

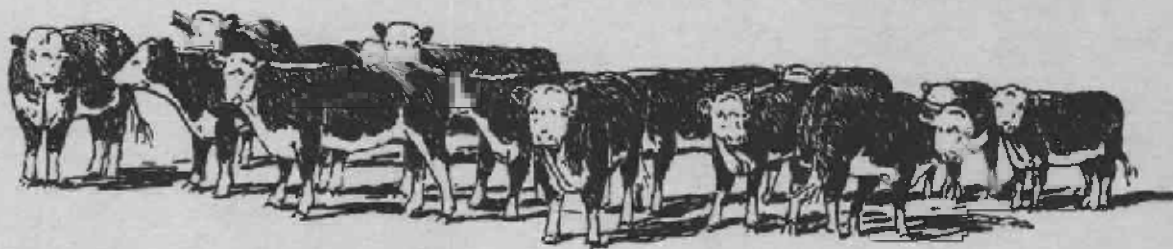
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The Cowman's Management Options for 1975 and Beyond

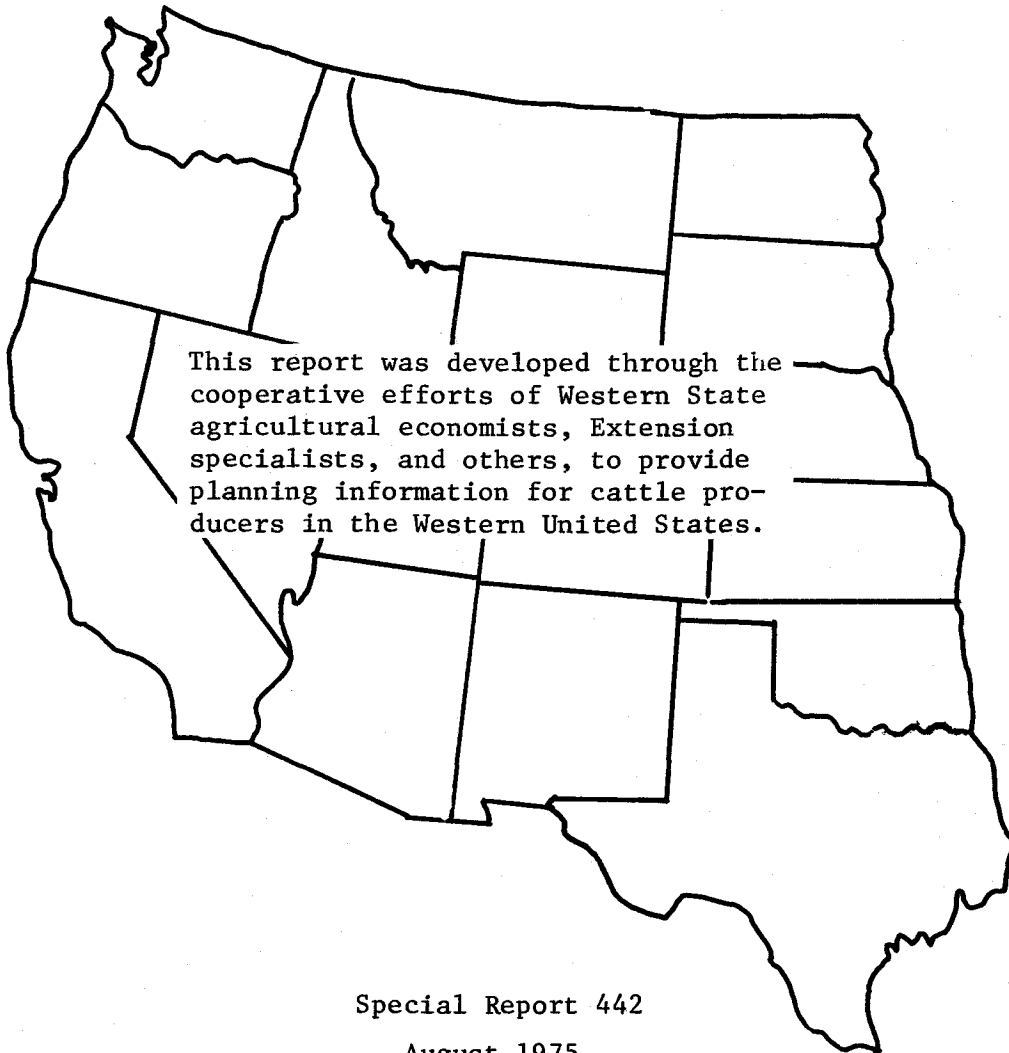


Special Report 442
August 1975



Oregon State University Extension Service

The Cowman's Management Options for 1975 and Beyond



This report was developed through the cooperative efforts of Western State agricultural economists, Extension specialists, and others, to provide planning information for cattle producers in the Western United States.

Special Report 442

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Oregon State University
Extension Service
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CONTENTS

	<u>Page</u>
WHAT'S THE PROBLEM?.....	1
WHAT'S THE OUTLOOK?.....	2
Size of the U.S. Cowherd.....	2
Feed Grain Supply and Prices.....	4
Beef Imports.....	4
Consumer Demand for Beef.....	5
Marketing Costs.....	5
Cattle Prices.....	6
WHAT ARE THE COWMAN'S OPTIONS?.....	6
Financing Options.....	7
Modify Terms of Non-Real Estate Loans.....	7
Refinancing Real Estate.....	8
Emergency Livestock Loan Act.....	8
Other Financing Options.....	9
Income Tax Considerations.....	9
Production Options.....	10
Cowherd Adjustment.....	10
Retained Ownership Alternatives.....	15
Marketing Options.....	20
Market Information.....	20
Forward Contracting and Hedging.....	21
Group Action.....	21
THE ALTERNATIVES IN PERSPECTIVE.....	22
WORKSHEETS.....	23

THE COWMAN'S MANAGEMENT
OPTIONS FOR 1975 AND BEYOND

WHAT'S THE PROBLEM?

What is the cowman's problem? The answer appears to be obvious: A drop in feeder cattle prices from high 1973 levels to low 1974 levels which eliminated profits and caused heavy losses. Low prices are expected to persist through the remainder of 1975, although prices did rise temporarily in spring and early summer of 1975. It is likely that prices will not improve appreciably during 1976 and perhaps not until 1977 or 1978.

