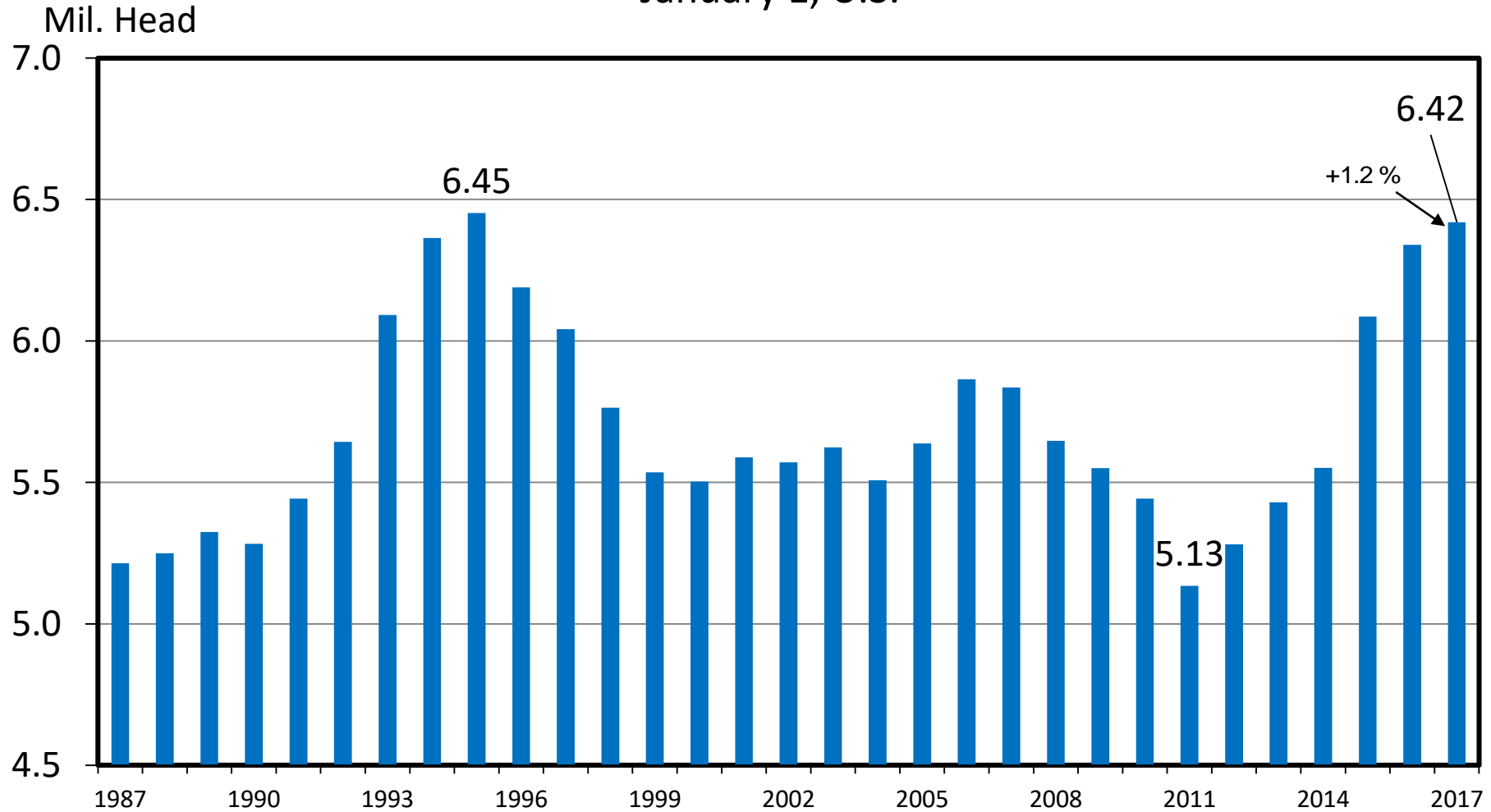
ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.



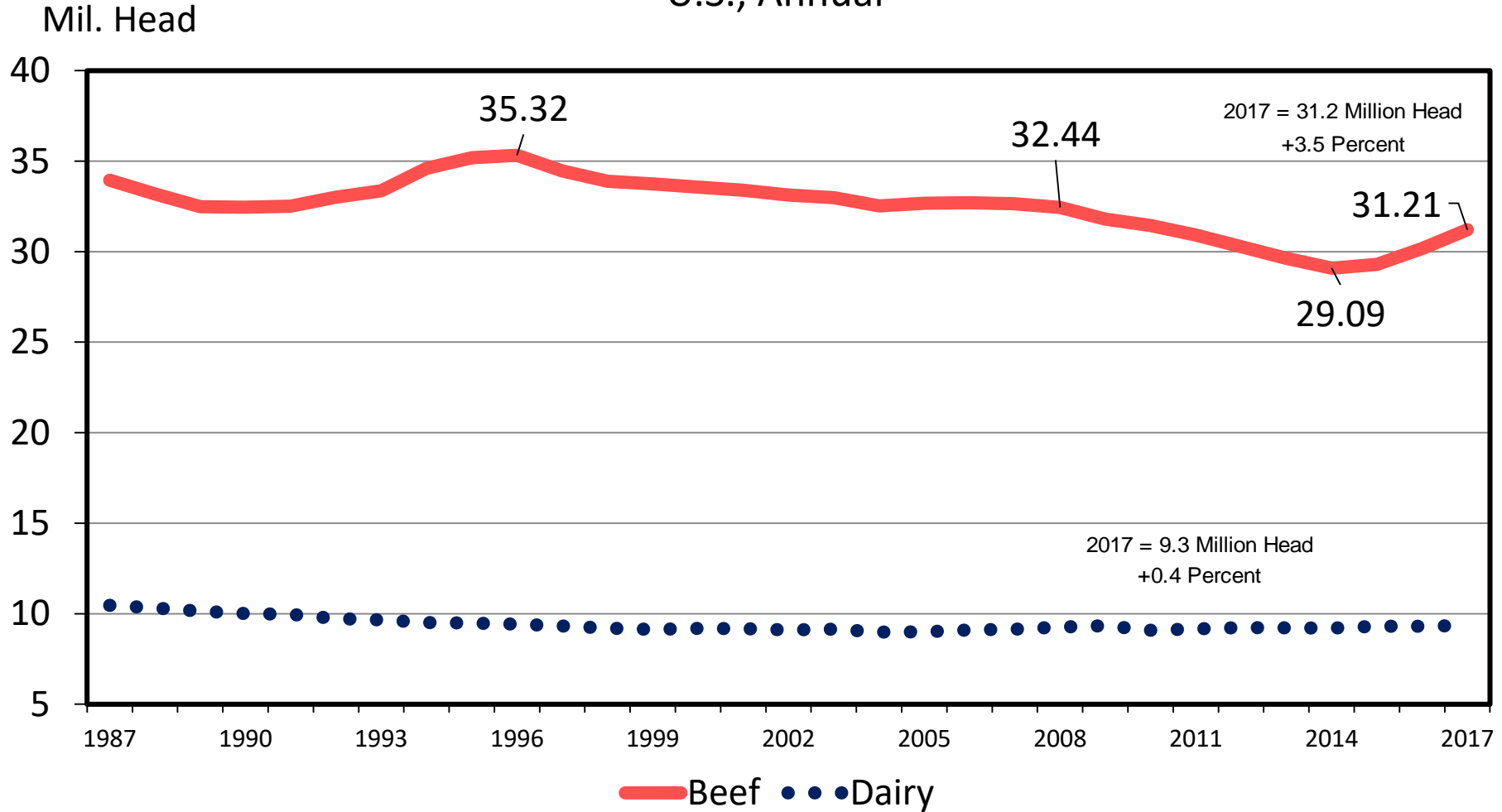
Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-38
02/03/17

JANUARY 1 COW INVENTORY

U.S., Annual



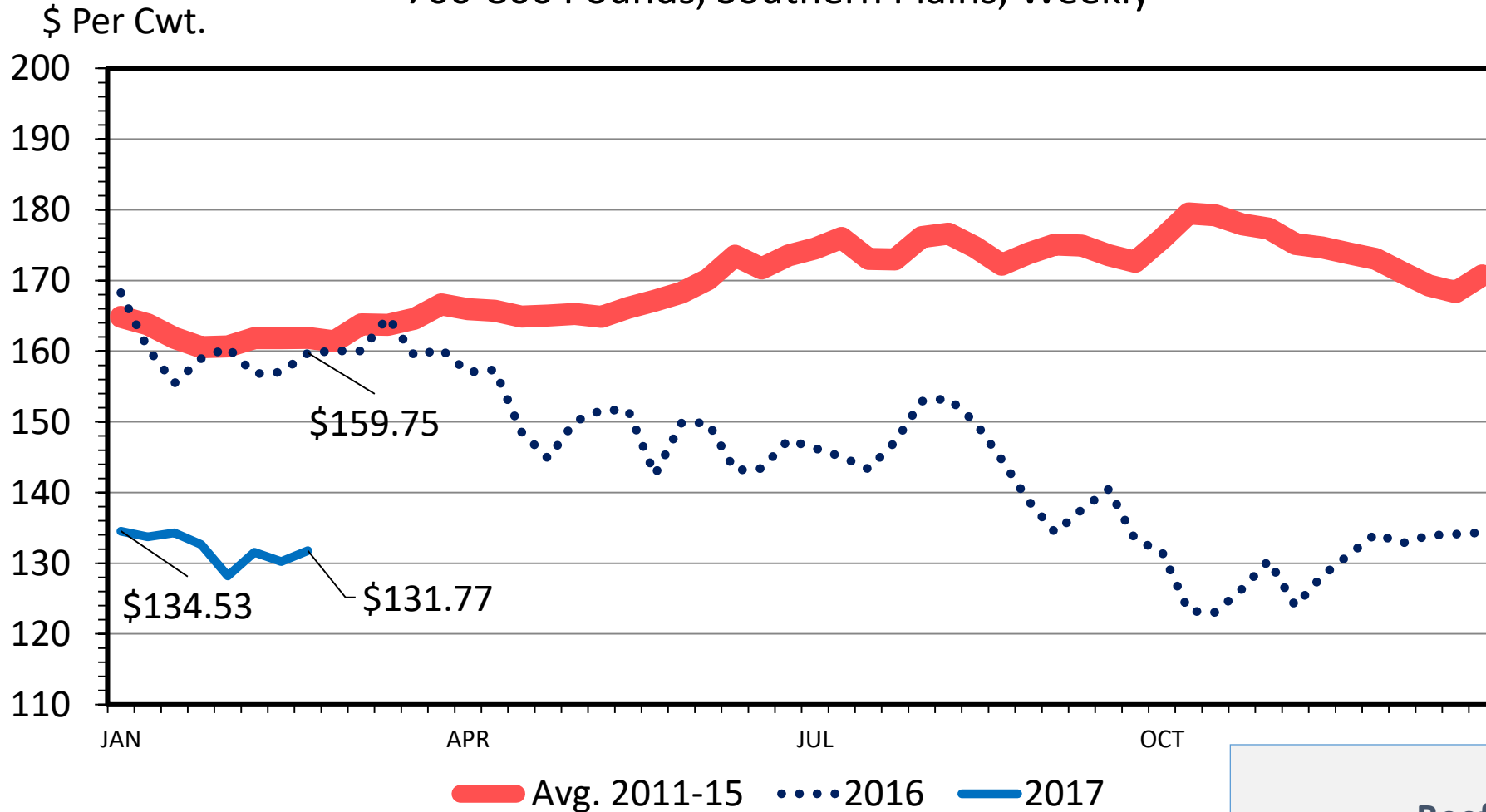
Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-02
02/03/17

