

Low-Cost and High-Cost Producers May View Price Projections Differently

By Kris Ringwall
Extension Beef Specialist
NDSU Extension Service



Understanding the value of the fed steer on the rail is critical to making an informed decision about retaining ownership of calves. Another important factor in the decision is being able to project the future value of calves.

Where is the cow industry going and what are the implications of profit in the cow calf segment of the industry?

Various projections are available and for the purpose of this article, I would like to visit the Web site of the Food and Agricultural Policy Research Institute based at Iowa State University and the University of Missouri-Columbia. The Institute gathers and reports data that indicates the future prices, expenses and profits for many segments of agriculture.

The "2003 U.S. Baseline Briefing Book" indicated the average value for Oklahoma 600 lb. to 650 lb. steer calves was projected at \$92.95 per hundredweight for the year 2002. Converted to actual value per head, with no price slide, these steers would be estimated to be worth \$557 to \$604.

As the Institute looks to the future, these calves are anticipated to reach a peak value in 2005, and are projected to be worth \$99.91 per hundredweight or \$599 to \$649 per head. After the peak year of 2005, steer calf prices are projected to slide in 2007 to \$88.28 per hundredweight or \$529 to \$573 per head and continue to slide in 2009 to \$81.14 per hundredweight or \$486 to \$527 per head. The Institute predicts the bottom to be reached in 2011 when the steer value for Oklahoma 600 lb. to 650 lb. steer calves is expected to reach a low of \$78.31 per hundredweight or \$469 to \$509 per head.

Forward-thinking producers in the northern Great Plains need to plan on accounting for a drop of \$130 to \$140 dollars in gross calf value by the end of the decade. So how does retaining ownership factor into these decisions? Could the \$130 plus dollars be made up in retained ownership?

Before that discussion is undertaken, the cattle producer needs to evaluate the costs of producing a calf. Is the calf profitable without involving the process of retained ownership in the operation?

Opening up the North Dakota Farm Business Management annual report for those farms and ranches sharing the area with the Dickinson Research Extension Center, total direct and overhead expenses for 2002 averaged \$344 per cow. The twenty percent of farms with the highest costs averaged \$434 per cow and the twenty percent of farms with the lowest costs averaged \$299 per cow.

Some of these same producers backgrounded their calves at a cost of \$47 to \$52 per hundredweight with an average cost of \$51. Adding the average post-weaning costs to the range in cow costs, anticipated costs at today's dollars would be a low of \$350 per cow and backgrounded calf to a high of \$485 per cow and backgrounded calf. (Assuming a 100 lb. increase in calf weight through backgrounding.)

Given the predicted values, some cow calf producers will be operating in the red by the end of the decade. At the same time, the low-cost cow calf producer is not projected to lose money in this decade producing calves, given current cost structures. Even the high-cost producer may not experience financial strain until late in the decade.

So what is the incentive to explore retained ownership and absorb additional risk? Or do the two camps divide at this point; the low-cost producer seeking to increase profit margins through additional fed calf premiums and the high-cost producer seeking to make up input oversights?

In reality, the low-cost producer does not need to retain ownership given these projections and the high cost producer may simply cease to exist. Are the incentives enough to encourage retained ownership or will mandated efforts drive retained ownership?

More in a future column. May you find all your ear tags.

Your comments are always welcome at www.BeefTalk.com. For more information, contact the North Dakota Beef Cattle Improvement Association, 1133 State Avenue, Dickinson, ND 58601 or go to www.CHAPS2000.com on the Internet. In correspondence about this column, refer to BT0148.

Predicted Prices for Oklahoma City Feeder Steers (600 – 650 lbs.)

Year	Dollars per Hundred Weight	Range in Value per Head
2003	\$ 92.95	\$ 557-604
2005	\$ 99.91	\$ 599-649
2007	\$ 88.28	\$ 529-573
2009	\$ 81.14	\$ 486-527
2011	\$ 78.31	\$ 469-509

Source: FAPRI 2003 U.S. Baseline Briefing Book