As a cowman, you can see the problem when you look at your profit and loss statement. While the financial situation of the country's cowmen varies greatly, it is not a pleasant one. A survey of 200 lenders^{1/} (who were financing more than 30,000 cattle producers) in early 1975 indicated that 9 percent of the nation's cowmen were in "bad" financial difficulty and their businesses were not likely to survive. Perhaps more importantly, the respondents indicated that 18.5 percent of their cowmen clients would be forced out of business if the April 1975 low level of cattle prices were to continue another year. On the other hand, lenders estimated that 33 percent of the operators were in no financial difficulty, with the rest somewhere in between.

The underlying causes of this problem are not always evident. The factors that have led to the cowman's current economic pinch are the numbers of cows in the U.S., the price of feed (particularly feed grains), and the demand for slaughter cattle. The first two are by far the most important.

^{1/} John Hopkin, "An Assessment of the Economic and Financing Situation for the Beef Industry," report to the Executive Committee of the American National Cattlemen's Association, July 1975.

The projection of factors such as the country's cowherd size, feed grain supplies, feed prices, and calf prices, is not a simple matter. Furthermore, once projections are established, it is still necessary for you, the individual cowman, to decide on your best management strategy.

This report presents a brief statement of the outlook situation and a number of management strategies to aid you in arriving at the best management strategy for your operation. The outlook information is the best information available as of mid-1975, but you and every cowman should continue to watch for new information and new developments. The alternative management strategies discussed are key strategies. Special circumstances may necessitate that modified or even totally different management strategies be analyzed by some cowmen.

WHAT'S THE OUTLOOK?

Size of the U.S. Cowherd

The cattle industry is in the midst of the fourth cattle cycle since 1938. A cycle runs from a low in cattle numbers through a high in cattle numbers and down to the next low in cattle numbers (see Figure 1). As cattle numbers increase, cattle prices eventually tend to fall, and vice versa.