MED. & LRG. #1 FEEDER STEER PRICES

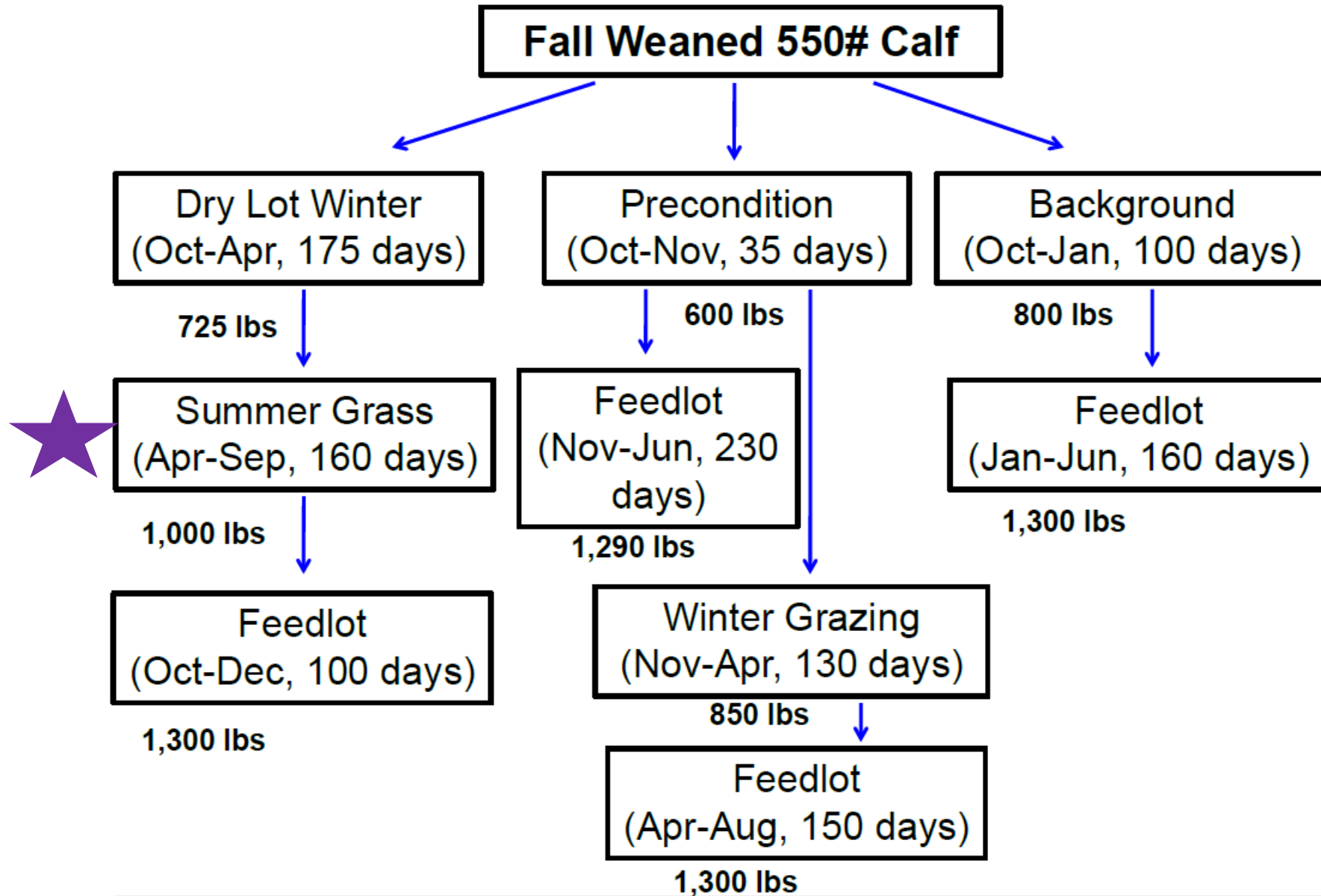
700-800 Pounds, Southern Plains, Weekly



Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-49
02/27/17

BeefBasis.com
Salina, KS Projections (as of 3/2):
Apr 12th: \$121



Economic Outlook Overview: Stockers

<http://www.beefbasis.com/ForecastingTools/ValueofGain/tabid/1132/Default.aspx>

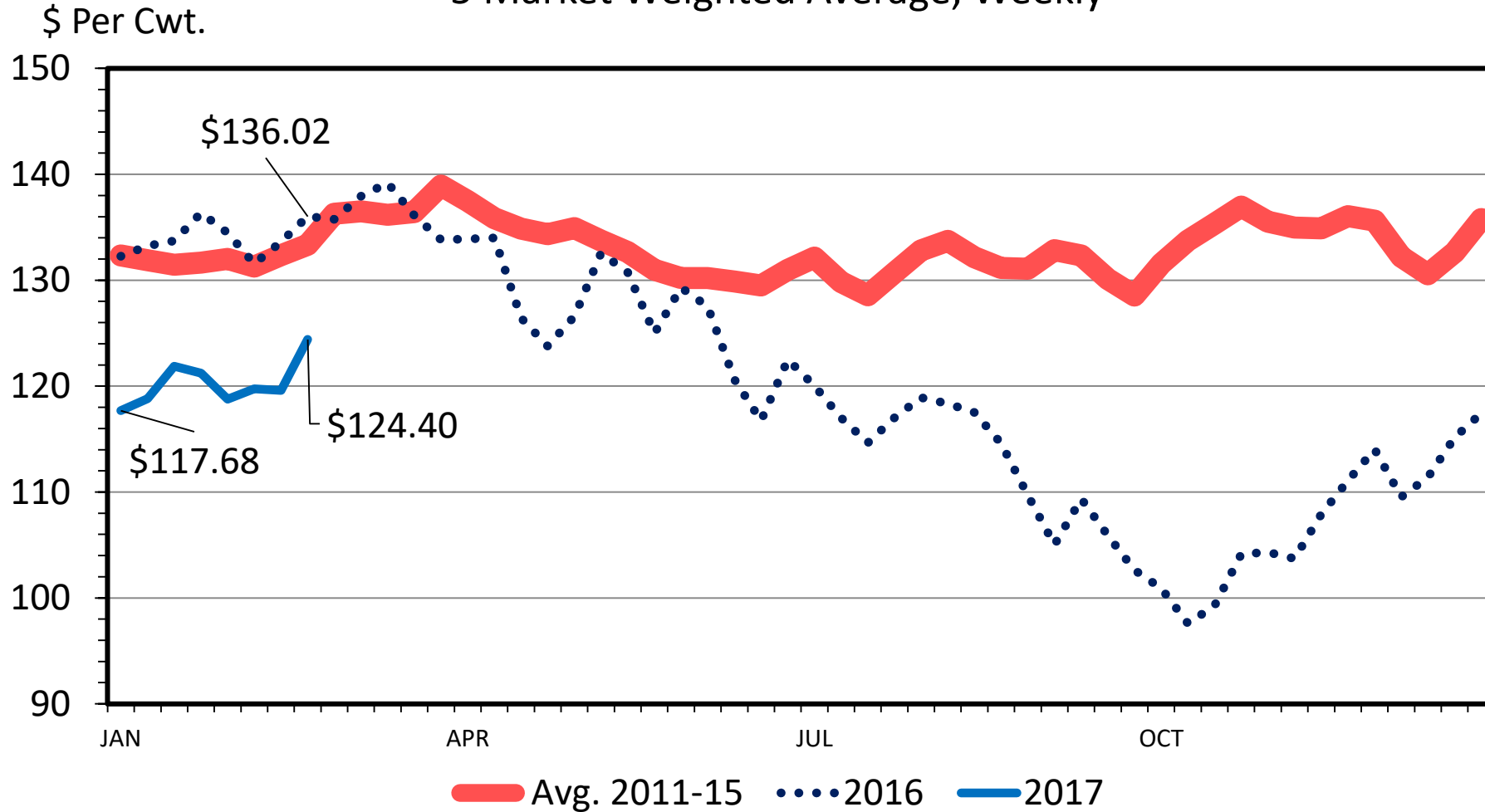
- Salina, KS 3/2/17 Summer Grass, 155 DOF Case:
 - Buy 725 lb steer on 04/05/17 (\$122.40)
 - Sell 900 lb steer on 09/06/17 (\$117.37) {ADG 1.13}
 - VOG: \$96.54/cwt
 - ☐ *Note purchase price may be low...*

Economic Outlook Overview: Feedlots

- 2016 remained tough
 - 2017 showing improvement
- Structural concerns persist
 - Slowed Herd Growth

