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If You Aren't Making A Profit At These High Feeder Calf Prices, You May Have "Bought A Ticket" To Be In The Cow-Calf Business

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Most of us "buy a ticket" to be admitted into the county fair and sporting activities such as baseball, basketball, and football games. Others go to movie theaters, and some who can afford it go to amusement parks like Disney World, Sea World, or Six Flags. The reason we attend these attractions and events is for entertainment. We realize enough satisfaction from these activities that we willingly "buy a ticket" to attend and participate.

Now, you are probably wondering what does "buying a ticket" have to do with the cow-calf business. Well, the answer centers around the lack of profitability in the cow-calf enterprise. Income tax records show that an overwhelming majority of cow-calf producers report losses year after year on their Federal Income Tax, Schedule F. Yes, that is correct. A large number of cow-calf operations have shown continuous losses for more than 20 years. Yet these same cow-calf operations usually escape business death each year by providing a money transfusion to the cow-calf operation from an external source.

Regarding records, many cow-calf producers keep only minimal production and financial records. Therefore, they do not have the information necessary to determine if they have made a profit. In addition, even some of those who keep production and financial records think that if they have shown a loss on their Schedule F, they have done the "right thing" to increase after-tax income. Unfortunately, too often they have spent a dollar on a deductible expenditure to get only a few cents back (such as 10 cents, 15 cents, 25 cents, 28 cents, or 33 cents back depending on your tax bracket and whether the cow-calf enterprise had taxable income).

How can this be? Why does this happen? Obviously, some cow-calf producers have goals and objectives that are different from making a profit. Perhaps some of these producers are enjoying the "entertainment aspects" of the cow-calf business. I guess you could say these cow-calf producers have simply "bought a ticket" to be in the cow-calf business.

Table 1 describes the average breakeven calf prices for various levels of weaning percent and weaning weights based on an average annual carrying cost of \$350 per breeding cow. The intersection of the selected weaning percent and average weaning weight will provide an estimate of the breakeven calf price. Let's assume this table reflects your breakeven calf prices in order to illustrate a few points.

Table 1. Average breakeven calf price based on various levels of weaning percent and weaning weight¹.

Average Weaning Weight (Lbs)	Weaning Percent					2004 Average Price ² (\$ / Lb.)	10-Year Average Price ² (\$ / Lb.)	10-Year Minimum Price ² (\$ / Lb.)
	50%	60%	70%	80%	90%			
250	\$2.80	\$2.33	\$2.00	\$1.75	\$1.56	\$1.46	\$1.06	\$0.60
300	\$2.33	\$1.94	\$1.67	\$1.46	\$1.30	\$1.38	\$1.00	\$0.57
350	\$2.00	\$1.67	\$1.43	\$1.25	\$1.11	\$1.31	\$0.94	\$0.55
400	\$1.75	\$1.46	\$1.25	\$1.09	\$0.97	\$1.24	\$0.89	\$0.54
450	\$1.56	\$1.30	\$1.11	\$0.97	\$0.86	\$1.18	\$0.85	\$0.52
500	\$1.40	\$1.17	\$1.00	\$0.88	\$0.78	\$1.13	\$0.81	\$0.51
550	\$1.27	\$1.06	\$0.91	\$0.80	\$0.71	\$1.08	\$0.78	\$0.51
600	\$1.17	\$0.97	\$0.83	\$0.73	\$0.65	\$1.04	\$0.75	\$0.50
650	\$1.08	\$0.90	\$0.77	\$0.67	\$0.60	\$1.00	\$0.72	\$0.50

¹An annual cost of \$350 per breeding cow (total costs minus non-calf revenue divided by herd size) was assumed.

²An average of steer and heifer prices was used to calculate the 2004 average price, 10-year average price and 10-year minimum price.

The last three columns in Table 1 report the average 2004 calf price, 10-year average calf price, and 10-year minimum calf price. An average of steer and heifer prices was used to calculate each of these set of prices. Given this market price information, you are now ready to compare your breakeven calf price with the various market prices to determine if you were profitable.

Making A Profit During 2004

Let's begin by evaluating if you were profitable during 2004. First select the respective weaning percent and weaning weight that corresponds closest to your operation to determine the breakeven calf price. Next, identify the 2004 average price for the respective weaning weight to determine the breakeven calf price. If the 2004 average calf price is greater than the breakeven calf price, you have made a profit. If the 2004 average calf price is less than the breakeven price, you incurred a loss.