In the past, cattle cycles lasted from 9 to 12 years, with the cattle liquidation period lasting from 3 to 4 years. The current cycle (which began in 1968) is in its 8th year and the leveling out period has not yet come (see top line in Figure 1). Such leveling out must be preceded by a reduction in the number of cows in the U.S.

The number of cows in the U.S. over the next two to three years will be determined largely by your actions and the actions of other cowmen with respect to cow slaughter and heifer retention. Actions taken in 1975 will be of particular importance. Table 1 presents a projection of the size of the U.S. cowherd through 1977 based on the assumption that cattlemen will begin reducing their cowherds in 1975. A substantial

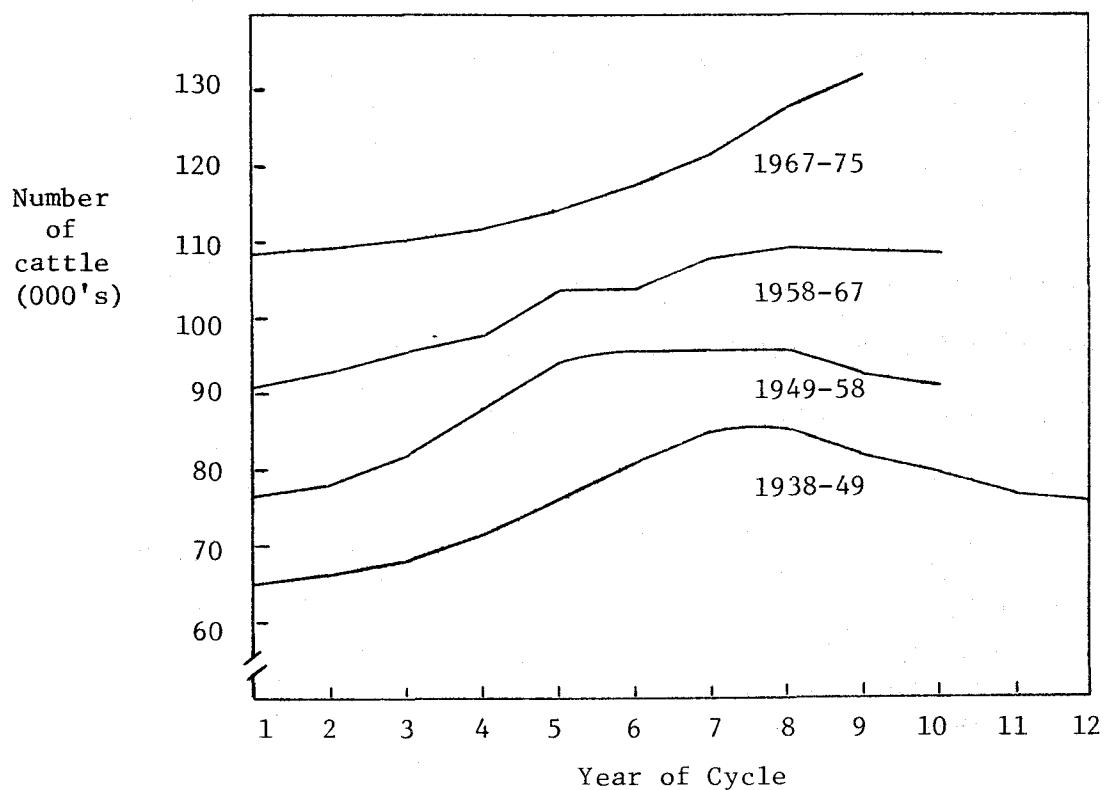


Figure 1: Cattle on Farms and Ranches, January 1, by Cycle

Source: Western Marketing Information Project and USDA Reports

increase in cow slaughter during the last half of 1975 would be required to reach the figures projected for the end of 1975 and beyond.