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



Data Source: USDA-AMS

Livestock Marketing Information Center

02/27/17

Historical and Projected Kansas Feedlot Net Returns

(as of 2/17/17')

(<http://www.agmanager.info/livestock-meat/cattle-finishing-historical-and-projected-returns>)

Dec. 16': +\$22/steer

Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jan-17	82.30	66.79	120.63	144.63	81.07	114.84	154.35
Feb-17	43.75	74.02	116.28	137.96	81.53	113.16	143.28
Mar-17	115.84	75.02	117.89	129.45	96.00	109.62	143.09
Apr-17	-18.93	75.91	107.47	128.60	72.48	108.86	126.26
May-17	17.54	76.29	111.90	131.37	79.45	110.62	133.53
Jun-17	-102.68	76.39	103.95	132.78	57.98	111.43	120.18
Jul-17	-14.77	78.92	103.85	119.41	76.22	104.91	117.67
Aug-17	-15.01	80.68	102.89	115.96	77.82	103.97	114.22
Sep-17	-32.68	80.29	102.71	118.99	74.40	105.04	115.13
Oct-17	-54.10	81.67	102.78	120.17	71.69	106.64	113.86

Representative Barometer for Trends in Profitability

Quarterly Forecasts (LMIC: 3/2/17)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2016						
I	7,181	3.0	826.5	1.7	5,935	4.8
II	7,629	5.5	810.9	0.1	6,187	5.6
III	7,840	7.5	825.0	-0.9	6,468	6.6
IV	7,916	9.0	836.6	-0.5	6,623	8.4
Year	30,565	6.3	824.8	0.1	25,212	6.4
2017						
I	7,574	5.5	823.2	-0.4	6,235	5.1
II	7,969	4.5	814.8	0.5	6,493	5.0
III	8,049	2.7	828.6	0.4	6,670	3.1
IV	8,099	2.3	838.3	0.2	6,789	2.5
Year	31,691	3.7	826.3	0.2	26,187	3.9
2018						
I	7,813	3.2	826.8	0.4	6,460	3.6
II	8,156	2.3	818.7	0.5	6,678	2.8
III	8,266	2.7	832.7	0.5	6,883	3.2
IV	8,324	2.8	841.5	0.4	7,004	3.2
Year	32,559	2.7	830.0	0.4	27,025	3.2

Quarterly Forecasts (LMIC: 3/2/17)

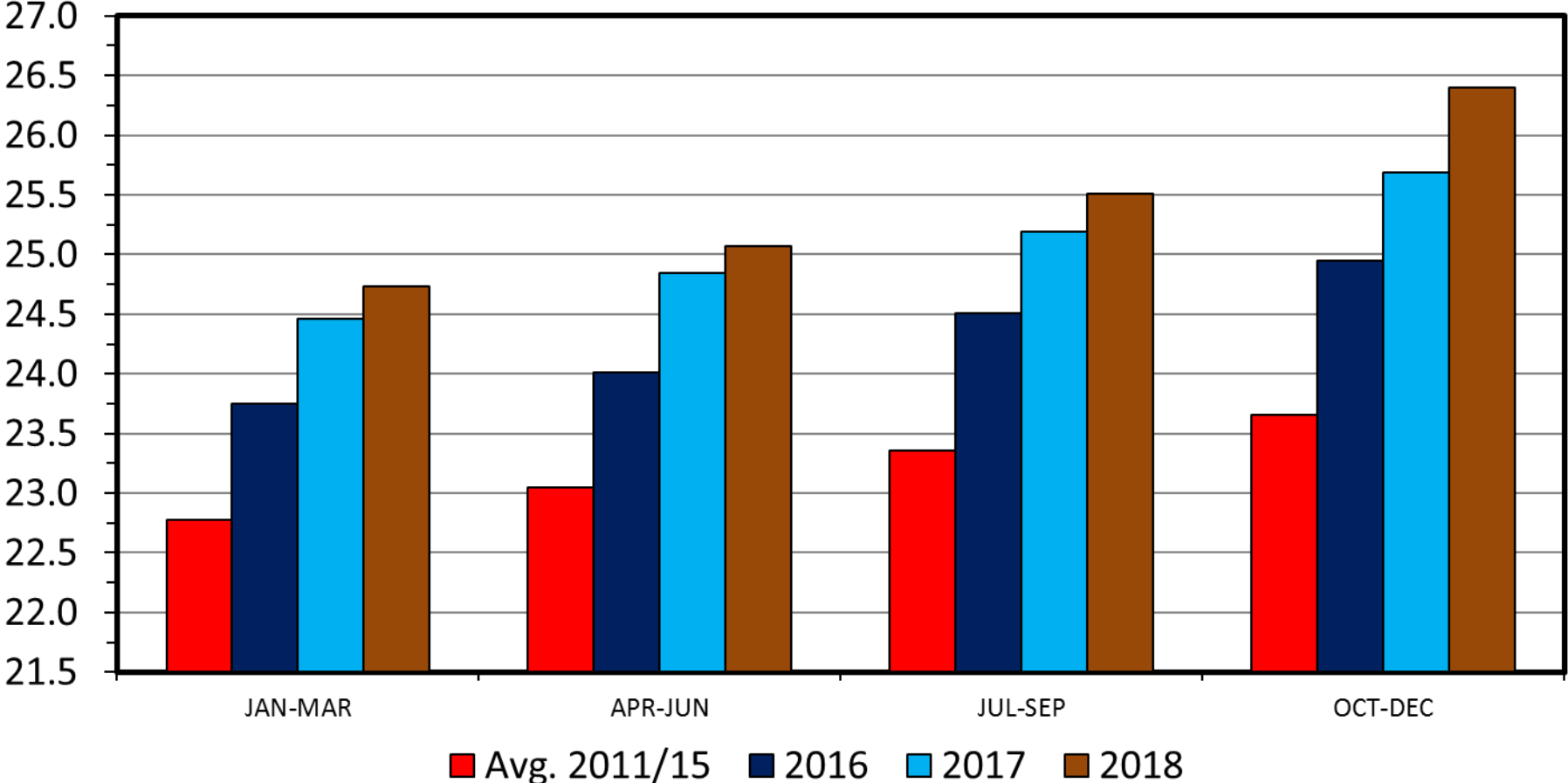
Year Quarter	Live Sltr.	% Chg.	Feeder Steer Price	
	Steer Price	from	Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	5-600#
2016				
I	135	-17.0	160	196
II	128	-19.2	149	174
III	113	-21.5	144	157
IV	108	-15.7	129	138
Year	121	-18.4	146	166
2017				
I	119-120	-11.4	131-133	155-159
II	114-117	-9.5	130-134	147-152
III	107-111	-3.7	128-134	140-146
IV	107-112	1.7	126-133	134-141
Year	112-115	-6.1	129-133	144-150
2018				
I	109-115	-6.3	124-132	137-148
II	108-115	-3.5	127-136	139-151
III	103-111	-1.8	123-133	134-147
IV	104-113	-0.9	122-133	130-144
Year	108-112	-3.1	126-132	137-145

Trade, Meat Supplies, & Demand Strength

TOTAL RED MEAT & POULTRY PRODUCTION

US, Quarterly

Bil. Pounds



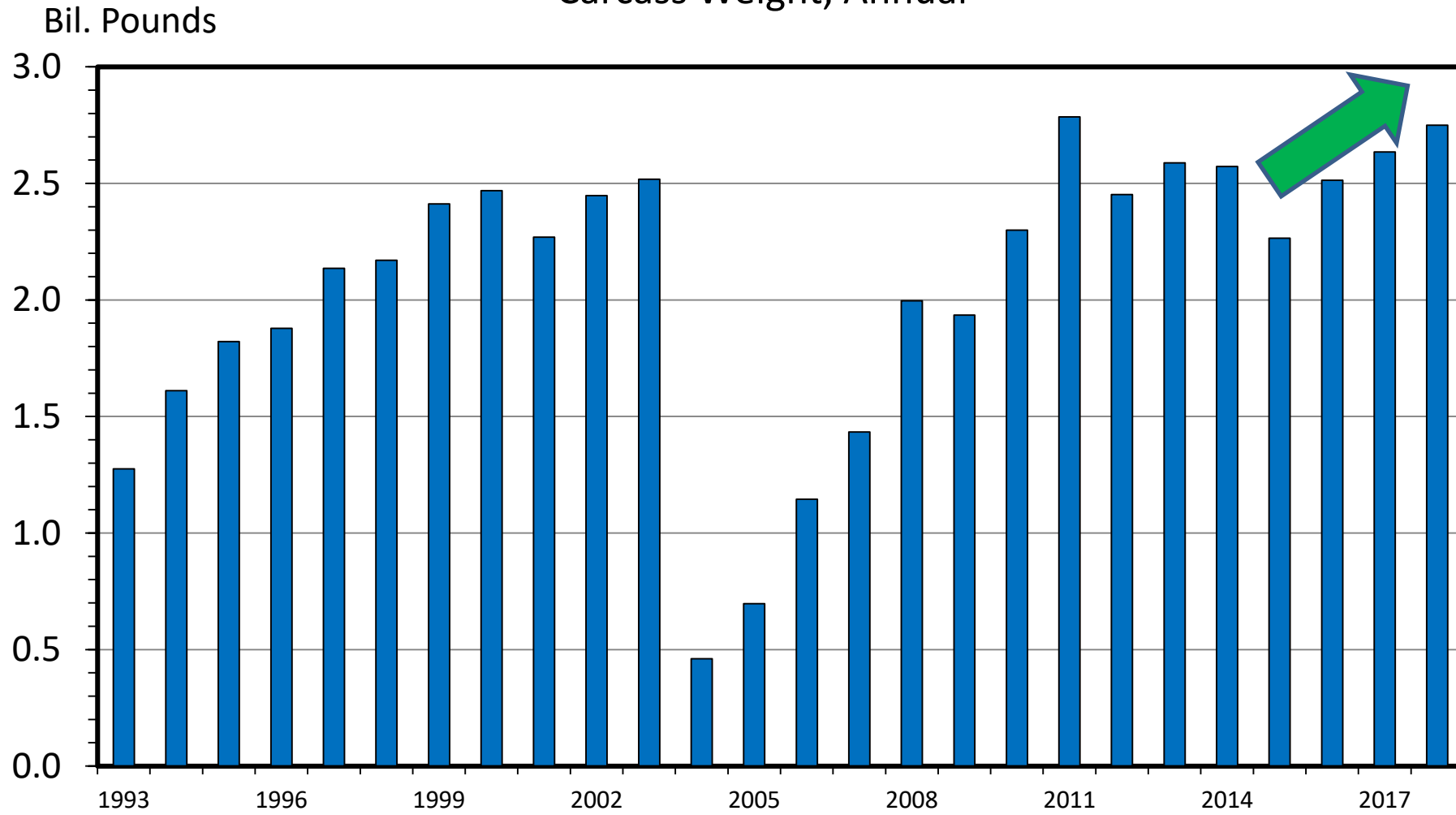
Data Source: USDA-NASS, Forecasts by LMIC

