

Tools to Help Beef Cattle Producers Make Economically Sound Restocking Decisions

Victoria County Post Drought Management Seminar
April 13, 2010
Victoria, TX

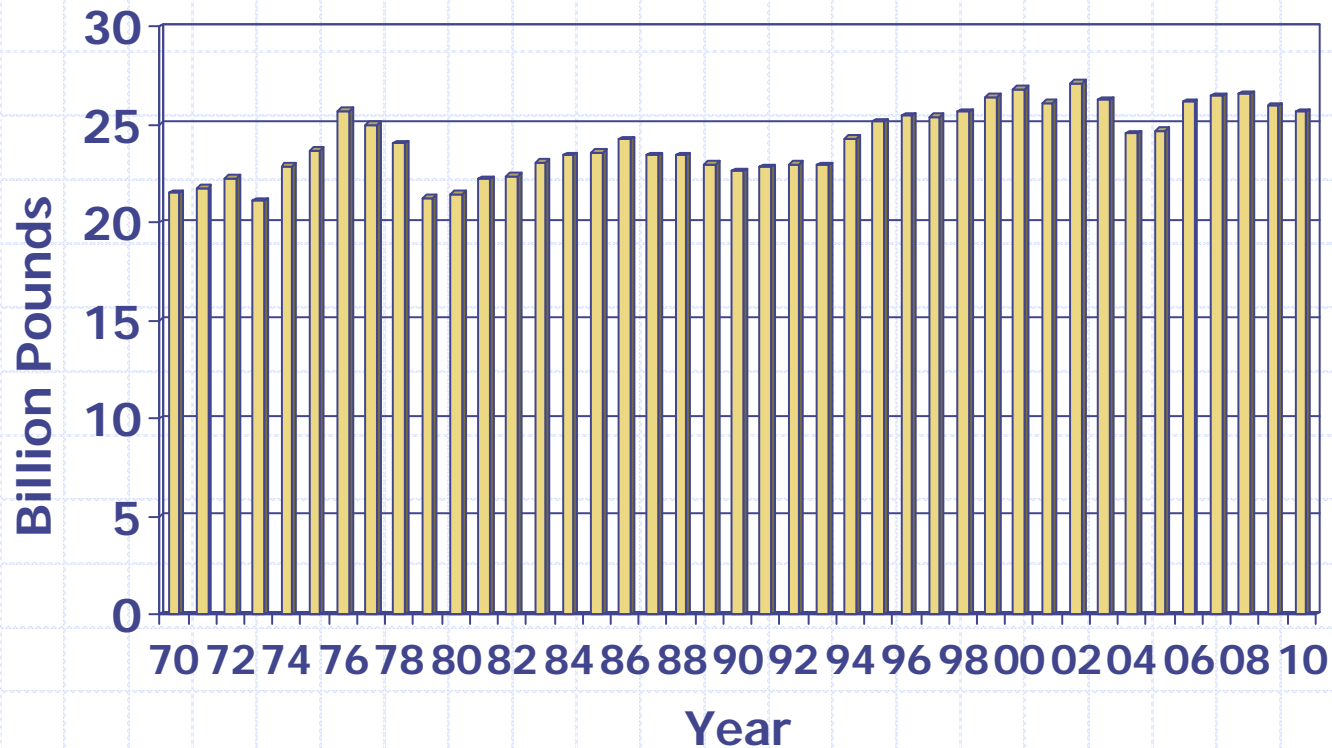
Coordinated by: Sam Womble – Victoria CEA/NR
Prepared and presented by: Larry Falconer – Extension Economist



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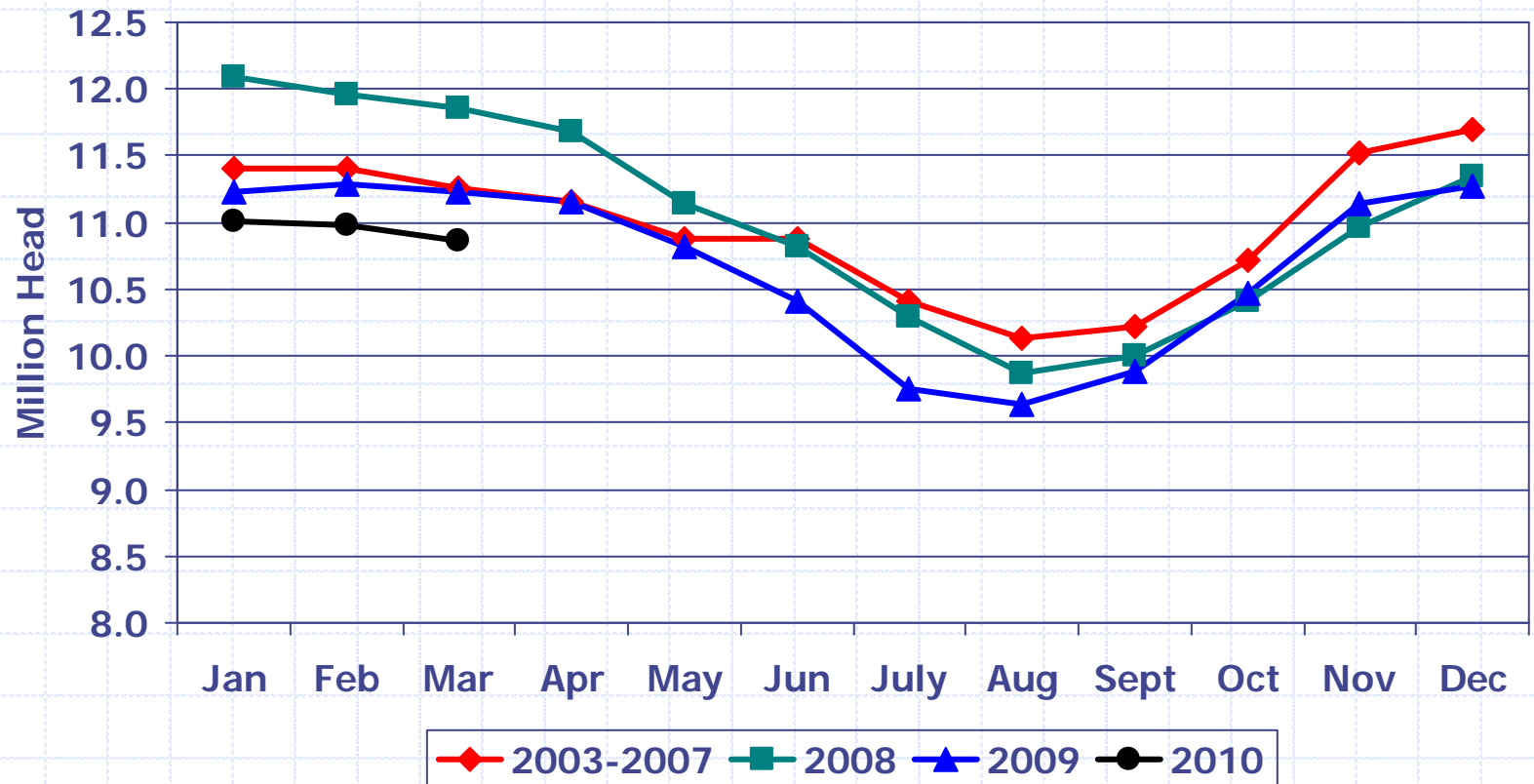
- ◆ Market outlook
- ◆ Survey results of impact of previous droughts
- ◆ Beef cow enterprise cost estimates
- ◆ Cow bid decision support aid
- ◆ Heifer development decision support aid
- ◆ Tax provisions for involuntary conversions
- ◆ Conclusion