The amount by which the U.S. cowherd must be reduced to achieve an improvement in cattle prices is influenced by changes in the beef produced per cow per year. High feed grain prices cause cattlemen (1) to shift to higher roughage diets for finishing cattle which produce lower rates of gain and (2) to market cattle for slaughter at lighter weights. The result is less beef per cow per year, and more cows are required to maintain the aggregate level of beef output. Thus, you should consider the possible changes in production per cow as you analyze the impact of projected cow numbers.

Table 1. The Cowherd, United States, 1973-77

	1973	1974	1975	1976*	1977*
	- - - - - million head - - - - -				
Total cows beginning of year	52.5	54.3	56.6	56.0	54.5
Replacement heifers on hand Jan. 1	11.1	12.1	12.9	12.5	11.9
Death loss and unaccounted for	3.1	2.3	3.5*	3.4	3.3
Cow Slaughter	<u>6.2</u>	<u>7.5</u>	<u>10.0*</u>	<u>10.6</u>	<u>9.5</u>
End of year	54.3	56.6	56.0*	54.5	53.7

* Projections

Source: John Hopkin, "An Assessment of the Economic and Financing Situation for the Beef Industry," report to the Executive Committee of the American National Cattlemen's Association, Summer 1975.

Feed Grain Supply and Prices

Reduced feed grain reserves and high prices of feed grains usually are reflected in lower feeder cattle prices. With carryovers for all feed grains lower than they have been for decades, any substantial deviation from normal growing weather and normal export demands will have significant impacts on feed grain prices. Since weather and unusual foreign demand for feed grains cannot be anticipated, price forecasts for feed grains must be made, assuming normal weather conditions and export demand. Under such circumstances, carryovers are expected to build up, and feed grain prices are expected to drop and then level out.

Beef Imports

Imports of beef rose steadily from 1960 through 1973, but declined in 1974, largely due to the weakened import price situation in the U.S. The quantity of imported beef will continue to decline as long as domestic prices for low grade beef remain low. Import beef amounted to about 7 percent of the U.S. per capita consumption in the U.S. in 1974.

Consumer Demand for Beef

Although consumer demand for beef remained strong in the seventies, it was not strong enough to keep up with increased beef production. U.S. per capita beef consumption was 116 pounds in 1972, it was 110 pounds in 1973 and rose again to 116 pounds in 1974. The 1975 consumption may reach 122 to 126 pounds.

As long as consumers' real incomes rise, consumer demand for beef can be expected to increase. Furthermore, as long as population, as well as per capita consumption increase, total beef consumption will increase even more. Nevertheless, the continuing strong demand for beef by the U.S. consumer cannot be expected to absorb the recent rate of growth of the U.S. cowherd. For instance, the estimated 1975 per capita consumption of 122-126 pounds translates into a 10 percent increase in the total pounds of cattle slaughter over 1974. However, to absorb the increase in cattle build-up by 1976, an increase of approximately 30 percent in cattle slaughter in 1975 over 1974 would be necessary. This is an unlikely prospect, and the need for the cattle industry to substantially reduce production for a period of two to three years is once again pointed out.

Marketing Costs

The cost of marketing agricultural products has increased by about 65 percent between 1963 and 1973.^{2/} Between 1970 and 1973 alone the marketing bill for agricultural products increased by more than 15 percent. Most of this increase was in costs for labor, packaging and materials, and transportation.

These increased marketing costs are partly passed on to the consumer in the form of higher retail prices and partly passed back to you, the producer, in the form of lower cattle prices. One source^{3/} estimates

^{2/} United States Department of Agriculture, 1974 Handbook of Agricultural Charts, No. 477, p. 30.

^{3/} Luther Tweeten, "Inflation and the Farming Industry," paper presented at the Annual Meeting of the Western Agricultural Economics Association, Reno, Nevada, July 1975.

that the increased marketing costs are passed forward (to the consumer) and backwards (to the producer) in about equal proportions. At any rate, as long as wages rise (partly in response to inflation), and as long as materials (fuel, packaging) prices rise (largely due to shortages), increased marketing costs will put downward pressure on the prices you receive.

Cattle Prices

Current and future prices for cattle and calves will be determined largely by the factors discussed above. If these factors will, indeed, behave as stated, the projections of prices in Table 2 appear relevant.