Livestock Marketing Information Center

M-S-31
02/05/17

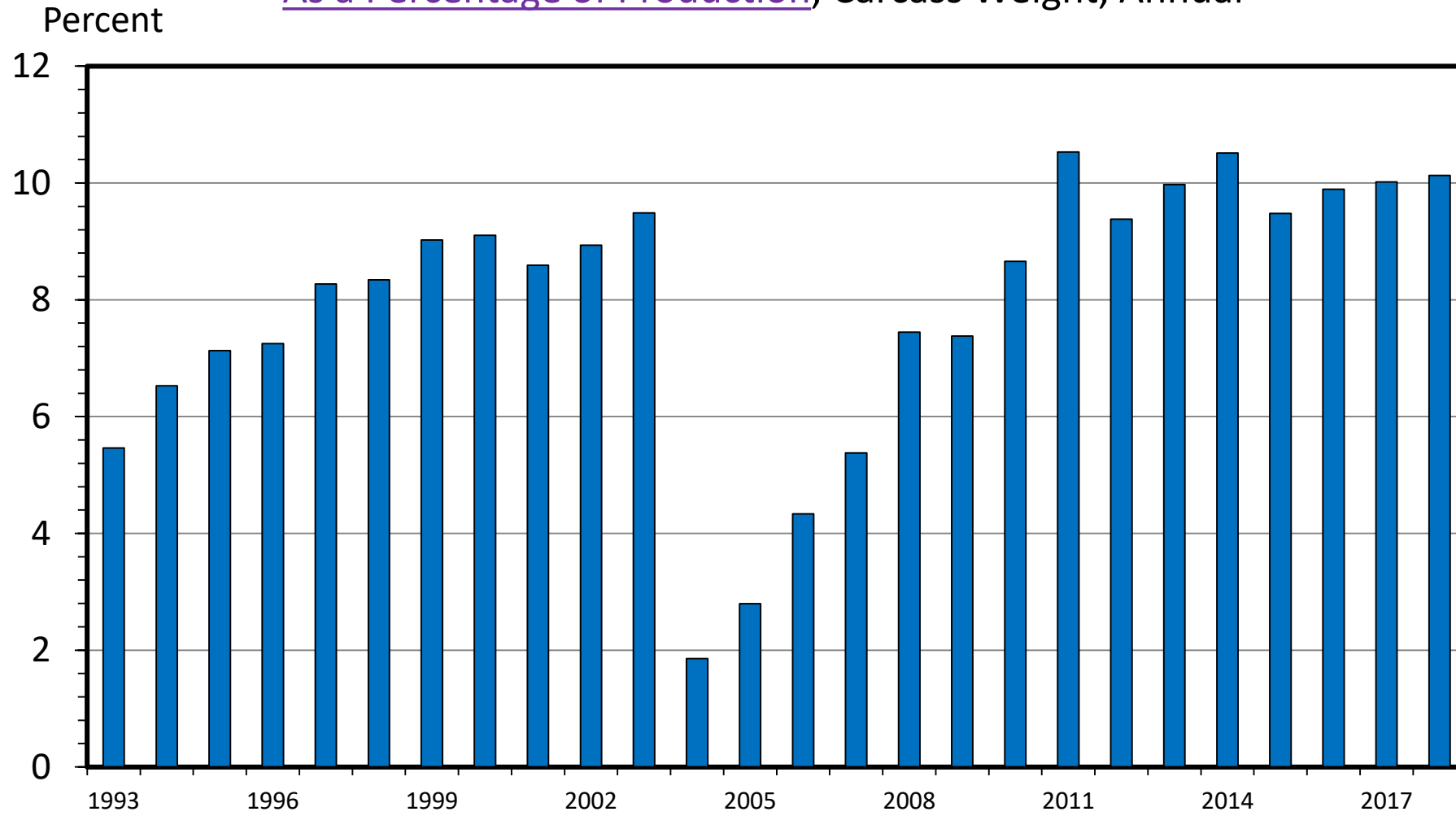
US BEEF AND VEAL EXPORTS

Carcass Weight, Annual



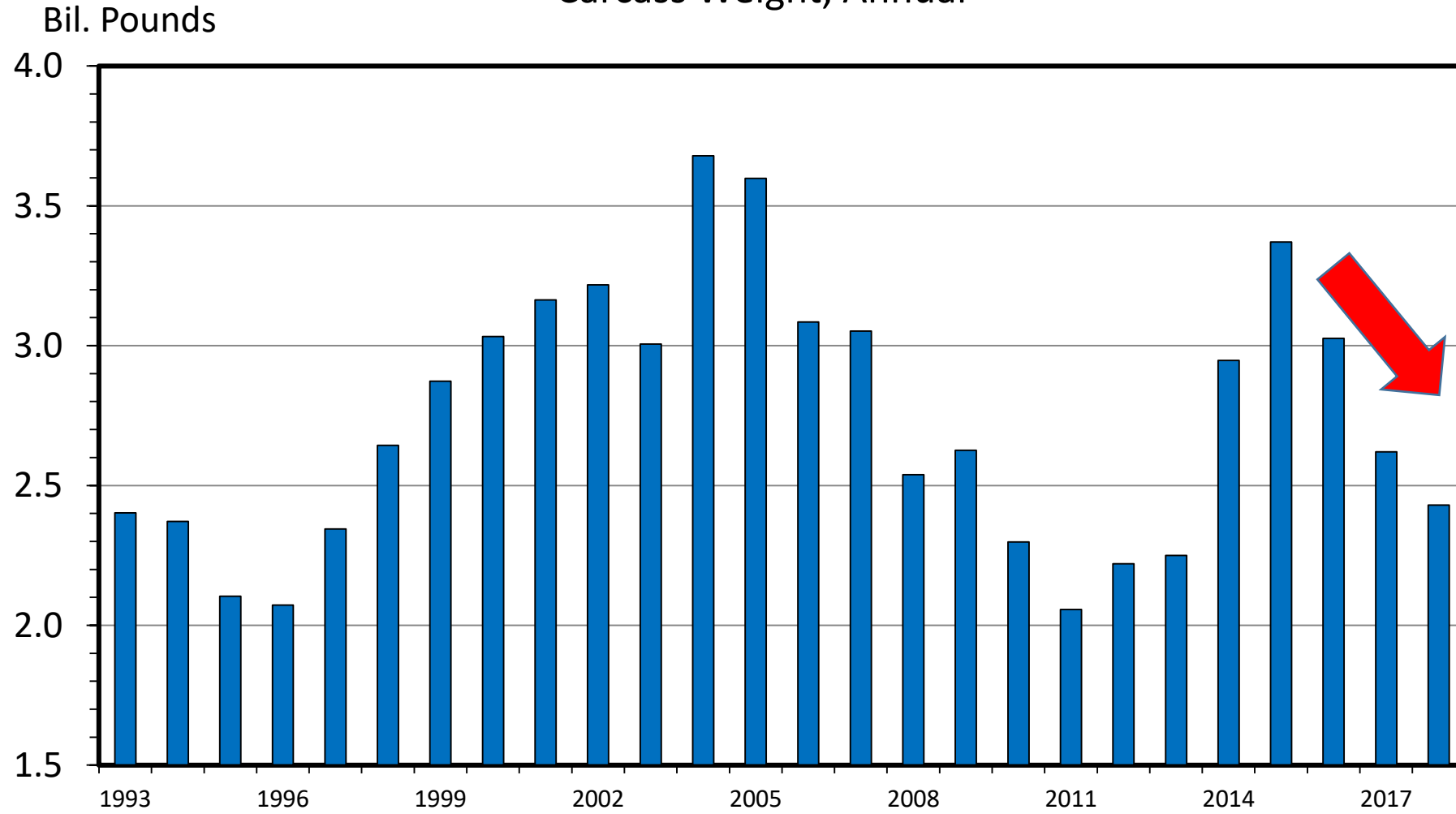
US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



