

# TIMELY INFORMATION

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### What's My Breakeven Feeder Cattle Price This Fall If I Stocker Feeder Calves This Summer?

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Higher beef cattle prices have everyone in the cattle industry excited. Feeder calf prices have increased \$15+ per hundredweight compared with last year. However, these higher feeder calf prices are causing stocker operators some concern about their breakeven prices for next fall.

Let's take a look at what the breakeven feeder cattle prices would be next fall given the higher prices of stocker calves today. Let's assume we buy 500-pound stocker calves and graze/supplement them for 210 days (April 15-September 15 or thereabouts). The types of calves we buy usually attain an average daily gain of 1.7 pounds per head per day and incur a death loss of 3 percent. Attaining a 1.7 ADG for most folks will require some supplemental feed while on summer grass. Our summer grass is usually declining in quality and quantity by late September and we sell the feeder cattle freight-on-board (FOB) in truckload units with a two percent pencil shrink. Our cost per pound of gain in the recent past has ranged from 50 cents to 70 cents per pound of gain.

Current southeast local auction barn prices for a 500-pound stocker steer calf, medium and large frame, muscle score #1 and #2, will range between \$110 and \$125 per hundredweight depending on location. At \$115 per hundredweight for a 500-pound calf, the total price amounts to \$575 per head. Obviously with prices this high, the buyer wants to be extra confident about buying calves that are going to perform well without sickness and death loss.

Given the current stocker steer market price information and the production system describe above, we can now estimate the feeder cattle breakeven prices for various scenarios. Table 1 describes the breakeven feeder calf market price for September 2010. Let's look at Scenario 1, which begins with 500-pound stocker calves valued at \$115 per hundredweight. These stocker calves are assumed to achieve an average daily gain of 1.7 pounds per head per day over 180 days (Say April 15-September 15). If we assume a cost of gain of 50 cents per pound, and a desired profit of \$50 per head, the breakeven feeder steer price next fall is \$104.68 per hundredweight. Alternatively, if we assume the stocker purchase prices of \$120 and \$125 per hundredweight, the breakeven feeder steer prices would be \$108.05 and \$111.41 per hundredweight, respectively. Intuitively, as you increase the stocker purchase price, you increase the breakeven price of the feeder steer. Thus, each \$5 per hundredweight increase in purchase price increases the breakeven price by about \$3.36 per hundredweight.

Table 1. Breakeven feeder cattle prices based on various stocker purchase prices and costs per pound of gain.

Item	Scenario 1			Scenario 2			Scenario 3		
Stocker purchase price (\$/Cwt)	\$115	\$120	\$125	\$115	\$120	\$125	\$115	\$120	\$125
Stocker In-Weight (Lbs)	500	500	500	500	500	500	500	500	500
Stocker Cost (Hd)	\$575	\$600	\$625	\$575	\$600	\$625	\$575	\$600	\$625
Days Stockered (Day)	180	180	180	180	180	180	180	180	180
Average Daily Gain (Lbs/Day)	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Cost Per Pound of Gain (\$/Lb) <sup>1</sup>	\$0.50	\$0.50	\$0.50	\$0.60	\$0.60	\$0.60	\$0.70	\$0.70	\$0.70
Death Loss (%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Weight Gained (Lbs)	306	306	306	306	306	306	306	306	306
Shrink (%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Out-Weight (Lbs/Hd Shrunken)	790	790	790	790	790	790	790	790	790
Total Cost of Gain (\$/Hd) <sup>2</sup>	\$153	\$153	\$153	\$184	\$184	\$184	\$214	\$214	\$214
Desired Profit (\$/Hd)	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Total Cost (\$/Hd) <sup>3</sup>	\$802	\$828	\$854	\$834	\$859	\$885	\$865	\$891	\$917
Breakeven Price (\$/Cwt) <sup>3</sup>	\$104.68	\$108.05	\$111.41	\$108.80	\$112.16	\$115.53	\$112.92	\$116.28	\$119.65

<sup>1</sup> Cost per pound of gain is based on total costs divided by total gain. Do not include the cost of stocker in the total costs.

<sup>2</sup> Does not include shrink and death loss.

<sup>3</sup> Includes shrink and death loss.

In scenario 2, if we assume the cost per pound of gain is 60 cents per pound, and the stocker purchase price is either \$115, \$120, or \$125 per hundredweight, the resulting breakeven feeder prices would be \$108.80, \$112.16, and \$115.53 per hundredweight, respectively. Furthermore, in scenario 3 if we assume the cost per pound of gain is 70 cents per pound and the stocker purchase price is either \$115, \$120, or \$125 per hundredweight, the resulting breakeven feeder prices would be \$112.92, \$116.28, and \$119.65 per hundredweight. As a result, an increase in the cost per pound of gain of 5 cents per pound, increases the breakeven steer price by about \$4.12 per hundredweight.

The sensitive variables analyzed in Table 1 were the stocker purchase price and the cost per pound of gain. Other variables such as average daily gain, death loss, interest rates, supplemental feed, etc., all influence the profitability of the stocker enterprise. These additional variables, especially average daily gain, warrant further evaluation to determine their potential impact on the breakeven price. The breakeven price spreadsheet used in this analysis is available at <http://www.ag.auburn.edu/agec//pubs/budgets/livestock0909.php>.

After determining the breakeven steer price, one needs to decide if this is an acceptable breakeven price. You should ask yourself, “is the cash price next fall going to be better than the breakeven price?” Or is there an opportunity to protect this price? Common examples of price protection include forward contracts, futures hedging, futures options, and/or livestock revenue insurance. The use of these marketing instruments, provided the market is offering a price high enough to cover the breakeven prices, will allow the stocker operator to reduce his risk and ensure that a profit is made. If you are unsure of how to use these marketing tools, contact your local county agent or get some assistance from one of the Southeast Cattle Advisor team members by clicking on “Team Member Contacts” at [www.secattleadvisor.com](http://www.secattleadvisor.com).

Taking time to estimate your breakeven feeder cattle prices will help you manage your cost and identify marketing opportunities. The time spent for this evaluation will not cost much, but it has the potential to generate significant profits.