Table 2. Projected Cattle Prices, Western U.S., 1975-77, in Dollars per Hundredweight

Class and weight	1975 ^{a/}	1976	1977
Steer calves (300-500 pounds)	\$28-30	\$31-33	\$31-35
Yearling steers (600-800 pounds)	29-31	30-32	29-33
Utility cows (900-1100 pounds)	16-17	14-16	15-19
Choice steers (1000-1100 pounds)	39-41	39-41	38-42

^{a/} Fourth quarter of 1975.

WHAT ARE THE COWMAN'S OPTIONS?

A number of financing, production, and marketing options for weathering the economic crunch are outlined here. Do not be misled into thinking that these options are quick and easy solutions that will result in hefty profits in 1975 and 1976. The seriousness of the cost/price squeeze in cattle production defies any simple solution, but some of the options discussed here might help to reduce the problem.

There is no one best management strategy for all cowmen. Because of individual circumstances, the best management strategy for one operator may

be less desirable or even infeasible for you. Some of the considerations include:

*Feed situation - Is your feed supply ample throughout the year? Can feed be purchased or sold locally? At what price?

*Quality and age of cowherd - Will heavy culling offer opportunities to improve the cowherd?

*Present program - Is your current program a cow-calf or a cow-yearling operation?

*Supplemental enterprise or only enterprise - Are cattle your only source of income?

*Liquidity and equity position - Do you face cash flow problems? Is your equity in real estate high?

*Individual expectations and preferences - What are your own price expectations? Do you prefer to play it safe or are you willing to take more risks?

It is possible that you will combine two or three of the options discussed in order to develop that management strategy which is best for you. For example, a combination of loan refinancing, cowherd adjustment, and forward contracting would be a possibility.

Financing Options

Modify Terms of Non-Real Estate Loans

Lenders want to avoid foreclosures. They are more interested in helping you solve your financial problems. If you have an efficient operation and can show a good plan and good budget statement for the next one to three years, there is a good chance that your lender would consider a modification of the terms of a non-real estate loan. You may need additional loan funds and find it difficult to meet your repayment schedule. In this case, the lender may be willing to extend the repayment period and thus reduce the quarterly or annual payments. You will pay more total interest during the loan period, but this may be necessary to meet cash flow obligations.

Refinancing Real Estate

If you need funds to meet cash flow obligations, you may wish to consider the option of refinancing part or all of your real estate. Land values have increased substantially over the past years. Also, the 1971 Farm Loan Act enables the Federal Land Bank to increase the ratios of loans to land values. These two developments can provide additional liquidity for those cattlemen who have a substantial equity in their land. However, cattlemen who have expanded during the last few years are likely already carrying heavy real estate loans and have no unused borrowing capacity remaining. Also, some cowmen depend heavily on leased land, and their deeded acreage may not provide an adequate collateral for their credit needs.

In considering refinancing, remember you will almost certainly pay interest rates higher than those on previous loans. A commitment to increased annual payments over a longer period of time is almost always the consequence of refinancing.

Emergency Livestock Loan Act

An emergency livestock credit act was passed in 1974 and liberalized in June of 1975. Under the liberalized act, the Farmer's Home Administration (FmHA) is empowered to guarantee 90 percent of livestock loans up to \$350,000 and over a repayment period of up to ten years.^{4/} The government may accept collateral, e.g. livestock, which has depreciated in value due to temporary economic conditions. If you choose this financing option, you arrange for a loan through a legally recognized lender. You then apply to your local FmHA office, certifying you cannot get financing elsewhere. The lender must certify that he would not make the loan without the government's guarantee. Additional information is available through FmHA.

^{4/} To be eligible, you must devote at least 25 percent of your time to breeding, raising, fattening, or marketing of livestock, or must receive at least 25 percent of your income, or have at least 25 percent of your investment in a livestock operation.

Other Financing Options

In order to obtain additional financing, or keep the current financing, bankers may suggest that you provide additional security, either agricultural or non-agricultural in nature. He may also suggest postponement of capital investments and/or liquidation of assets, in particular, partial liquidation of the cowherd (to be discussed in detail later).