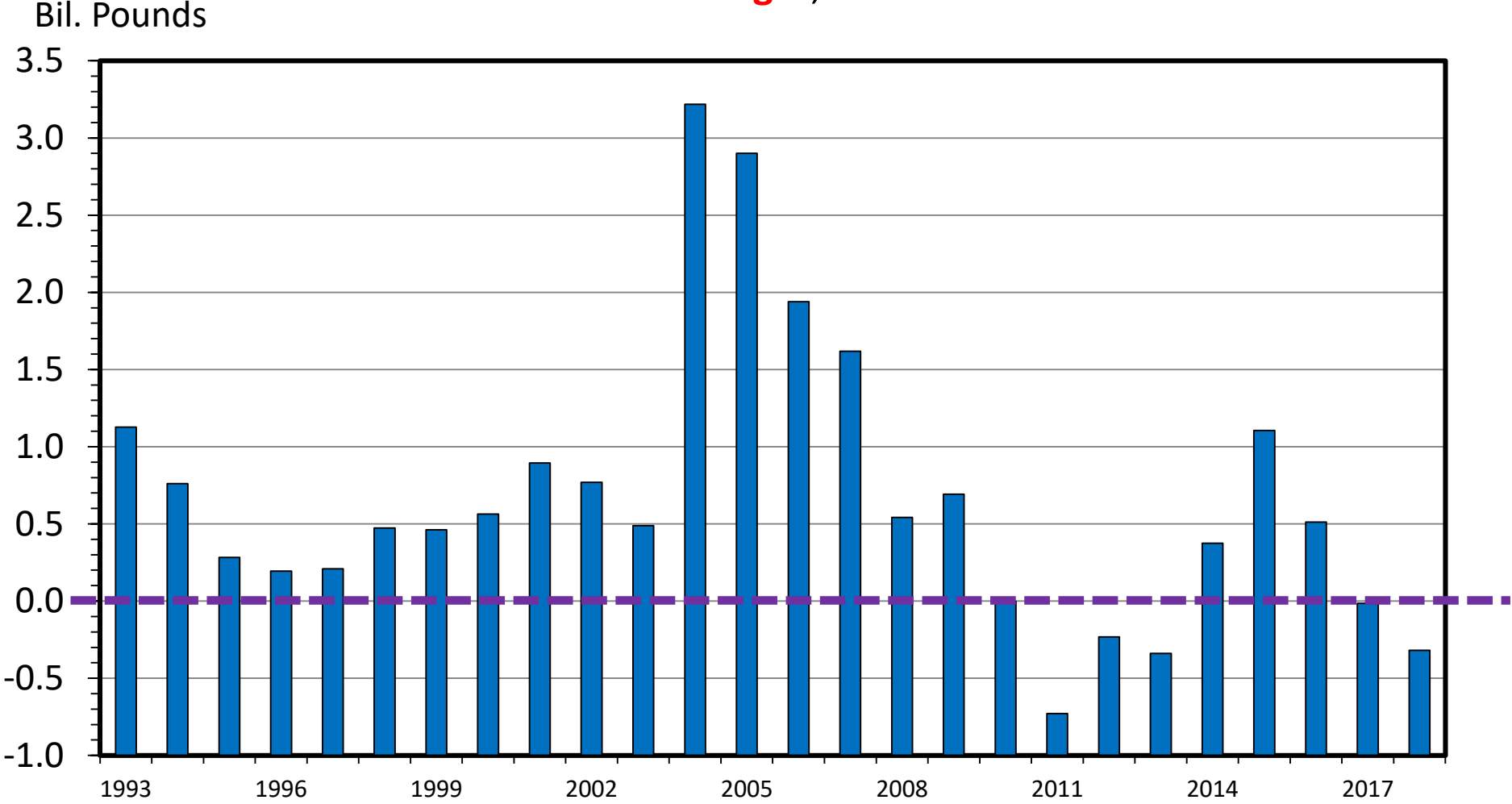
US BEEF AND VEAL IMPORTS

Carcass Weight, Annual

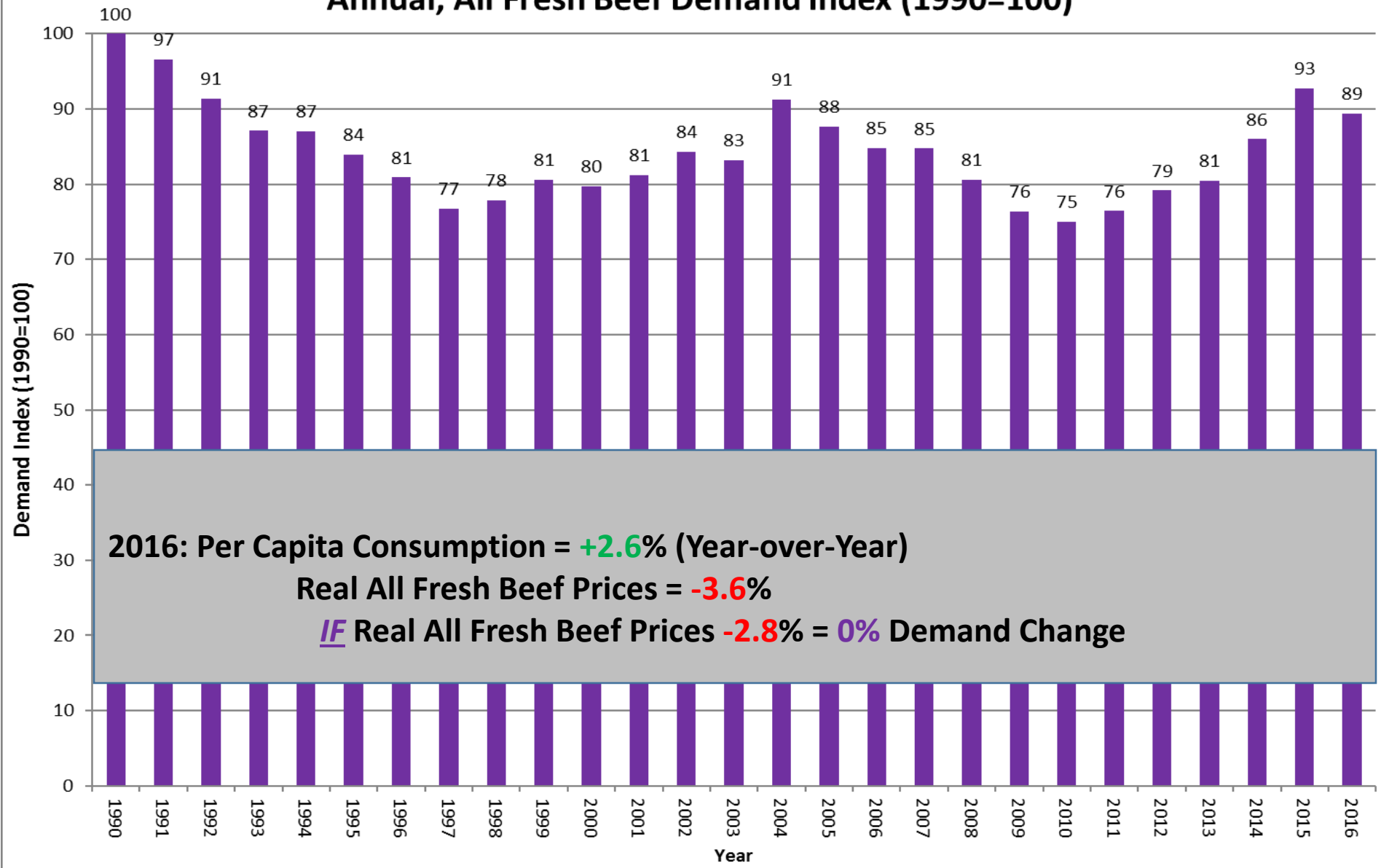


US BEEF AND VEAL NET IMPORTS

Carcass Weight, Annual



Annual, All Fresh Beef Demand Index (1990=100)



Source: Glynn T. Tonsor, Kansas State University, Jan. 2017

New Beef Demand Indices

<http://www.beefboard.org/producer/170221Beef-Demand-Landing-Page.asp>

[2016 Executive Summary](#)

[2016 Full Report](#)

[A Regional Case Study](#)

[K-State University radio interview with Glynn Tonsor](#)

[Beef Checkoff Press Release](#)

Additional Downloads

[Glynn Tonsor Audio:](#)

Why new beef demand indices?

[Tonsor Audio:](#)

The difference between supply and demand

[Tonsor Audio:](#)

He explains what the research found

[Tonsor Audio:](#)

How the beef industry can use this research



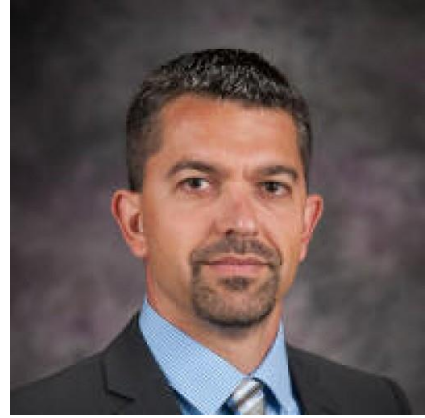
Wrap-Up

- Broad 2014 vs 2016 Comparison
 - 2014
 - Tight Meat Supplies & Strong Red Meat Demand
 - **BOTH** Supportive of prices
 - 2016
 - Expanding Meat Supplies & Weaker Red Meat Demand
 - **BOTH** Pressure prices

