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**Setting Feeder Cattle Price Objectives**

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The recent higher feeder cattle prices have caused immense excitement among Alabama cow-calf producers. Some are predicting higher prices, while others fear that lower prices may be right around the corner. Most well informed cattle producers understand these high market prices will not last forever. Some producers even wonder whether these feeder cattle prices are already too high.

Let's take a look at several items that we should consider in setting a feeder cattle price objective. Table 1 shows five suggested items that should be included in setting a price objective: cash costs, fixed costs, expansion capital, personal saving, and personal reward. Each individual needs to decide what items are important and include them when setting a feeder cattle price objective.

Table 1. Items To Consider When Setting Feeder Cattle Price Objectives<sup>1</sup>.

Item	Total Dollars	Dollars Per Calf	Dollars Per Cwt.	Price Obj. \$/Cwt.
Cash Costs	\$38,250	\$450	\$75	\$75
Fixed Costs	\$10,200	\$120	\$20	\$95
Expansion Capital	\$5,100	\$60	\$10	\$105
Personal Saving	\$5,100	\$60	\$10	\$115
Personal Reward	\$2,550	\$30	\$5	\$120
Totals	\$61,200	\$720	\$120	

<sup>1</sup>Assumes 100 head of brood cows weaning 85 calves with an average weaning weight of 600 pounds (85 head \* 6.0 Cwt./Hd. = 510 Cwt.).

Covering your cash costs is essential in order to continue operating your cow-calf enterprise. If you do not cover your cash costs, you will need to either terminate the enterprise or subsidize it from other income sources. While determining your cash costs is not difficult, it takes time and effort to document the expenses associated with your cow-calf enterprise. You also need to know the level

of calf production. In this example, we produced 85 calves with an average weight of 600 pounds, a total calf production of 51,000 pounds or 510 hundredweights. Most cow-calf operators will sum the total cash costs of calf production (remember to subtract cull cow revenue from total cash costs) and divide by the total weight of calf production to get the dollars per hundredweight associated with calf production ( $\$38,250 / 510 \text{ cwt} = \$75$ ).

Fixed costs are usually overlooked by many cow-calf producers. Many producers simply assume they will be compensated for them eventually. Unfortunately, this rarely happens for the average cattle producer. Feeder calf market prices seldom exceed the sum of cash and fixed costs for most cow-calf producers. Fixed costs include depreciation on assets (machinery and equipment, cattle, barns, etc.), interest costs, taxes, insurance, and major repairs. The example in Table 1 has \$10,200 in fixed costs. If we assume 510 hundredweights of calf production, fixed costs would be \$20 per hundredweight of calf production.

Most progressive cattlemen are very interested in expanding their cow-calf operations. In order to sustain a similar financial return over time, the cow-calf operation needs to grow. For instance, in 1970 about ten calves were needed to buy a half-ton pick-up truck, while in the year 2000 about fifty calves were needed to buy a half-ton truck. In the example in Table 1, it was assumed that \$5,100 of expansion capital was needed annually to provide the necessary capital for expanding the cow-calf operation. This expansion capital allows for the investment in additional land, machinery and equipment, and other assets to expand the cow-calf operation when economic units can be purchased. This amounted to \$10 per hundredweight of calf production.

Where do we get the money to provide for retirement, a college education for our children, and other needs? Many cattlemen intend to cover these items with personal savings. Thus, we need to include an annual allocation in our price objective for personal savings. For instance, saving \$60 per head over a 30 year period amounts to a sizeable sum of money that can be used for retirement, your children's education, and/or other investments ( $\$60 \text{ per head} * 85 \text{ head} * 30 \text{ years} = \$153,000$  without interest, or at 5% interest compounded annually, this would amount to  $>\$338,000$ ). If this money is not saved annually, in order to afford retirement, the children's college education, or other needs, some cows or land or other assets will need to be sold. Selecting an annual amount (\$5,100 per year in this example) is subject to each individual's preference as to how much money they feel they will need at some point in the future.

The last item in Table 1 accounts for personal rewards. This is where we allow for vacations and/or other personal recreation that adds to a higher standard of living for the cow-calf operator. There is some reward for working harder and more efficiently. This amount should be set high enough to achieve an individual's personal goal, whether it is taking a vacation, purchasing a boat, giving to the church or charity, etc. In the example, \$2,550 per year or \$5 per hundredweight was used as the personal reward for running an economical cow-calf operation.

The sum of cash costs, fixed costs, expansion capital, personal saving, and personal reward allows us to determine our feeder cattle price objective that will accomplish our goals. As shown in Table 1, our price objective would be \$120 per hundredweight or \$720 per calf in order to accomplish our goals. Understandably, during certain years the market may not allow this price objective to be met. Thus, some prioritizing will be required.

Price objective goals change from year to year depending upon a large number of factors (cost of inputs, level of production, weather, culling decisions, etc.). Other management goals change over time as well due to a number of considerations including births, deaths, marriage, divorce, age, health, economics, governmental policies and regulations, etc. Therefore, developing and achieving a price objective goal is not an event, but a process that must be reviewed and adjusted as it is applied over time. The beef cattle business is complicated and must always be viewed in its entirety.