Whatever the case may be, it is wise for you to work closely and early with your lender when exploring any financing alternatives outlined.

Income Tax Considerations

It is unlikely that many cowmen will have large income tax liabilities in 1975 and 1976. Keep the tax implications of various options in mind, however, as you develop a management strategy. Remember that returns from raised brood cows are taxed as capital gains, that is, at rates lower than regular income. Thus, selling more cows relative to calves and yearlings may be attractive because it will reduce your taxable income.

If large losses in taxable income occur, consider the timing of when you will claim the loss. Losses must be carried back three years and could be carried forward for as many as five years. Some cowmen paid relatively high income taxes for tax year 1973. If a large loss occurs in 1976, a tax refund may be available by carrying the loss back to 1973.

New tax law changes may also benefit you and other cattle producers. These changes allow an investment tax credit of 10 percent on purchases of equipment, machinery, and breeding stock--up from the 7 percent allowed previously. If your business is incorporated, the tax bite on the first \$50,000 of corporate earnings has been eased.

There may be no conflict between the best management strategy and the tax considerations, but keep in mind the objective is usually to maximize income after taxes over time, not just to minimize taxes.

Production Options

Budgeting worksheets and examples are presented here for your use to indicate the likely consequences of various retained ownership and cowherd adjustment alternatives. The examples use the price projections based on the mid-1975 outlook as presented in Table 2. You should sit down with pencil and paper using these examples as a starting point and budget your own operation based on your expected prices, sale weights, and feed situation. Blank worksheets are provided.

The lender and credit agency will be vitally interested in your budgets. Preparing budgets similar to those here provides documentation to your lender that your loan request is financially feasible, i.e., sufficient cash will be generated to pay operating costs, family living expenses, and repay the loan.

Alternatives to be considered include keeping the same number of cows and retaining ownership of the calves. Carrying calves over the winter, grazing yearlings, and custom feeding are examples of retained ownership strategies. These alternatives, of course, are only feasible for you, if you have financing and additional feed resources. Producers lacking financial and feed resources must consider adjusting the size of their cowherds if they plan to carry their calves and yearlings.

Cowherd Adjustment

Why should you, the financially pressed producer, consider a change in his program and what should it entail? High feed prices have reversed the price relationship between calves and yearlings. Thus, the cowman who has typically sold calves should consider the option of selling more cows and carrying over more calves. The cow-calf producer needs to consider whether using his grass and hay to grow yearlings provides a greater return than using it to produce more calves.

Your present production program will affect your management strategy. If you are selling yearlings you will have different alternatives than if you are selling calves.^{5/} Of course, mixed systems with varying proportions

^{5/} A cow-calf operation sells primarily calves and cull cows and carries relatively few animals except replacement heifers beyond weaning age, i.e., at 350 to 500 pounds. A cow-yearling operation markets most of the production at 1 to 2 years of age, i.e., at weights between 600 and 750 pounds.

of calf sales to yearling sales exist. However, for simplicity here, consider the two cases.

The following examples are based on these assumptions:

1. Feed resources are limited. The cowherd adjustment examples assume a stable feed supply, i.e., the cowman cannot purchase additional feed or sell excess feed either because of financial reasons or his location. Therefore, cattle numbers are adjusted to use approximately the same quantity of feed.

2. Costs, debt servicing, family living requirements, etc. vary greatly among ranchers. Therefore, to simplify the examples, these factors are not considered in the cowherd adjustment budgets. As long as total feed requirements are not changed, costs tend to be relatively constant. Of course, you should budget out your own cash and non-cash costs.

3. Bull sales and replacement are not considered in these examples but would be affected under some of the example programs.

4. For simplicity, the examples are based on a size of unit that would carry 100 cows under a cow-calf program including replacements. This makes it relatively easy for you to adjust the example to any size of operation. This same feed supply would carry 75 cows for a cow-yearling operation.

5. The production program assumes an 85 percent calf crop, a 3 percent death loss of cows per year, and minimum cull cow sales of 15 percent.