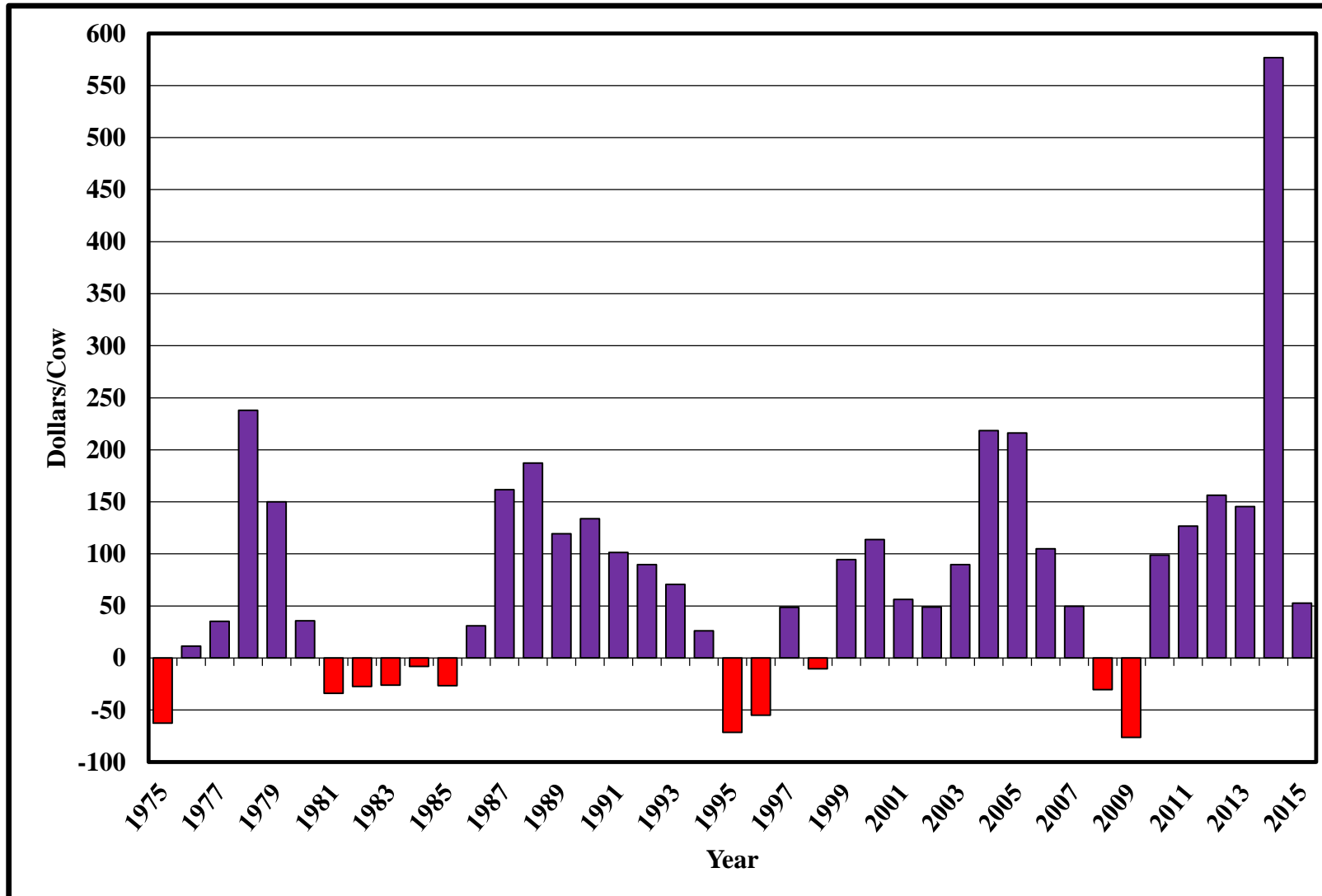
Wrap-Up

- Broad Profitability Outlook
 - Cow-calf: Converging toward Long-Term Levels
 - Stocker: Opportunity varies widely across situations
 - Feedlot: Worst behind us (I think)

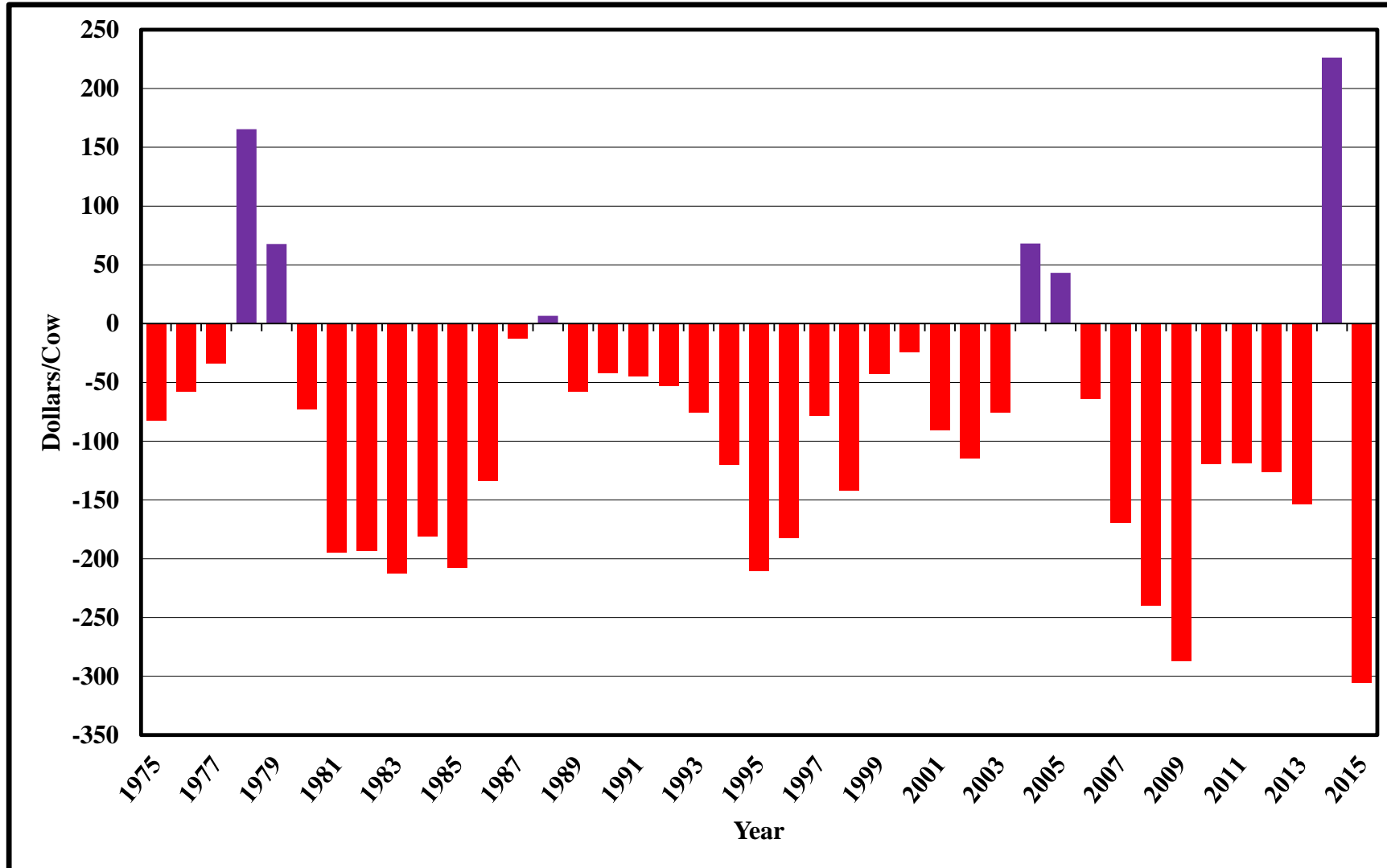
Drivers of Cow-Calf Profitability



Returns over Variable Cost for Cow-Calf Enterprise



Returns over Total Cost for Cow-Calf Enterprise



Managing Costs & Returns

- What are the cost-return categories that separate the top third profitable farms from the bottom third?

Beef Cow-Calf Enterprise Returns over Total Costs, 2011-2015

	Profit Category		
	High 1/3 Head / \$	Mid 1/3 Head / \$	Low 1/3 Head / \$
Number of Farms	24	24	24
Labor allocated to livestock, %	39.9	29.7	31.5
Number of Cows in Herd	200	120	101
Number of Calves Sold	184	111	91
Calves Sold per Cow in Herd	0.919	0.926	0.897
Weight of Calves Sold, lbs.	642	619	594
Calf Sales Price / Cwt	\$166.39	\$164.51	\$170.75
Gross Income	\$1,049.70	\$1,008.67	\$958.64
Feed	\$279.89	\$378.70	\$449.33
Pasture	\$170.88	\$164.82	\$157.28
Interest	\$142.96	\$151.16	\$153.16
Vet Medicine / Drugs	\$23.63	\$29.61	\$31.97
Livestock Marketing / Breeding	\$10.52	\$23.41	\$23.53
Depreciation	\$44.25	\$56.54	\$72.88
Machinery	\$86.38	\$93.75	\$109.05
Labor	\$152.55	\$161.36	\$202.93
Other	\$43.15	\$41.30	\$61.50
Total Cost	\$954.20	\$1,100.65	\$1,261.63
Net Return to Management	\$95.50	-\$91.98	-\$302.99

Managing Costs & Returns

- What are the cost-return categories that separate the top third profitable farms from the bottom third?
- 22.9% of difference in net return to management between high- and low-profit farms is due to gross income.

Beef Cow-Calf Enterprise Returns over Total Costs, 2011-2015

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	High 1/3 Head / \$	Mid 1/3 Head / \$	Low 1/3 Head / \$
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Managing Costs & Returns

- Where is the other 77.1% portion of net return differences?

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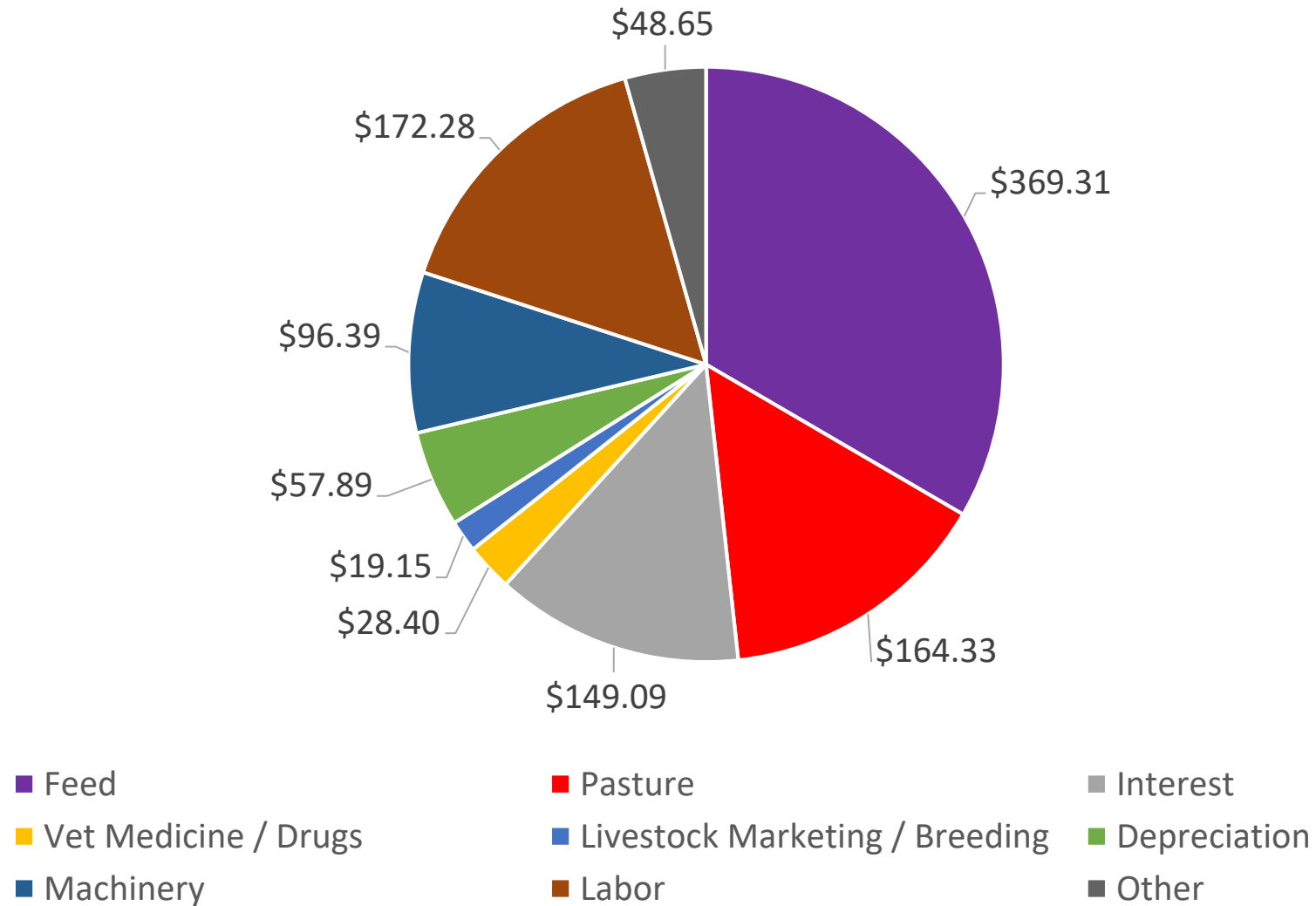
Managing Costs & Returns