Commercial Beef Production



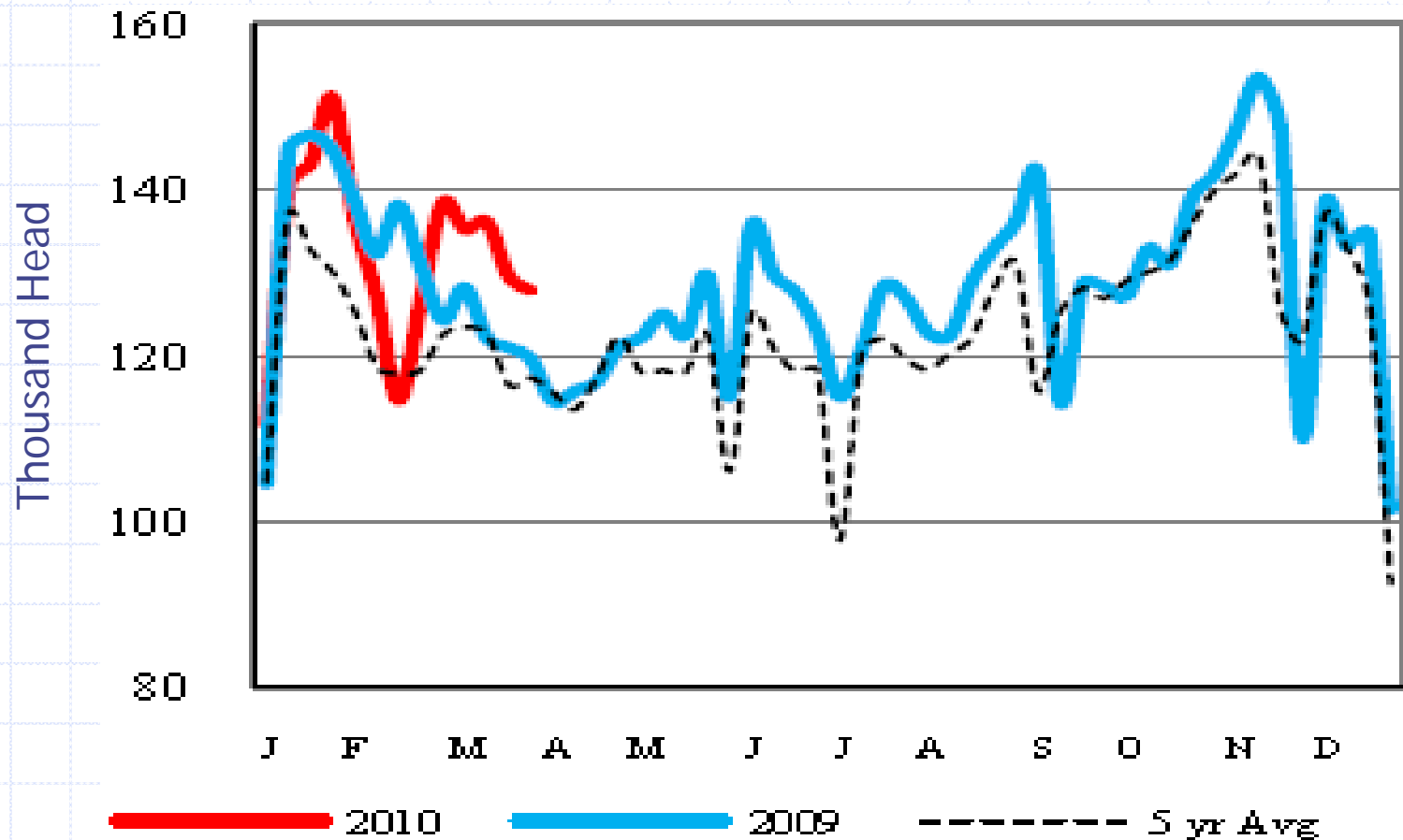
2009 production is estimated at 26.0 billion pounds, down 2.3% from 2008. 2010 production is projected that 25.6 billion pounds, down 1.2% from 2009.

Monthly U.S. Cattle on Feed

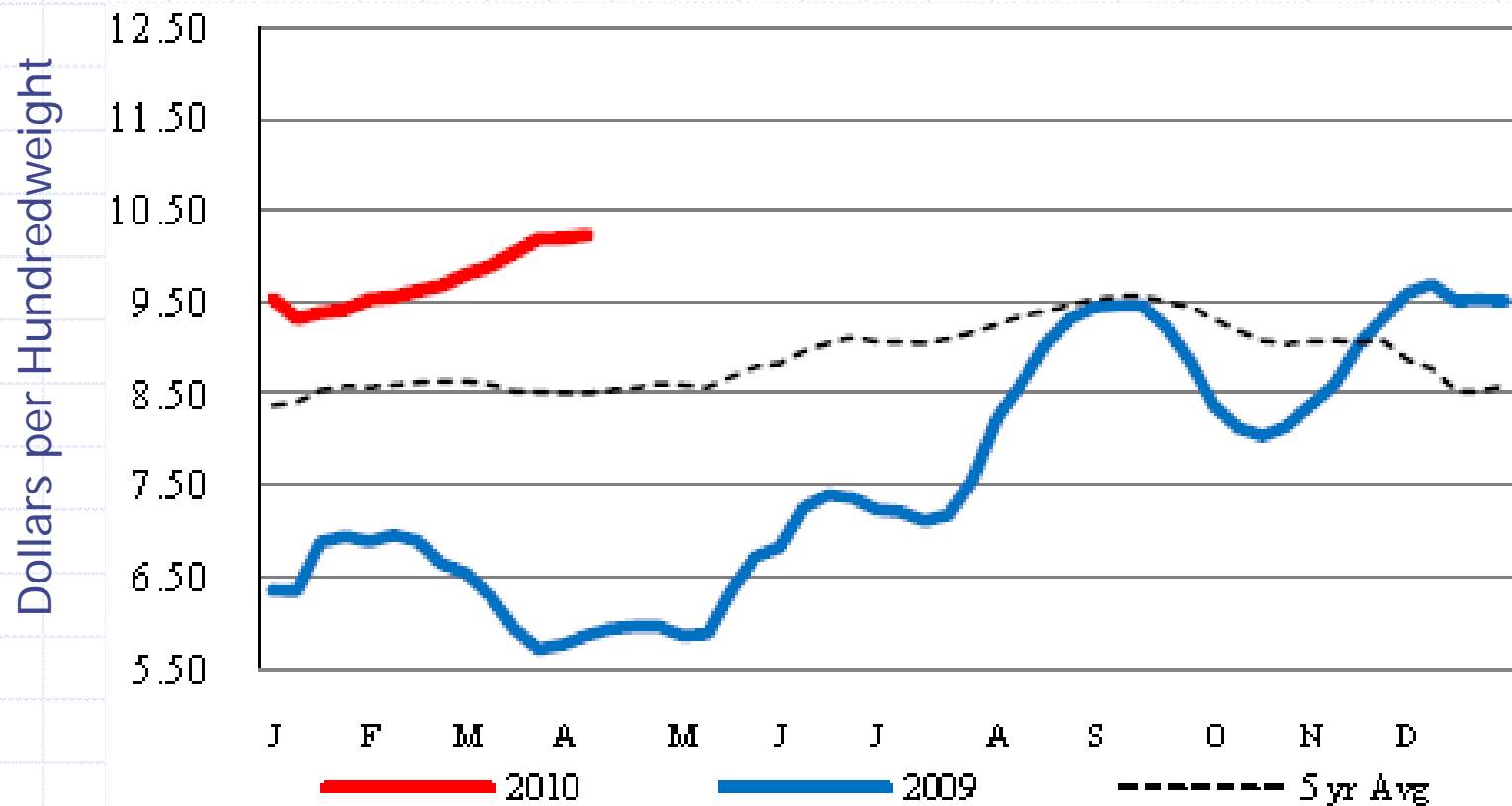


Cattle on feed numbers for March 1, 2010 were 3.2% below year ago, a decrease of 364,000 head. Fed steer and heifer slaughter normally makes up a little more than 80% of total cattle slaughter.