6. Adequate facilities and labor are available to handle the adjustments without additional investments in machinery and equipment.

*An Alternative for the Cow-Calf Producer: Shift to Yearlings. Under his present program, over the next three years, the example cow-calf producer would expect to sell 42 steer calves, 24 heifer calves, and 15 cull cows each year (see Exhibit 1). Based on the projected prices, the annual cash income would be about \$100 per cow for the next three years.

The proposed program is to decrease cow numbers and sell yearlings. In late 1975, 50 cows (35 cows in addition to the normal 15) would be sold and the calves are carried over and sold as yearlings the following year. Cash income would be down \$1,347 in 1975. However, the possibility

EXHIBIT 1

WORKSHEET FOR TESTING BEEF COWHERD PRODUCTION ALTERNATIVES

	PRESENT PROGRAM: COW-CALF/NO CHANGE						PROPOSED PROGRAM: CULL COWS + SELL YEARLINGS					
	On Hand	Raised	Sold	Weight	Price	Income	On hand	Raised	Sold	Weight	Price	Income
1975	82		15	1000	16.50	2475	82		50	1000	16.50	82.50
Cows	18						18					
Bred heifers	18	42	24	375	25.00	2250	18	42				
Heifers		42	42	400	29.00	4872		42				
Steers												
1976	82		15	1000	15.00	2250	47		10	1000	15.00	1500
Cows	18						18					
Bred heifers	18	42	24	375	28.00	2520	42	28	20	625	28.00	3500
Heifers		42	42	400	32.00	5376	42	27	42	700	31.00	9114
Steers												

of selling or not replacing one or more bulls would reduce this deficit. The cash income from the sale of yearlings and cull cows the fall of 1976 would give a cash income of \$14,000 or about \$4,000 more than the present program. The three year total under the proposed program would amount to \$2,091 more than the present program.

Cash income would be down slightly in the current year. This may make it difficult for the rancher who is in a financial bind. However, as the budget indicates, cash income will be up substantially in the following year. Thus, the lender would need to be convinced that the proposed program, while reducing cash flow in the first year, would result in a greater total cash flow for the three years combined. Selling 10 less cows and 25 of the calves in 1975 would improve the immediate cash flow.

In the fall of 1977, the rancher will have completed his shift to a yearling operation which he could then sustain. Or, if the price relationship between calves and yearlings has changed back, it might be advantageous to begin phasing back into a cow-calf operation.

*Another Alternative for the Cow-Calf Producer: Winter Calves. This program does not reduce cow numbers as drastically. The rancher reduces the size of his cowherd to provide feed for wintering some of his steer calves for sale at heavier weights in early spring. The program (as presented in Exhibit 2) also allows for rebuilding the cowherd back to 100 cows in 1978.

Under this program, 10 steer calves, 17 heifer calves, and 35 cows would be sold in the fall of 1975. The remaining heifers would be carried over as replacements and the remaining 32 steers would be wintered to gain one pound per day and sold in April at 580 pounds. In the next year, feed would be available to winter only 12 of the steers because of the increase in the size of the cowherd.

The financing implications for this example are somewhat different from the previous one. While it is not readily apparent from the annual totals, for the six months beginning in the fall of 1975, cash income would be up by about \$4,700 due to the steer sales in April. This would be particularly important to the rancher who is under financial pressure.

EXHIBIT 2

WORKSHEET FOR TESTING BEEF COWHERD PRODUCTION ALTERNATIVES

PRESENT PROGRAM: COW-CALF/NO CHANGE												PROPOSED PROGRAM: WINTER STEER CALVES					
On Hand	Raised	Sold	Weight	Price	Income	On hand	Raised	Sold	Weight	Price	Income						
82		15	1000	16.50	2475	82		35	1000	16.50	5775						
18						18											
18	42	24	375	25.00	2250	18	42	17	375	25.00	1594						
	42	42	400	29.00	4872		42	10	400	29.00	1160						
1975 cash income						9597	1975 cash income						8529				
82		15	1000	15.00	2250	62		12	1000	15.00	1800						
18						18											
18	42	24	375	28.00	2520	25	34	8	375	28.00	840						
	42	42	400	32.00	5376		34	22	400	32.00	2816						
						32		32	580	31.00	5754						
1976 cash income							1976 cash income										
82		15	1000	17.00	2550	65		13	1000	17.00	2210						
18						25											
18	42	24	375	29.00	2610	26	38	20	375	29.00	2175						
	42	42	400	33.00	5544		38	38	400	33.00	5016						
						12		12	580	33.00	2297						
1977 cash income						10704	1977 cash income						11698				