- Where is the other 77.1% portion of net return differences?

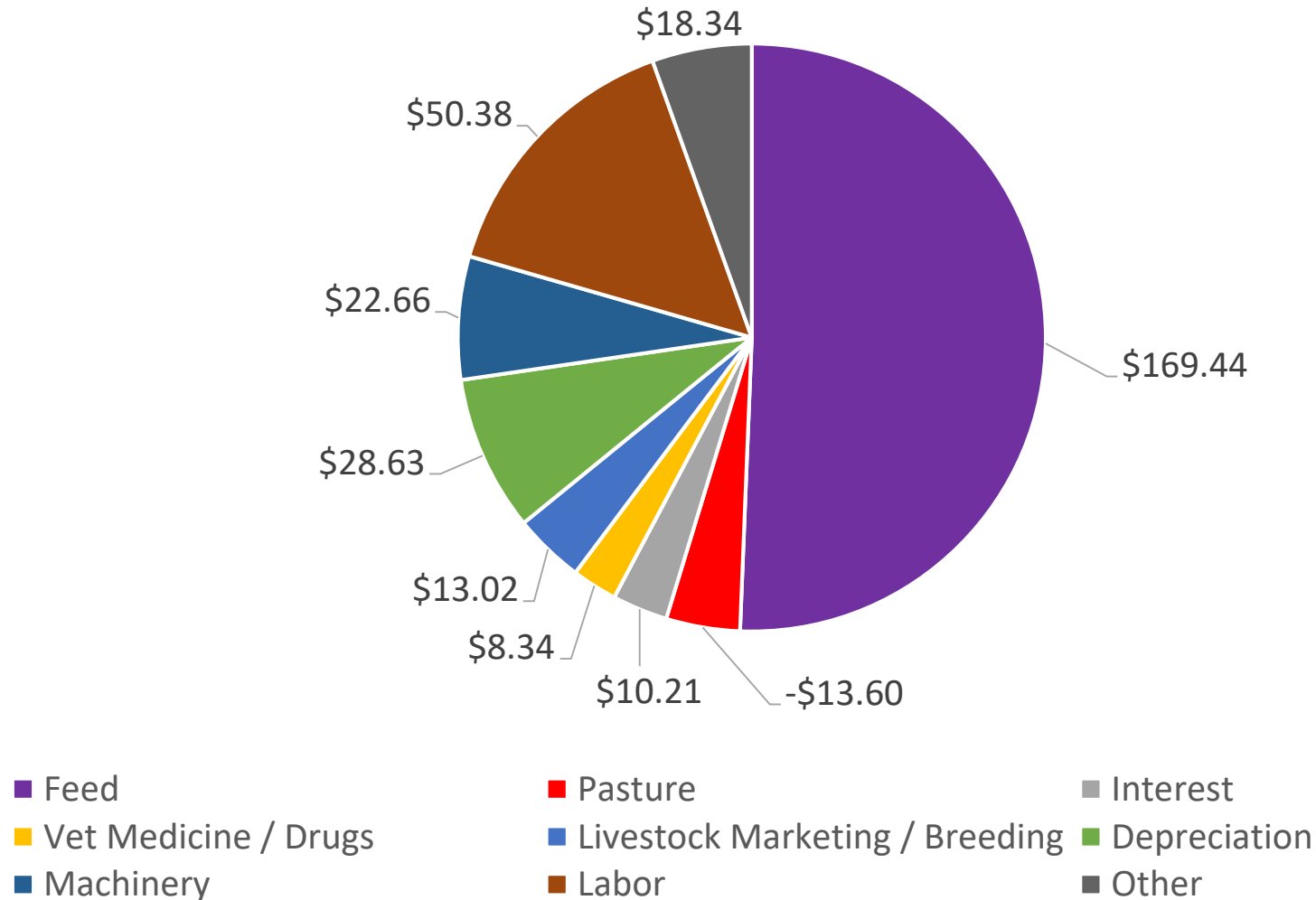
Beef Cow-Calf Enterprise Returns over Total Costs, 2011-2015

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KFMA Cow-Calf Enterprise Total Expenses



KFMA Cow-Calf Enterprise Total Expenses: Differences between Bottom 1/3 and Top 1/3



Ways to Reduce Feed Costs

1. Enhance pasture productivity
2. Extend grazing season
3. Analyze forages
4. Incorporate alternative feeds
5. Critically evaluate “cure-alls”
6. Utilize a ration balancing program
7. Split cattle into age/size appropriate groups
8. Minimize waste
9. Efficient cattle through genetics
10. Improve record keeping to reduce inputs

Source: Gunn and Schwab (2016), Iowa State University



Beef Cattle Budgeting

KSU-Beef Farm Management Guides

Do you know your cost of production?

- What does it cost for you to run a cow year-round?
 - Are you a Top 1/3, Middle 1/3, or Bottom 1/3 producer?
- What price do you need to sell your calves at this year to cover your cash costs?
 - Total costs?
- How much can you afford to bid for pasture rent?
- How will a change in production practices effect your bottom-line?
 - Examples: Changing calving dates, pre-conditioning calves, feeding cull cows, etc.



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2

Farm Management Guides

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Crops Budgets Coordinated by: Gregg Ibendahl, Associate Professor, Department of Agricultural Economics

Livestock Budgets Coordinated by: Glynn Tonsor, Associate Professor; and Robin Reid, Extension Associate; Department of Agricultural Economics

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www.AgManager.info

KSU-Beef Farm Management Guide Budgets

Excel spreadsheets for beef cattle enterprise budgeting to evaluate potential income, costs and profitability



Version- 3.2.2017



INTRODUCTION

The Kansas State University cost-return budgets were developed to serve as a barometer of profitability for various livestock industry enterprises. These budgets are NOT intended to represent any one operation. Each individual operation should adjust key inputs to reflect their own situation.

INSTRUCTIONS FOR THE USER:

Be sure to "Enable Content" and "Enable Macros" for the spreadsheet to function correctly. Blue values are inputs that should be changed from the defaults to match your operation. Black values are automatically calculated.

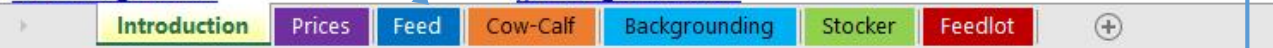
FOR MORE INFORMATION:

Developed by:

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Department of Agricultural Economics
Kansas State University
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Glynn T. Tonsor, Ph.D.
Agricultural Economist
Department of Agricultural Economics
Kansas State University
gtonsor@k-state.edu

- "Prices" tab allows you so see/change prices that are used for cattle and feed inputs (Current & 5-years out)
- "Feed" tab allows you to make a ration for each enterprise
- Budgets available for 4 different cattle enterprises



Use dropdown menu to select prices to budget from

KSU Beef Cow-Calf Budget		2017 Production Year		(as of March 1st, 2017)					
		<div style="border: 1px solid black; padding: 2px;"> 2017 Production Year Five Years Out Prices </div>							
Production Efficiency Information				horizon to budget from					
Weaning Percentage	91.0%								
Cow Replacement Percentage	16.0%								
Revenue	Price	Unit		Qty	Unit				Total per Year per Cow
Weaned Calf Sale	\$ 127.59	<i>per cwt</i>	x	550	<i>lbs</i>	x	0.91	=	\$ 638.59
Cull Cows	\$ 67.25	<i>per cwt</i>	x	1250	<i>lbs</i>	x	0.16	=	\$ 134.50
Other Income									
Gross Income								\$ 773.09	

Adjust prices in the "Price" tab

*Anything in **BLUE** is an input you should evaluate and adjust accordingly (defaults are state averages from the KFMA database)

Adjust in "Price" or "Feed" tabs, defaults are state averages

Variable Costs						Total per Cow per Year
Pasture	\$ 20.00	per acre	x 9.5	total acres	=	\$ 190.00
Crop Residue	\$ 15.00	per acre	x 2.0	total acres	=	\$ 30.00
Harvested Forage	\$ 65.00	per ton	x 2.25	total tons	=	\$ 146.25
Grain/Protein Supplements	\$ 119.08	per ton	x 833.0	total lbs	=	\$ 49.60
Mineral	\$ 800.00	per ton	x 100.0	total lbs	=	\$ 40.00
Other Feed	\$ -	per unit	x 0.0	units	=	\$ -
Labor	\$ 20.00	per hour	x 8.0	total hours	=	\$ 160.00
Vet Medicine/Drugs						\$ 31.00
Replacement Females	\$ 674.52	per head	x 0.16	hd	=	\$ 107.92
Annual Bull Charge or A.I.						\$ 43.00
Other Livestock Breeding/Marketing						\$ 24.00
Utilities, Gas, Fuel, Oil						\$ 45.00
Machinery, Facility/Equip. Repairs						\$ 59.00
Cash Interest Paid						\$ 27.00
Other variable costs						\$ 18.00
Total Variable Costs						\$ 970.77
Fixed Costs						
Depreciation						\$ 59.00
Taxes						\$ 7.00
Farm/Livestock Insurance						\$ 13.00
Opportunity Cost of Investment						\$ 157.00
Other fixed costs						\$ -
Total Fixed Costs						\$ 236.00
Total Costs						\$ 1,206.77

← Cash costs you need to cover in a given year to break-even

← Total costs you need to cover in the long-run to be profitable





Budgeting “What If”

- Want to push calving date back to April/May, reducing weaning weight but saving in feed, labor, vet./med., etc.