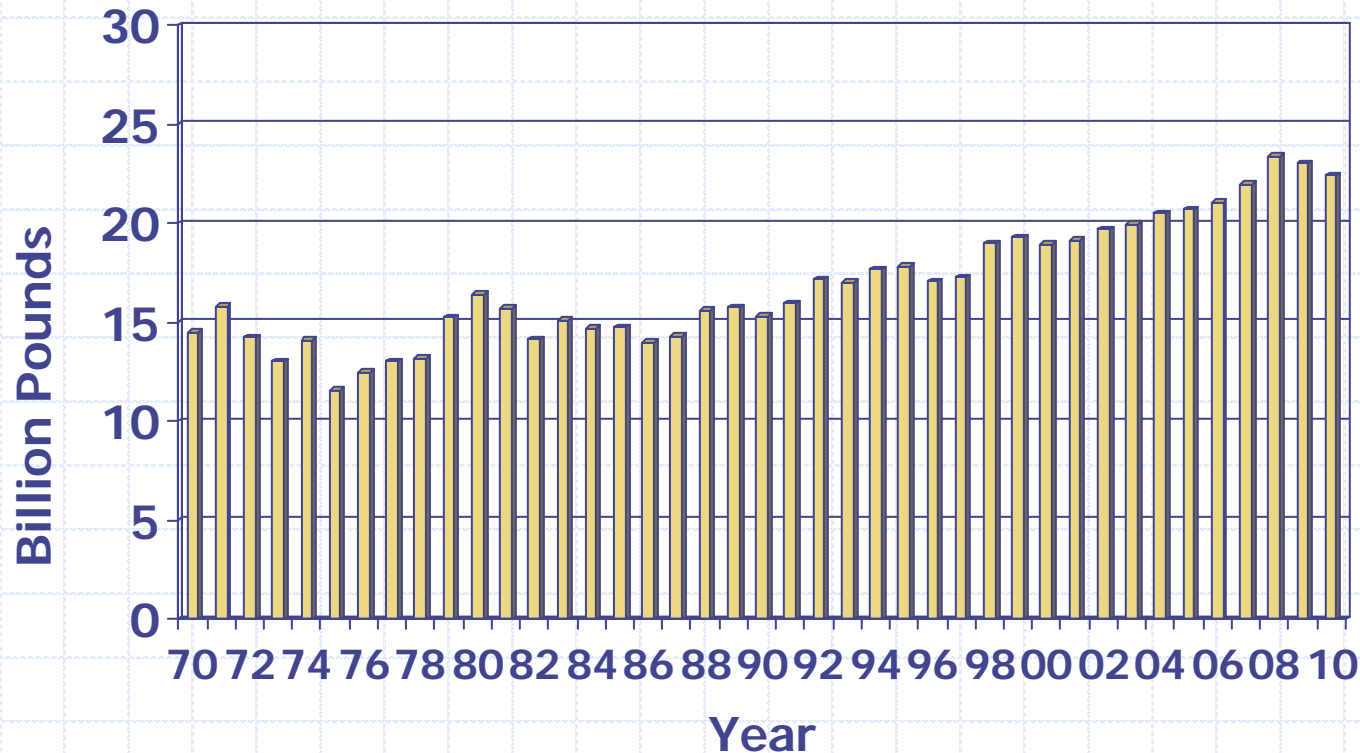
Weekly Cow and Bull Slaughter



Weekly Steer Drop Value

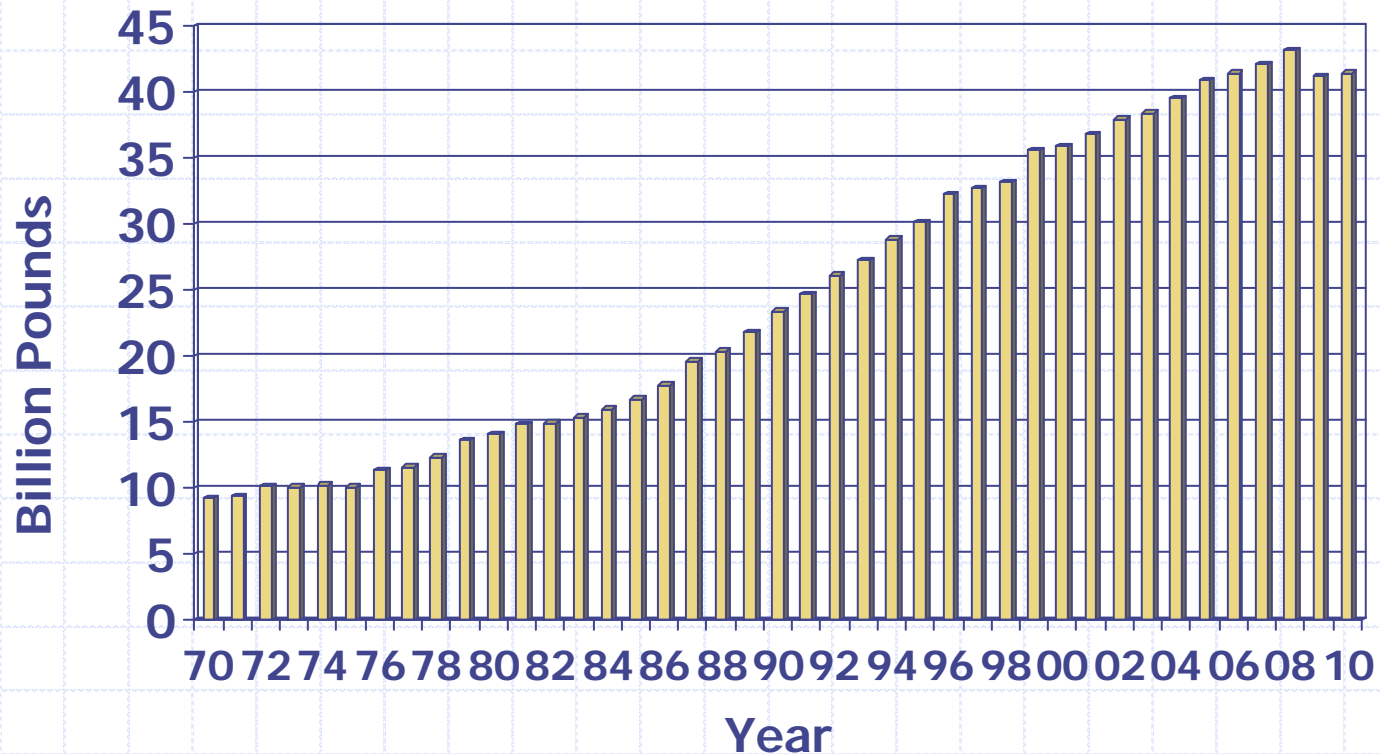


Commercial Pork Production



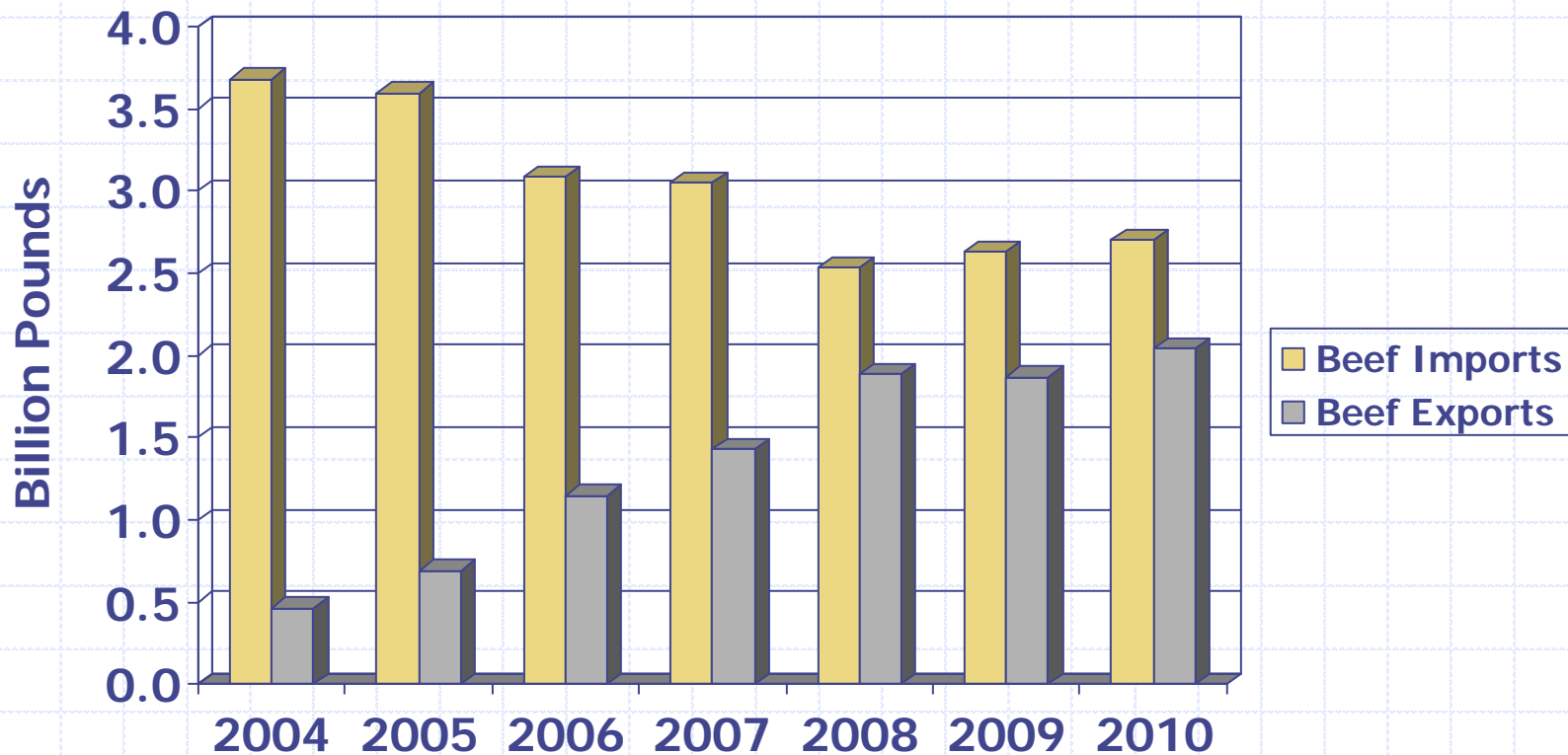
Production for 2009 is estimated at 23.0 billion pounds, down 1.1% from 2008 with projected 2010 production at 22.4 billion pounds, down 2.4% from 2009.

