

Backgrounding 2016  
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The beef industry is segmented with most cow calf producers marketing their calves at weaning or started feeders to either stocker grazers or finishing feedlots. Selling calves directly off the cow or after a short weaning preconditioning period has been very favorable the last several years as numbers were down, demand strong, and calf prices at record levels.

This year's steep decline in cattle prices both on cash and futures markets will greatly reduce cow-calf operator calf receipts and profitability. The inclination is to delay selling calves in hopes there is some market recovery and to utilize available and relatively inexpensive feed to add weight and increase sale revenue. While we would like to think this market has found a bottom, future prices for out months is not suggestive of any price reversal. However even under the current market price structure, there appears to be a modest profit margin in adding weight with some competitive cost of gain scenarios.

Looking at current prices for various weights of feeder cattle and the slide or difference as weight increases suggests the value of added weight to light calves is ranging from 85¢ to \$1.15 per pound. Oklahoma State University Extension Livestock Marketing Specialist, Derrell Peel, looks for considerable interest in grazing wheat this winter considering the prospects for returns from grain production are poor and it's estimated the cost of gain for running stockers is about 35¢ when grazing the wheat out.

Northern lot calf feeders may also find a positive backgrounding return where cost advantaged feed is available. Hay supplies are generally good and prices are the lowest in years, most local basis corn is trading for less than \$3.00 per bushel, prices for distillers' grains are down, and there is an abundance of damaged wheat that can be used in limited amounts at salvage prices. Vomitoxin levels in wheat and durum from head scab are sufficiently high in much of the North Dakota wheat crop to exclude it from milling markets. Research done at the North Dakota State University Carrington Research Extension Center that when limited and fed in cattle rations there won't be deleterious effects and can contribute to cheap grains. For rations targeting an adg of 2.5, feed costs may be approximately 30 cents per lb of gain. When yardage, death loss and meds, and interest is included, the total cost of gain will likely be 60-65 cents.

Consideration may also be given to nontraditional calf backgrounding scenarios such as grazing stockpiled cover crop or annual forage crops. The North Dakota State University Dickinson Research Extension Center has been weaning late spring born calves into mature standing corn with supplemental hay and a daily protein supplement. Over the last three years' steer calf gains have averaged 1.33 over a 163-day period at a total cost of \$153 per head or 72¢ per pound of gain. While the backgrounding winter period margins have been nominal, retained ownership through an extended grazing program of perennial pasture and fall annuals followed by a short feedlot finishing period has produced excellent gains, high finish weights, high carcass quality and added profits to cow calf returns.

A number of cow-calf producers are or will be soon weaning calves and starting them on feed as they do every year as that is their standard marketing approach. Others more inclined to sell off the cow may be considering holding on and feeding. This decision can be supported by first addressing what your calves might actually sell for by visiting with buyers and observing local auction markets. Next inventory feeds on farm and price feed that would be purchased and make some ration projections for a targeted gain

and sale weight. Using estimated beginning value, and feeding costs (including feed, vets, death loss, interest, yardage) and targeted sale weight; a feeding cost of gain and projected selling breakeven can be estimated. The North Dakota State University "Calf Web" calculator online is helpful in estimating feeding breakeven and costs. These numbers compared to out month future prices and market price projections can help estimate potential backgrounding profits. Historically backgrounding calves on farm has a positive return. Information from the North Dakota Adult Farm and Ranch Management data base show can average return of \$27 a head for backgrounded calves from 2005 to 2015 with a low of a negative \$10.00 to a high of \$69.00. Typical backgrounded gains are from 1.5 to 2.0 pounds per head per day for an accumulated gain of 150 to 200 pounds.

The decisions to background generally means a commitment to feed calves for at least 45 days to transition them through the weaning stress and health concerns. An inherent risk in weaning calves is sickness and death loss which can be limited by vaccinations, good nutrition, and limiting stress. Generally, returns are maximized by putting on additional 200 pounds or more gain at a moderate rate (2.25 to 2.75) of gain to avoid fleshy feeders likely to be discounted when sold. Hard fed calves will likely finish at lower weights, gain and convert poorer, and finish sooner at a younger age.

Large financial losses by cattle feeders over the last year were realized as high priced feeder cattle often come to market under dropping fed cattle prices. This situation along with extreme volatility in future prices and challenges in using to manage risk has limited demand for feeder calves this fall. The situation is encouraging delayed marketing and growing on farm to latter dates and heavier weights.