Revenue	Price	Unit		Qty	Unit				Total per Year per Cow
Weaned Calf Sale	\$ 132.37	per cwt	x	500	lbs	x	0.91	=	\$ 602.28
Cull Cows	\$ 67.25	per cwt	x	1250	lbs	x	0.16	=	\$ 134.50
Other Income									
Gross Income									\$ 736.78

- Income reduced by \$36.31 per cow. Can you make this up in cost savings?

Variable Costs									
Pasture	\$ 20.00	<i>per acre</i>	x	9.3	<i>total acres</i>		=	\$ 186.00	
Crop Residue	\$ 15.00	<i>per acre</i>	x	2.0	<i>total acres</i>		=	\$ 30.00	
Harvested Forage	\$ 65.00	<i>per ton</i>	x	2.20	<i>total tons</i>		=	\$ 143.00	
Grain/Protein Supplements	\$ 119.24	<i>per ton</i>	x	650.0	<i>total lbs</i>		=	\$ 38.76	
Mineral	\$ 800.00	<i>per ton</i>	x	100.0	<i>total lbs</i>		=	\$ 40.00	
Other Feed	\$ -	<i>per unit</i>	x	0.0	<i>units</i>		=	\$ -	
Labor	\$ 20.00	<i>per hour</i>	x	7.0	<i>total hours</i>		=	\$ 140.00	
Vet Medicine/Drugs								\$ 28.00	
Replacement Females	\$ 633.75	<i>per head</i>	x	0.16	<i>hd</i>		=	\$ 101.40	
Annual Bull Charge or A.I.								\$ 43.00	
Other Livestock Breeding/Marketing								\$ 24.00	
Utilities, Gas, Fuel, Oil								\$ 45.00	
Machinery, Facility/Equip. Repairs								\$ 59.00	
Cash Interest Paid								\$ 27.00	
Other variable costs								\$ 18.00	
Total Variable Costs								\$ 923.16	

 Small reduction in pasture acres
 Reduction in forage & DDG supplements for cows
 Reduction in Labor
 Small reduction in Vet Med.

Projected savings of \$47.61 per cow

Projected savings of \$47.61 per cow but potentially giving up \$36.31 in gross revenue?

Beef

Title	Author	Date	Downloads
KSU-Beef Replacement (Edit) Excel spreadsheet to evaluate the economic value of purchasing replacement females	Tonsor Dhuyvetter	January 17, 2017	Downloads ▾
Pasture Rental Rate Decision Tool (Edit) An Excel spreadsheet for establishing a pasture rental rate based on budgeted income and party contributions.	Taylor Reid	December 27, 2016	Downloads ▾
KSU-Beef Farm Management Guide Spreadsheet (Edit) An Excel spreadsheet for beef cattle enterprise budgeting to evaluate potential income, costs and profitability	Tonsor Reid	December 8, 2016	Downloads ▾
K-State Feeder Cattle Risk Management Tool (Edit) An Excel spreadsheet for evaluating feeder cattle risk management strategies	Tonsor Dhuyvetter	September 30, 2016	Downloads ▾
KSU-Beef Cow Lease (Simple) (Edit) An Excel spreadsheet for establishing a calf-income split or cash rental rate for leasing a beef cow herd	Tonsor Reid	September 8, 2016	Downloads ▾
KSU-SilageValue (Edit) A spreadsheet program to estimate the value of corn or grain sorghum silage based upon the price of grain, harvesting costs, and nutrients removed	Reid Dhuyvetter	July 8, 2016	Downloads ▾
KSU-Cattle Supplementation Cost (Edit) An Excel spreadsheet to evaluate the total costs of various protein supplement programs for cow/calf and stocker producers	Pendell Dhuyvetter Smith Blasi	June 29, 2016	Downloads ▾
KSU-Bull vs AI Breeding Costs (Edit) An Excel spreadsheet to evaluate the economic costs and benefits of natural (bull) breeding versus artificial insemination (AI) in beef herds	Pendell Dhuyvetter Johnson	November 11, 2015	Downloads ▾
Cattle Breakeven Prices Yearling-Fed (Edit) An Excel spreadsheet for calculating breakeven cattle prices of yearlings placed on feed	Tonsor Dhuyvetter Highfill	October 13, 2015	Downloads ▾
Cattle Breakeven Prices Calf-Yearling (Edit) An Excel spreadsheet for calculating breakeven cattle prices between the calf and yearling stages	Tonsor Dhuyvetter Highfill	October 13, 2015	Downloads ▾

Other Beef Cattle
Tools on
www.AgManager.info



AgManager.info/kfma

Kansas Farm Management Association Offices

Kansas Farm Management Association

KFMA Benefits

Working individually with each member, the agricultural economist develops strategies for long-term growth and success.



Benchmarking

With others

- More than 1,500 farms across the state
- Maintaining the strictest anonymity
- Comparisons of farm size, type, location and other parameters

Kansas Farm Management Association Annual Profit/Loss Whole Farm Benchmarks					
	Your Farm	MN County	VFP	Farm Type	KFMA NC
Number of Farms	1	20	18	20	228
Gross Livestock Income	139,575	208,181	135,276	257,839	145,206
Feed Expense	3,365	149,889	88,048	93,393	62,719
Livestock Income	136,210	60,492	67,228	176,678	82,487
Non-Livestock Income	258,668	386,187	285,212	239,393	438,942
Value of Farm Production (VFP)	394,878	446,679	352,440	416,071	521,429
Dark Operating Expense	182,382	325,291	292,145	276,483	348,988
Depreciation	39,749	39,822	39,096	39,962	41,508
Interest Paid	8,608	19,217	13,721	22,115	15,012
Total Farm Expense	231,739	374,330	344,962	338,560	405,513
Net Farm Income	163,139	72,348	60,295	79,518	115,916

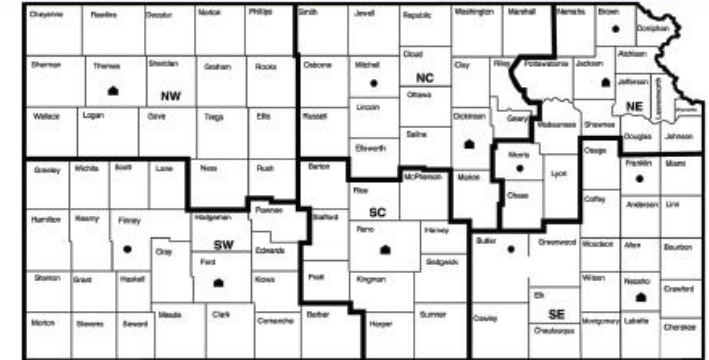
Kansas Farm Management Association Annual Profit/Loss Whole Farm Benchmarks					
	Your Farm	MN County	VFP	Farm Type	KFMA NC
Operating Profit Margin Ratio	0.2343	0.2047	0.1714	0.1908	0.2231
Rate of Return on Farm Equity	1.17%	1.56%	1.17%	1.56%	1.17%
Operating Expense Ratio	0.6947	0.8430	0.7714	0.7092	0.7771
Interest Expense Ratio	0.0420	0.0317	0.0385	0.0531	0.0288
Depreciation Expense Ratio	0.0209	0.0437	0.0385	0.0431	0.0388
Net Farm Income Ratio	0.3880	0.1620	0.1714	0.1908	0.2231

With yourself over time

- Three and five year trends
- Long-term planning

Assessing Financial Position and Performance

- Performance comparisons with similar operations
- Identify strengths and weaknesses



Since 1931 the KFMA program has served the farm families of Kansas. Economists, who are faculty members in the K-State Department of Agricultural Economics, comprise the professional staff of the KFMA program. The Economists work cooperatively with farm families in the six regional areas in the state to provide members with production and financial management information for use in decision making.

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North Central | 785-263-3421 | Abilene

Northeast | 785-364-2706 | Holton

Southwest | 620-225-5600 | Dodge City

South Central | 620-662-7868 | Hutchinson

Southeast | 620-431-0034 | Chanute

Building Strong Relationships...
Producing Excellence

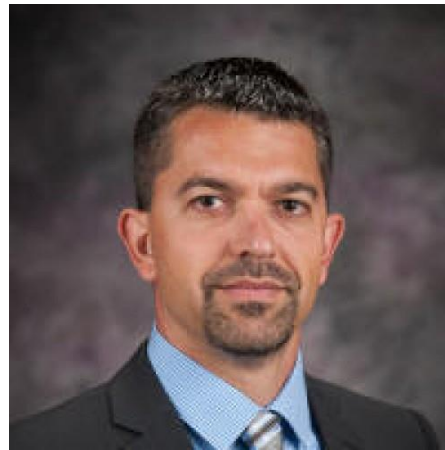
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AgManager.info website is a comprehensive source of information, analysis, and decision-making tools for agricultural producers, agribusinesses, and others. The site serves as a clearinghouse for applied outreach information emanating from the Department of Agricultural Economics at Kansas State University. It was created by combining departmental and faculty sites as well as creating new features exclusive to the AgManager.info site. The goal of this coordination is to improve the organization of web-based material and allow greater access for agricultural producers and other clientele.



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