Commercial Broiler and Turkey Production



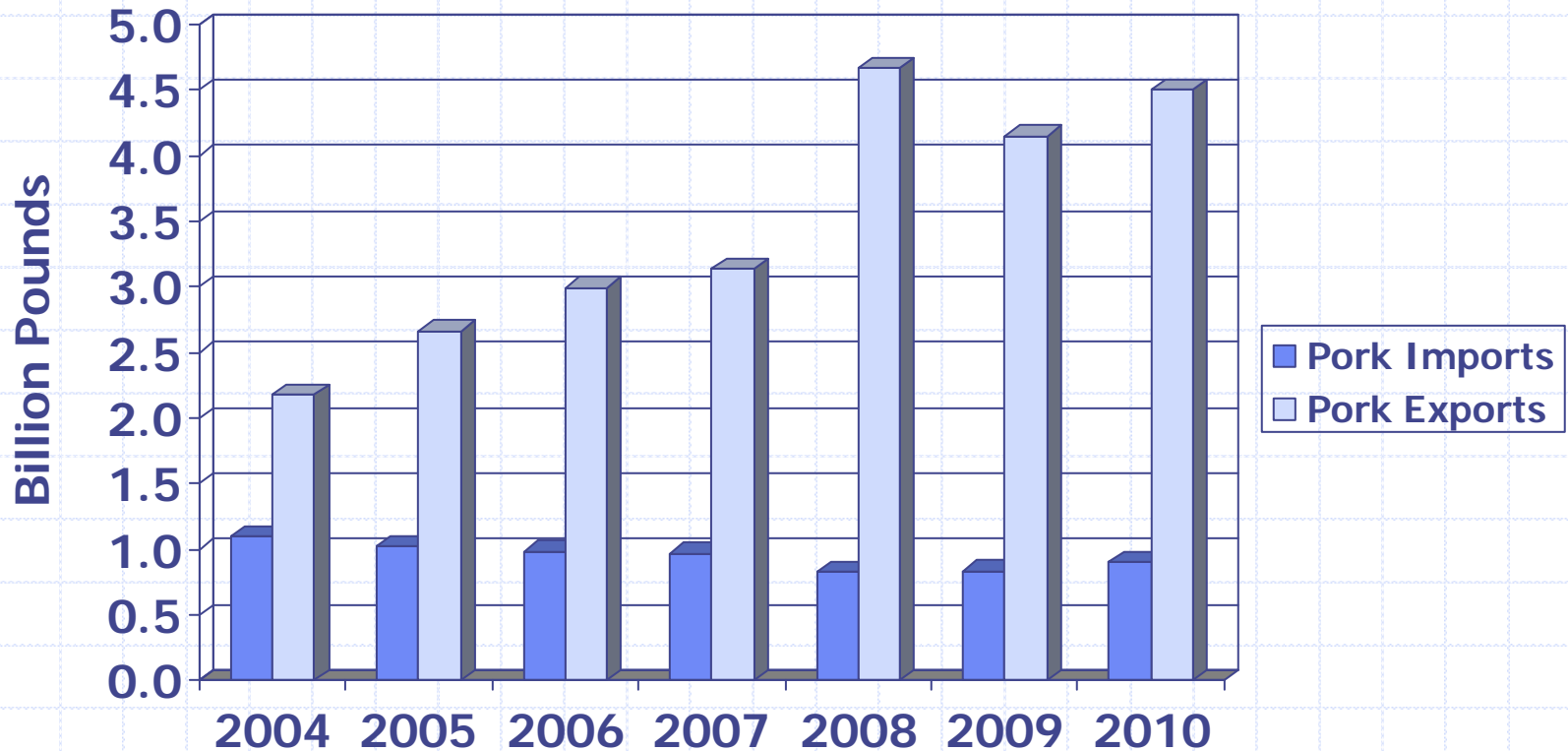
Estimated production for 2009 is 41.2 billion pounds, down 4.6% from 2008, with projected 2010 production at 41.4 billion pounds, up 0.5% from 2009.

U.S. Beef and Veal Trade



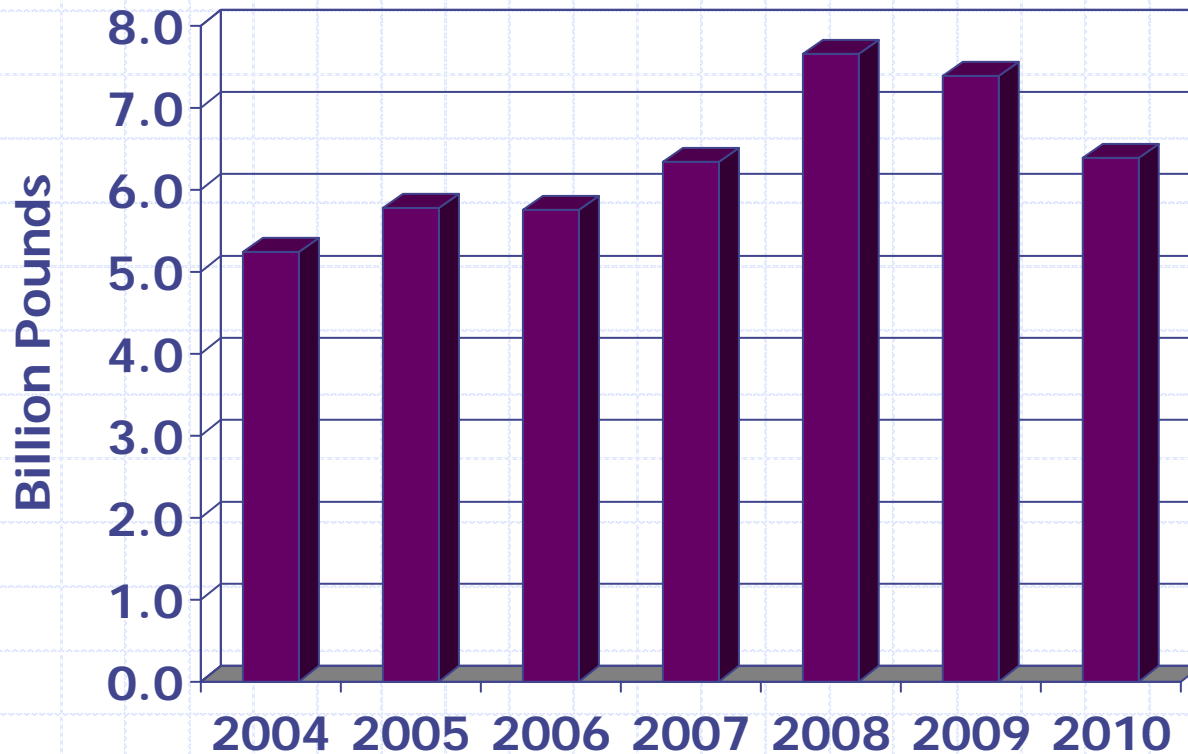
Beef exports for 2010 are projected at 2.04 billion pounds, up 9.1% from 2009 with 2010 imports projected at 2.7 billion pounds, up 2.7% from 2009.

U.S. Pork Trade



Pork exports for 2010 are projected at 4.5 billion pounds, up 8.4% from 2009.

US Broiler and Turkey Exports



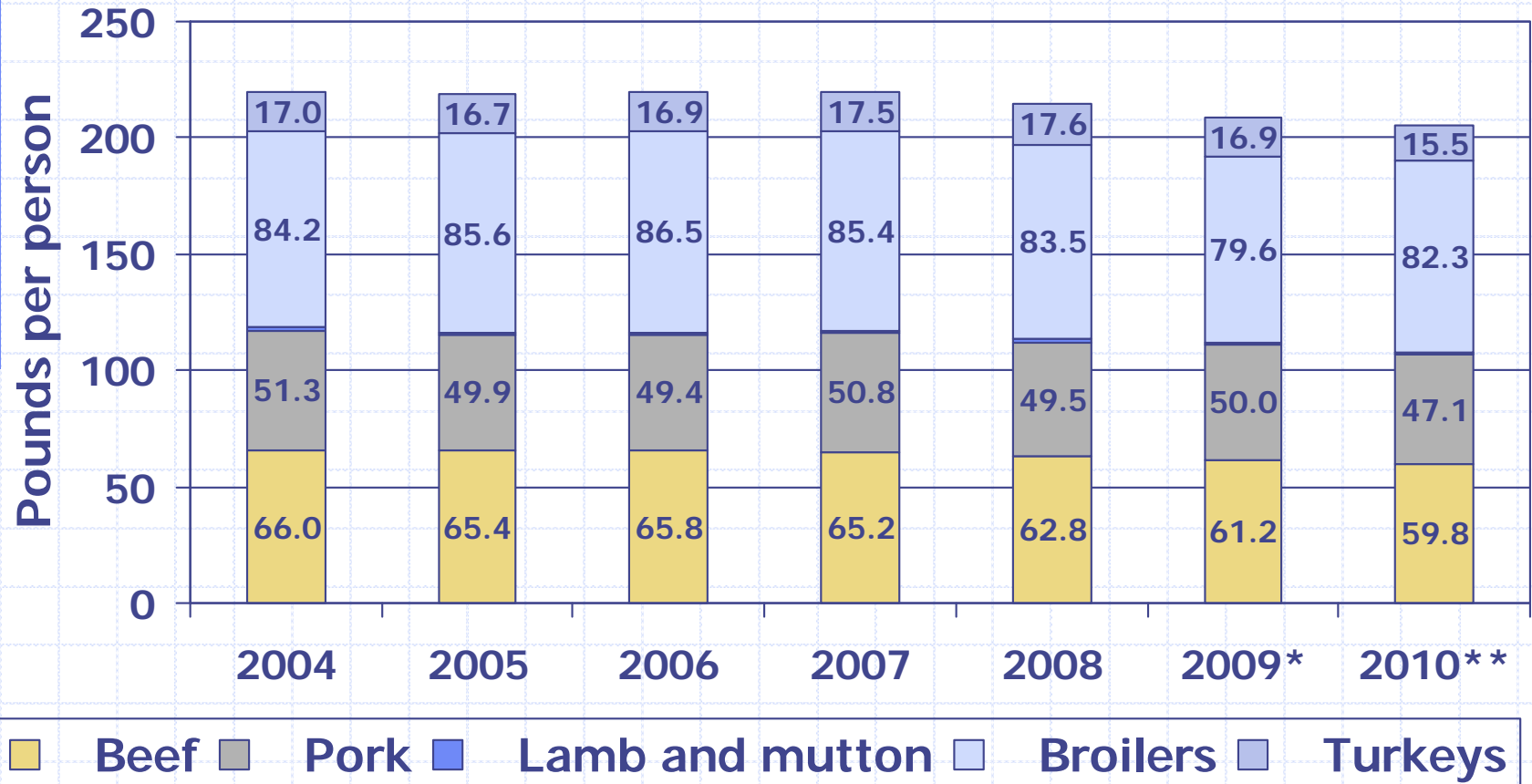
Broiler and turkey exports for 2010 are projected at 6.37 billion pounds, down 13.6% from 2009.