The profitable breakeven calf prices in Table 1 are located within the bordered area when comparing them with the 2004 average calf prices. For example, assume you have a weaning percent of 90 percent and an average weaning weight of 500 pounds. Your breakeven calf price would be \$0.78 per pound. The corresponding 2004 average price is \$1.13 per pound. Since the 2004 average price of \$1.13 per pound is greater than the breakeven price of \$0.78 per pound, you were profitable during 2004. Your profit during 2004 would be \$0.35 per pound (\$1.13-\$0.78). If you produced 22,500 pounds of calf production, your profit would be \$7,875 (\$0.35/lb. x 22,500 lbs.) or \$175 per head (\$7,875 / 45 head) during 2004.

Making A Profit On Average

Again using Table 1, let's determine a breakeven calf price and compare it with the 10-year average price to see if you are profitable on average during the 10-year period. The profitable breakeven calf prices are located within the gray area of Table 1 when comparing them with the 10-year average prices. For example, let's assume you have a weaning percent of 90 percent and an average weaning weight of 550 pounds. Your breakeven calf price would be \$0.71 per pound. Comparing this breakeven calf price of \$0.71 per pound with the 10-year average calf price of

\$0.76 per pound indicates that you would be profitable on average. Your average profit would be \$0.05 per pound ($\$0.76 - \0.71). If you produced 24,750 pounds of calf production, your average profit would be \$1,237.50 ($\$0.05/\text{lb.} \times 24,750 \text{ lbs.}$) for your cowherd or \$27.50 per head ($\$1,237.50 / 45 \text{ head}$).

Making A Profit Every Year

Finally, let's use Table 1 to determine a breakeven calf price and compare it with the 10-year minimum price to see if you were profitable 10 years out of 10. In this example, let's assume you have a weaning percent of 90 percent and an average weaning weight of 600 pounds. Your breakeven calf price would be \$0.65 per pound. Comparing this breakeven calf price of \$0.65 per pound with the 10-year minimum calf price of \$0.50 per pound indicates that you would not be profitable 10 years out of 10. In this situation, based on the lowest feeder calf market prices during the 10 years, you would show a loss of $-\$0.15$ per pound ($\$0.50 - \0.65). Assuming your calf production was 27,000 pounds, your loss would be $-\$4,050$ ($-\$0.15/\text{lb.} \times 27,000 \text{ lbs.}$) for the cowherd or $-\$90$ per head ($\$4,050 / 45 \text{ head}$). Since your weaning percent and average weaning weight were reasonably good, you may want to look for ways to reduce the \$350 annual cost to carry a brood cow. A lower annual cost to carry a brood cow will correspondingly reduce the breakeven calf prices in the table and improve your chances of making a profit every year. Alternatively, you may also lower your breakeven calf price by further improving your weaning percent and weaning weight. However, each of these is difficult to accomplish without additional cost after you reach a weaning percent of 90 percent and weaning weight of 600 pounds per calf.

Take Home Message

Alabama feeder calf prices during 2004 were not only good, but they were the highest on record during the last ten years (1995-2004). These high cattle prices have many cow-calf producers grinning from ear to ear. This is the type of cattle market most cattle producers live for. The additional net farm income generated during 2004 will allow many cow-calf producers to pay off some of their debt, make improvements (barn, corral, fencing, pastures, genetics, etc.), and/or replace some much needed inputs (machinery and equipment).

However, a good time to plan for the bottom of the cattle market is now while cattle market prices are high. Adjustments are easier to make when you have money and time to prepare for the inevitable downturn in market prices. With a little effort, each cow-calf producer can calculate their breakeven calf price by using their annual carrying cost per breeding cow and their respective weaning percent and average weaning weight. A comparison of your breakeven calf price with the 2004 average price, the 10-year average price, and the 10-year minimum price will help you determine under what conditions you have made a profit. This simple exercise gives you an opportunity to evaluate your profitability and to set realistic goals and objectives for your cow-calf operation. Only you can answer the question, Have you set reasonable goals to make a profit or have you "bought a ticket" to be in the cow-calf business?