Live Cattle Imports (head)

	2006	2007	2008	2009	2010 to date
Mexico	1,256,973	1,090,094	702,661	940,869	272,661
Canada	1,031,870	1,404,871	1,581,303	1,060,900	294,735
Total	2,288,843	2,494,965	2,283,964	2,001,769	567,396

Through April 6, 2010 live cattle imports from Mexico totaled 272,661, up 9% from the same period a year ago. Through April 7, 2010 live cattle imports from Canada totaled 294,735 head, down 17.5% from the same period a year ago.

Per capita disappearance of meat and poultry at retail for the U.S.



* Projected by ERS-USDA. ** Forecast by ERS-USDA.

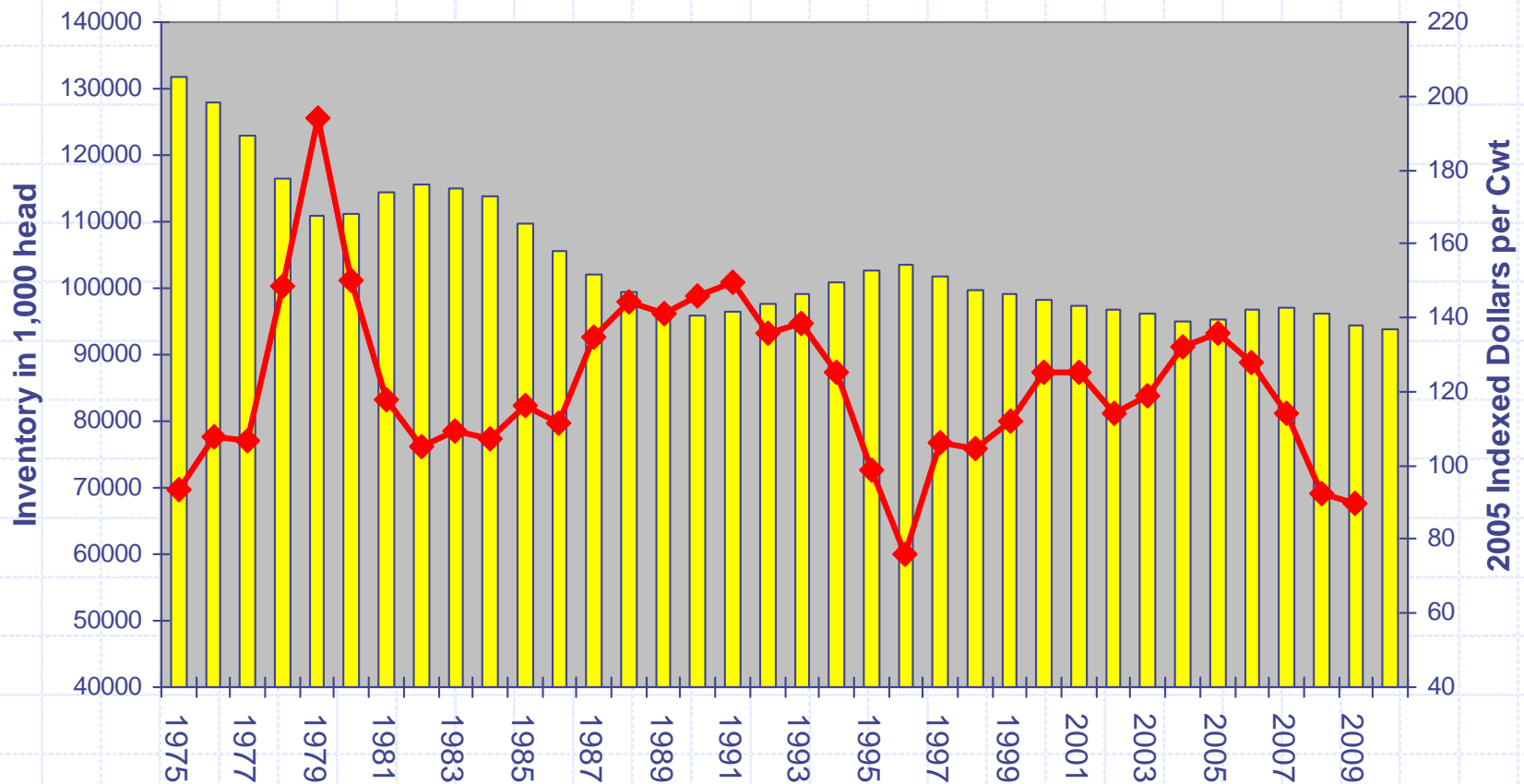
January 1 U.S. Cattle and Calves: Number by Class and Calf Crop

Class	2009	2010	2010 as % of 2009
	<i>1,000 Head</i>	<i>1,000 Head</i>	<i>Percent</i>
Cattle and Calves	94,521	93,701	99
Cows and Heifers That Have Calved	41,045	40,456	99
Beef Cows	31,712	31,376	99
Milk Cows	9,333	9,081	97
Heifers 500 Pounds and Over	19,576	19,666	100
For Beef Cow Replacement	5,531	5,436	98
Expected to Calve ²	3,367	3,385	101
For Milk Cow Replacement	4,410	4,516	102
Expected to Calve ²	2,909	2,941	101
Other Heifers	9,635	9,714	101
Steers 500 Pounds and Over	16,769	16,440	98
Bulls 500 Pounds and Over	2,184	2,190	100
Calves Under 500 Pounds	14,948	14,949	100
Cattle on Feed	13,856	13,642	98
	2008	2009	2009 as % of 2008
Calf Crop	36,153	35,819	99

¹ Totals may not add due to rounding.

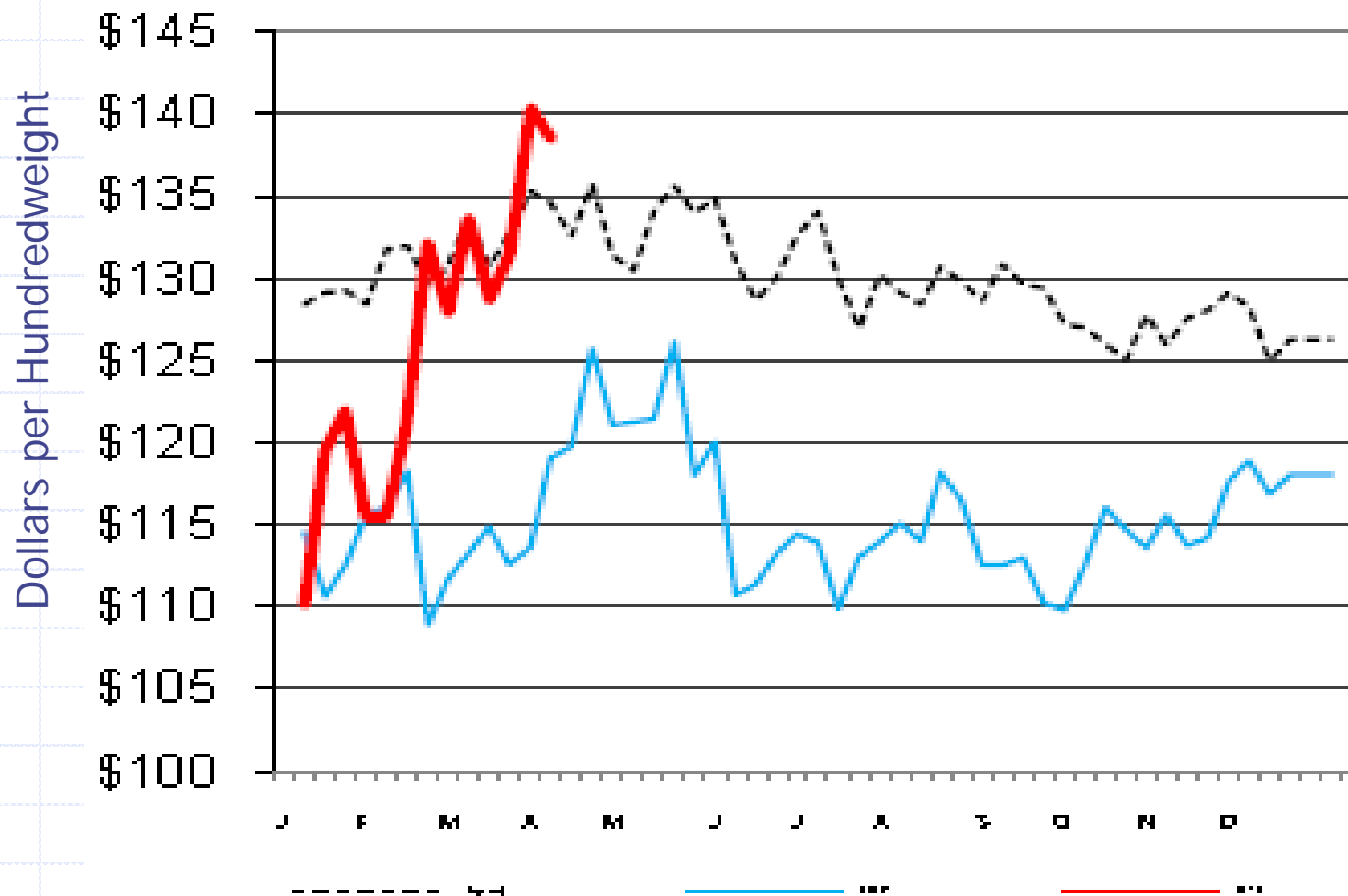
² Replacement heifers expected to calve during the year.

Relationship of Real Calf Prices to January 1 Cattle Inventories

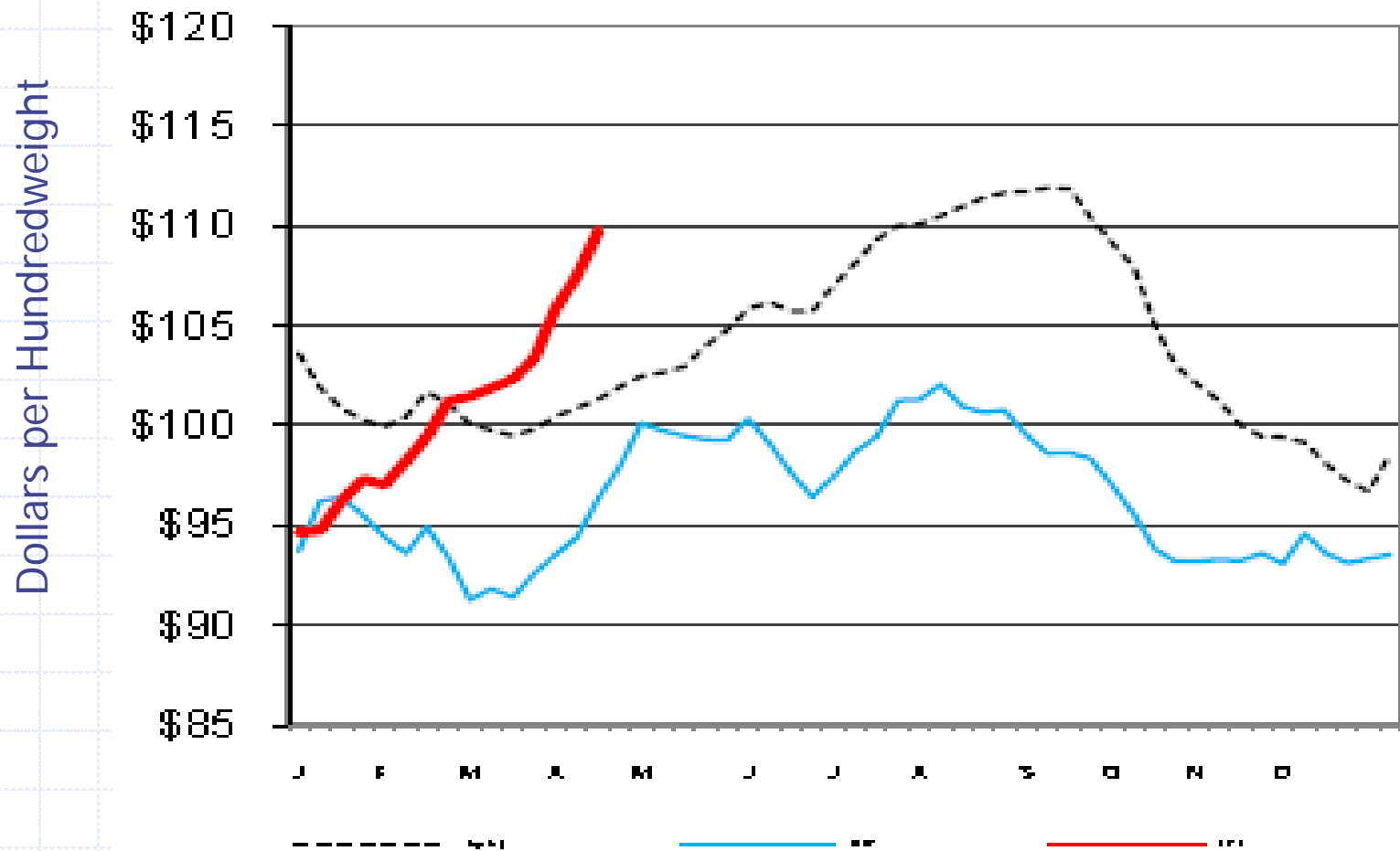


Amarillo 400-500 pound steer prices adjusted for inflation.

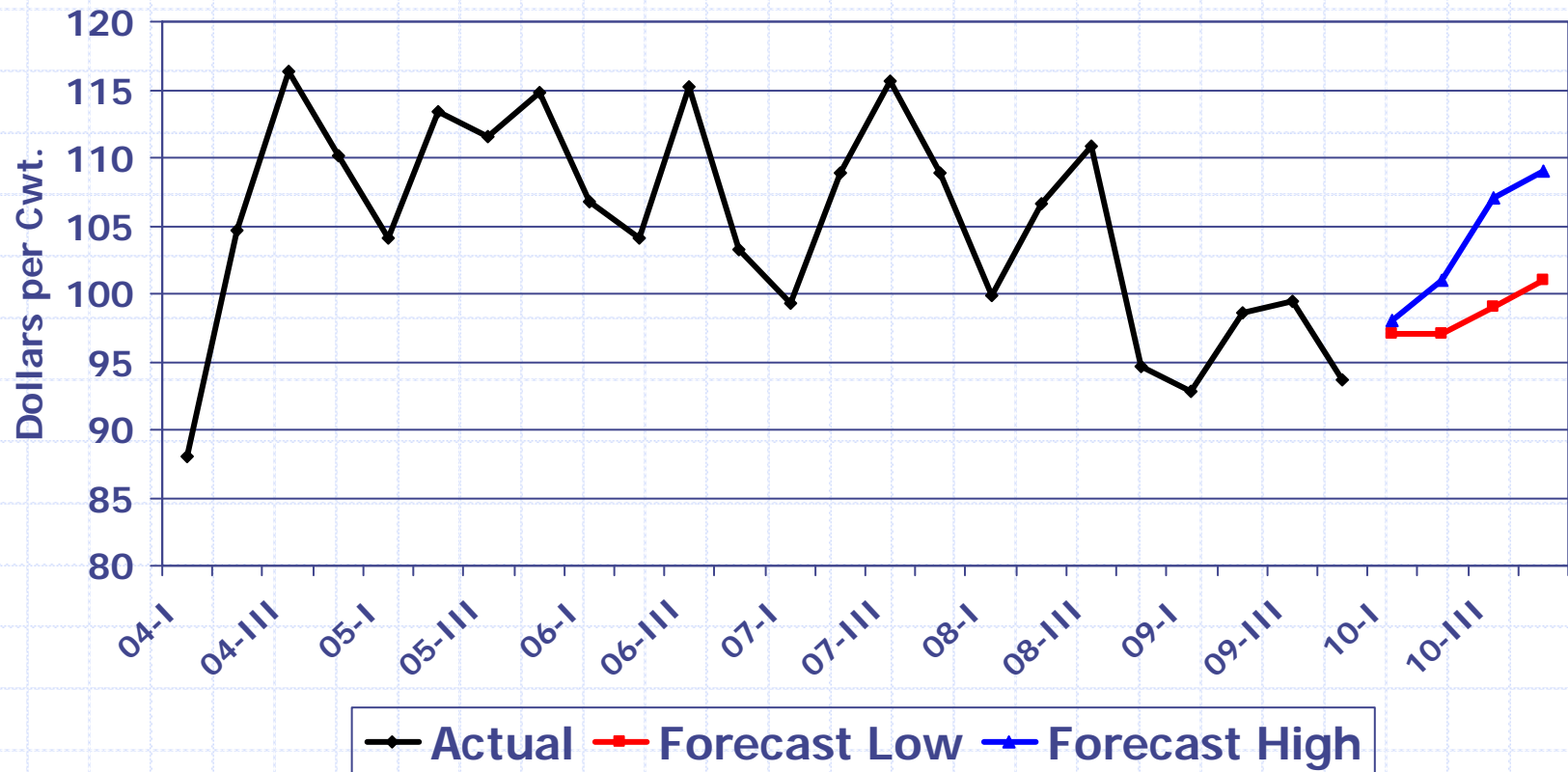
Recent Seasonal Price Pattern – OKC 400-500 lb Steers



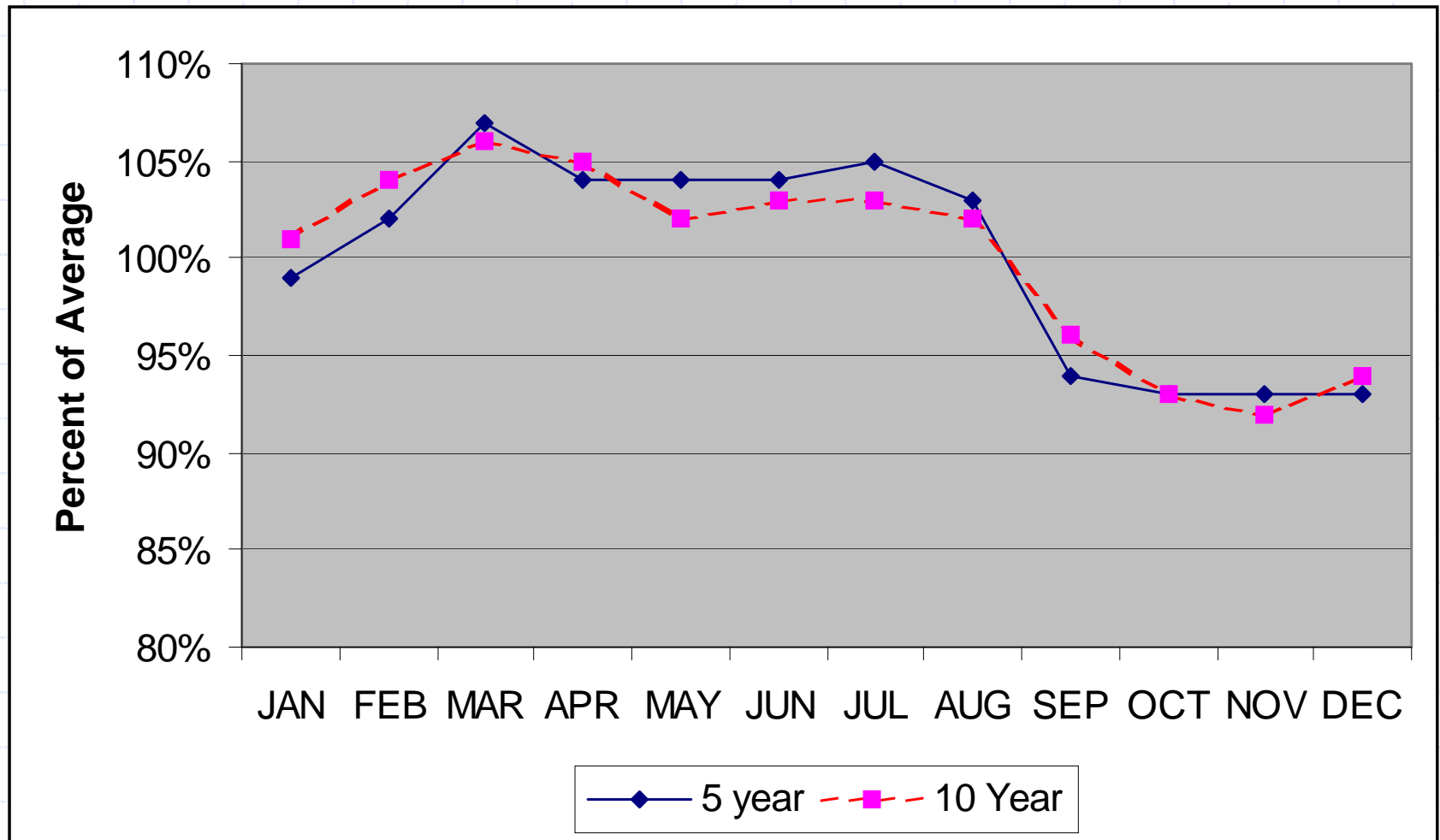
CME Feeder Cattle Index



ERS-USDA Feeder Steer Price Actual and Forecast (Oklahoma City 700-800 pound)



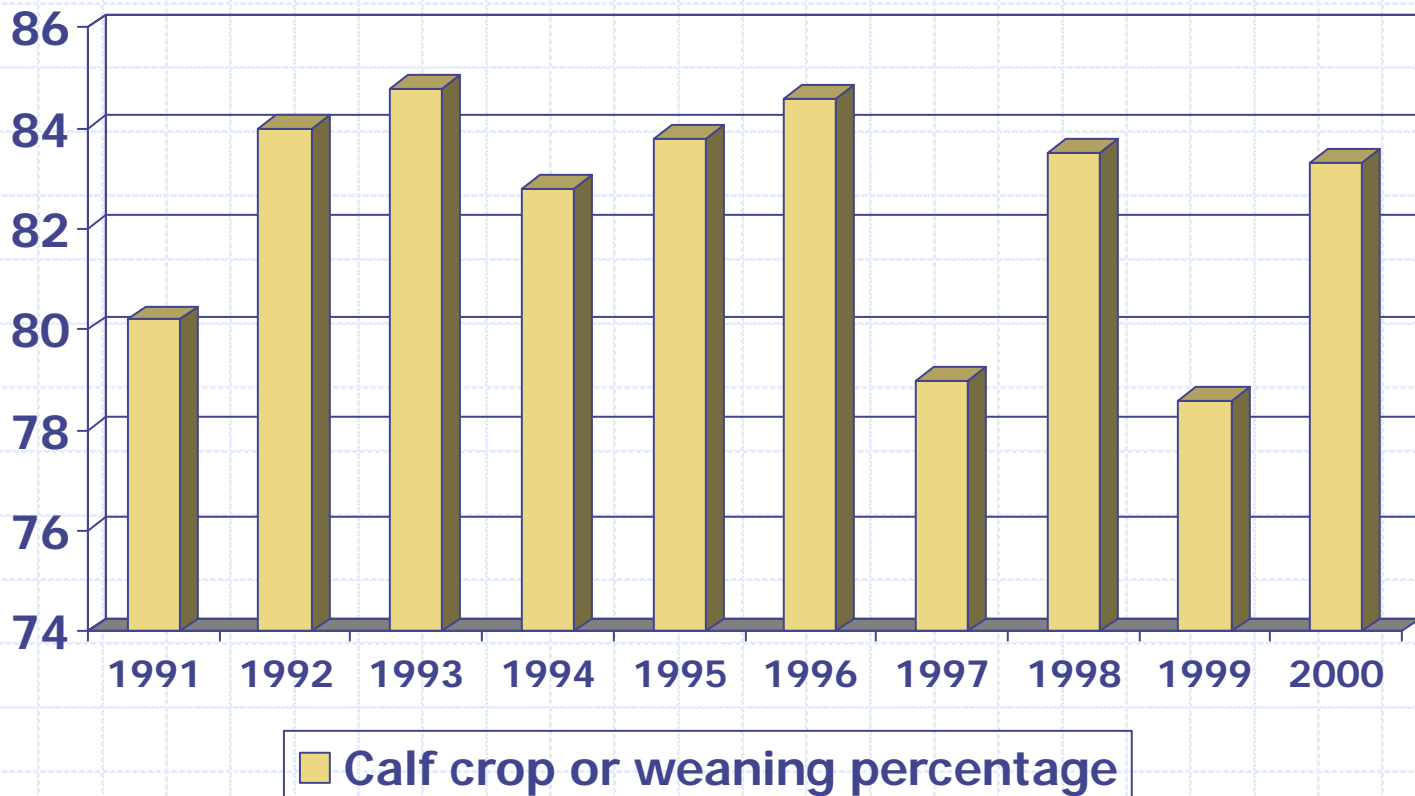
Seasonal Pattern of Cull Cow Prices at Amarillo



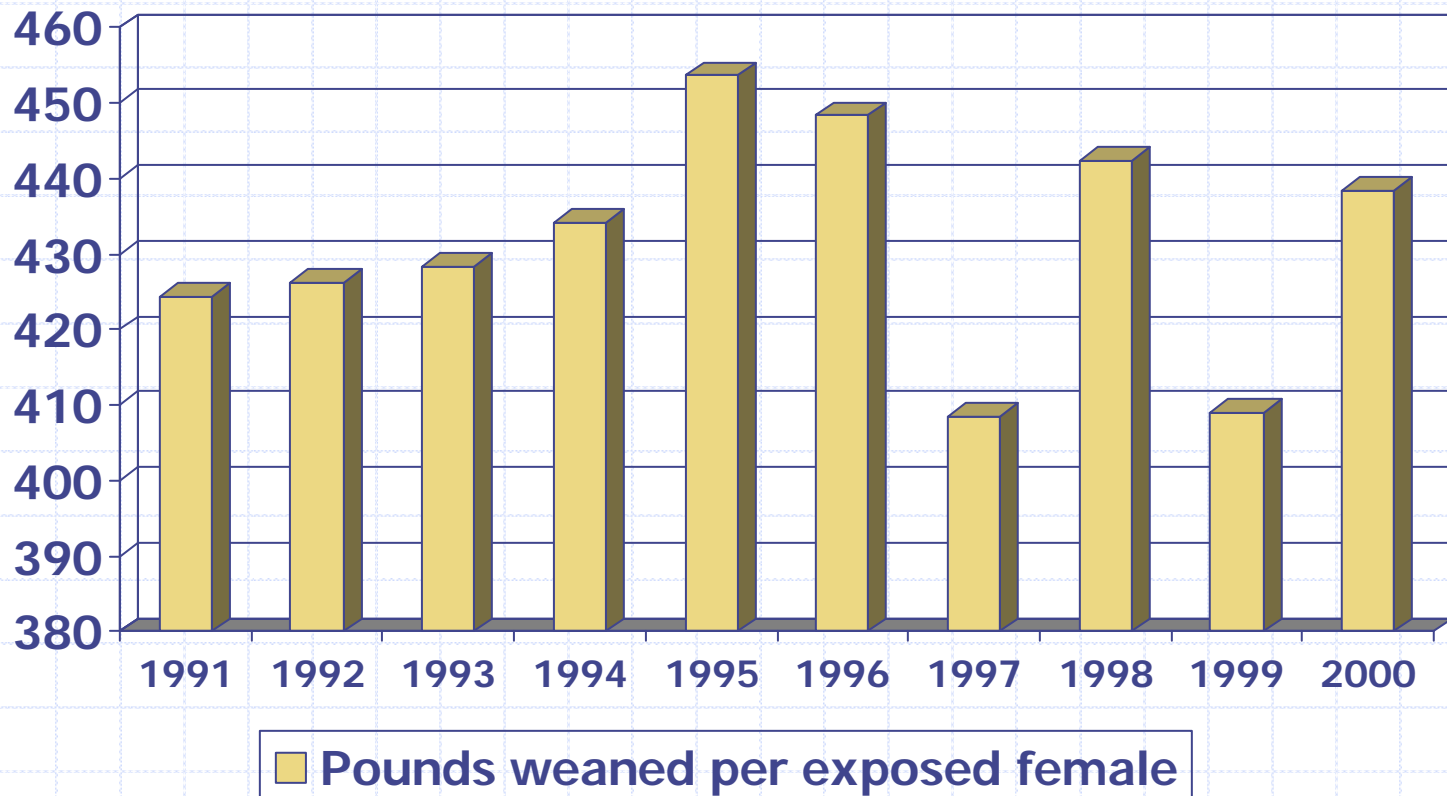
Cattle Market Outlook Conclusion

- ◆ For 2010, pork production is projected to decrease, but smaller exports of poultry (-13.6%) will increase competition for beef at the retail level.
- ◆ It is likely that the January 1, 2011 cattle inventory will show a decrease from 2010 levels.
- ◆ Longer term, the smaller U.S. herd will support calf prices, but we will see increased volatility in calf prices because of structural change in the feed grain market.

Survey results of impacts from previous droughts

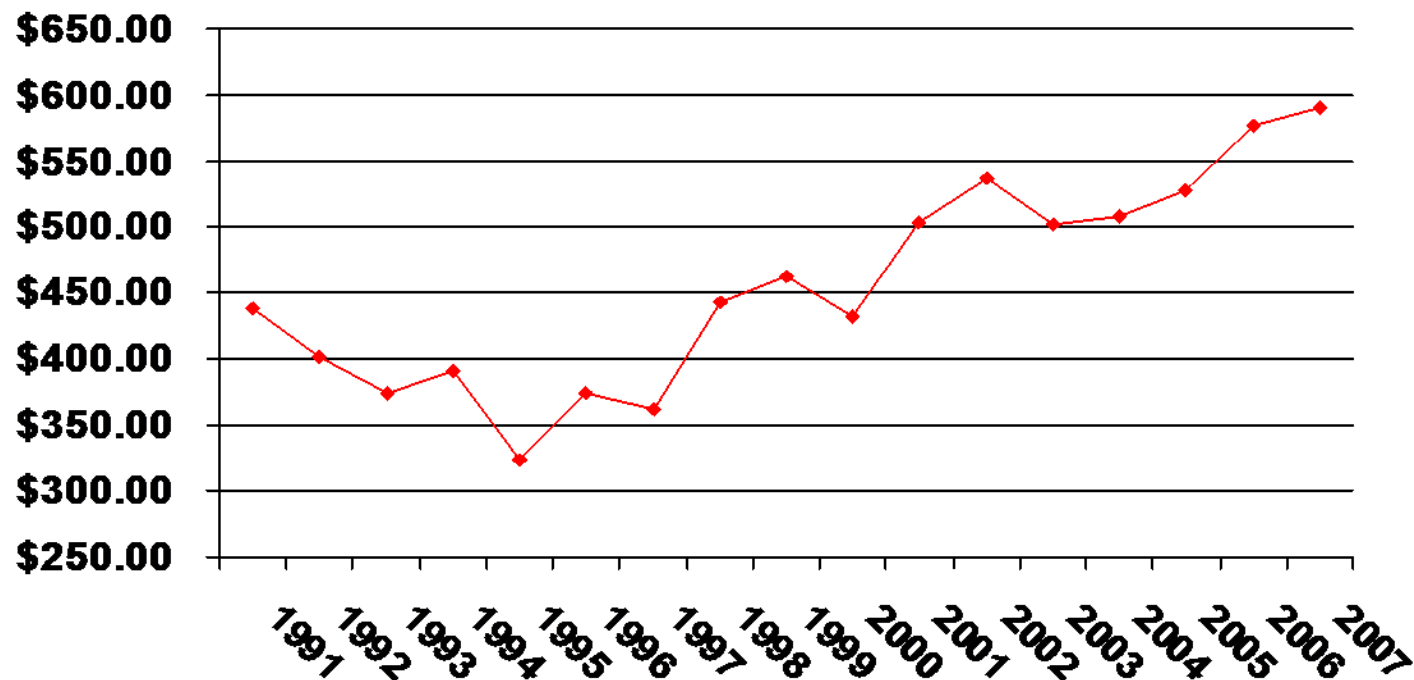


Survey results of impacts from previous droughts (continued)



Costs per Female

Summary of Southwest SPA Database 1991 to 2007



Bever, Stan J., Professor & Extension Economist, Dept. of Agricultural Economics, Texas AgriLife Extension Service, Texas A&M University System. P.O. Box 2159, Vernon, Texas. 940 552-9941, ext. 231.
<http://agrisk.tamu.edu>. Prepared for the 2008 Texas A&M University Beef Cattle Short Course.

SPA Costs and Selected Measures for Stocking Rates Greater and Less than One Cow per 10 Acres

- ◆ The following slides contain selected SPA (Standardized Performance Analysis) cost and performance measures for 85 herds from Texas, Oklahoma and New Mexico. The data was gathered over the 2005 to 2008 time period, and is separated into herds with stocking rates greater than one breeding cow per 10 acres and herds that had stocking rates of less than one cow per 10 acres.
- ◆ For herds with the denser stocking rate of less than 10 acres per cow, herd size ranged from 47 to 5,560 cows. For herds with the lighter stocking rate of greater than 10 acres per cow, herd size ranged from 31 to 3,292 head.
- ◆ For the herds with heavier stocking rates, the average stocking rate was one breeding cow to 5.6 acres. For the herds with lighter stocking rates, the average stocking rate was one breeding cow to 43.4 acres.

SPA Total Cost per Cow for Stocking Rates Greater and Less than One Cow per 10 Acres

Expense Category	Less than 10 Acres	Rank	More than 10 Acres	Rank
Chemicals	\$ 8.69		\$ 5.27	
Custom Hire (Machine Work)	\$ 13.66		\$ 13.30	
Total Deprecation	\$ 67.52	3	\$ 85.13	2
Feed Purchase	\$ 92.98	2	\$ 82.80	3
Fertilizer & Lime	\$ 64.51	4	\$ 17.52	
Freight & Trucking	\$ 1.33		\$ 3.61	
Gasoline, Fuel, & Oil	\$ 31.38		\$ 26.19	
Insurance	\$ 7.87		\$ 18.09	
Hired Labor & Management	\$ 73.58	1	\$ 96.29	1
Rents or Leases	\$ 28.59		\$ 46.08	4
Repairs & Maintenance	\$ 35.13	5	\$ 39.67	5
Seed & Plants	\$ 3.80		\$ 1.92	
Supplies	\$ 18.53		\$ 15.34	
Property Taxes	\$ 9.02		\$ 17.44	
Utilities	\$ 10.30		\$ 15.41	
Veterinary & Breeding	\$ 21.02		\$ 22.20	
Other	\$ 5.52		\$ 28.01	
Total Operating Expenses	\$ 493.43		\$ 534.27	
Interest Expense	\$ 28.00		\$ 25.02	
Family Living Withdrawals	\$ 21.64		\$ 12.55	
Total Costs (Including Withdrawals)	\$ 543.07		\$ 571.84	

Selected SPA Measures per Cow for Stocking Rates Greater and Less than One Cow per 10 Acres

Measure	Less than 10 Acres per Cow	More than 10 Acres per Cow
Acres per Female	5.6	43.4
Roughage (Lbs fed per cow)	2,600	618
Normal Rainfall (inches)	35.6	23.9
Fiscal Year Rainfall (inches)	30.4	23.1
Percent of Normal Rainfall	85.4	96.4
Weaning Percentage	81.3	83.7
Pounds Weaned per Exposed Female	427	448
Pounds Weaned per Acre	83	16
Breakeven Price (\$/cwt.)	\$118.46	\$112.01
Return on Assets (%) - Market	0.53	2.81

Cost per pound of calf gain for the high, medium, and no input pasture systems at 2009 costs (Evers).

	High input N + grass	Medium input clover + grass	No input
Pasture expenses/acre	121.60	43.60	20.00
Acres/cow-calf	1.0	1.5	2.9
Pasture expenses/cow-calf	121.60	65.40	58.00
Animal expenses/cow-calf	279.39	233.96	279.39
Total expenses/cow-calf	<u>400.99</u>	<u>299.36</u>	<u>357.39</u>
Calf gain (lb)	340	470	369
Cost/lb calf gain	1.18	0.64	0.97

Tax Code Related to Involuntary Conversion of Livestock

- ◆ IRS code 451(e) may allow producers to postpone gains for one year on raised livestock.
- ◆ Drought sales of breeding livestock are considered involuntary conversions of capital equipment [IRS code section 1033(e)]. Gains may be postponed for a two-year period if animals are replaced
- ◆ It is important to retain records on cattle sales caused by drought, and provide that information to your tax specialist in case one of these elections is applicable to your operation.
- ◆ Please consult your tax specialist on any matter related to the drought induced sale of livestock.

Conclusion

- ◆ All the decision support aids that were demonstrated are available by contacting your local county Texas AgriLife Extension Service office or by e-mail at L-falconer@tamu.edu .
- ◆ These and more decision aids are available at this URL:

<http://agfacts.tamu.edu/~lfalcone/newweb/DSAMainMenu.htm>

Sources for information on the Internet

◆ Market – Domestic and International

- <http://marketnews.usda.gov/portal/lg>
- <http://www.fas.usda.gov/currwmt.asp>

◆ Livestock, Dairy, and Poultry Outlook

- <http://usda.mannlib.cornell.edu/>