1975	Cows	Bred heifers	Heifers	Steers
1976	Cows	Bred heifers	Heifers	Steers

1977	Cows	Bred heifers	Heifers	Steers
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Income summary:

Increase in income

Accumulated increase

1975

7901-

1992

1976

771514
01CT

11

1977

116T

1.000

Approximately \$1,000 more cash income would be generated under the proposed program than the present cow-calf program.

Note that with this program there would be a reduction in feed requirements during the grazing season because fewer cows are carried. For an individual rancher this may reduce grazing fees paid, and deferring grazing may pay off in increased forage production in the future.

*An Alternative for the Cow-Yearling Producer: Background Yearlings.

This example compares selling yearlings with a program of reducing cow numbers and backgrounding the yearling steers with the hay that is saved (see Exhibit 3). Under the proposed program, an additional 10 cows are sold in the fall of 1975. The hay, usually fed to these cows, would be fed to the yearling steers to increase their weight by about 85 pounds before sale at 785 pounds in December. Cash income would increase \$2,500 at the end of 1975. The smaller calf crop and saving additional heifers to restore the size of the cowherd would reduce cash income below that of the present program for the following two years. Over the three years, the total cash income would decrease \$706 with the prices assumed here. However, the backgrounding operation would shift cash income into the immediate year, an advantage if cash is needed to meet financial obligations.

Retained Ownership Alternatives

These alternatives are for your consideration if you are not limited in financial and feed resources. Retained ownership alternatives involve keeping the calves and yearlings longer than usual, but with no change in the size or production program for your cowherd. Additional financing will be needed to carry the cattle, purchase feed, or replace income from feed that would otherwise be sold.

Two retained ownership alternatives are examined: backgrounding and custom finishing. Backgrounding as defined here, refers to retaining the cattle on the ranch and feeding them growing rations as contrasted to finishing rations. This might include several possibilities such as grazing native range, wintering on stubble, or feeding a hay and grain ration, which is the alternative analyzed here.

WORKSHEET FOR TESTING BEEF COWHERD PRODUCTION ALTERNATIVES

	1975	1976	1977
Income summary:			
Increase in income	+2562	-1700	-1568
Accumulated increase	+2562	+862	-706

*An Alternative for the Cow-Calf Producer: Backgrounding Calves. The steer calves are fed to gain 1.5 pounds per day for 180 days (Exhibit 4). In October, the 400-pound steer is assumed to be worth 29 cents per pound or \$116. April 1, 1975, the 670-pound steer is assumed sold at 31 cents per pound or \$208. Feed costs amount to \$78 per head. Death loss, veterinary, and interest on the value of the calves and feed amount to \$13.

At these price and cost assumptions, the rancher would cover the itemized costs leaving \$1 per head net return. However, labor, equipment, buildings, and other fixed costs are not included.

*An Alternative for the Cow-Yearling Producer: Custom Finishing. Custom feeding, like backgrounding, also involves retaining ownership of the cattle. The difference is that the cattle are not kept on the ranch, but shipped to a custom feedlot, fed a finishing ration, and then sold for slaughter. This is the most common program, but some cow-calf operators use custom lots for wintering, then bring animals back to the ranch next spring.

The example custom feeding program (Exhibit 5) assumes that the rancher has 700-pound yearling steers worth 30 cents going into the feedlot. Feed costs are estimated at 50 cents per pound of net gain (includes feed to compensate for shrink). Yardage is figured at 7 cents per head per day, and veterinary and other charges are as indicated.

There are other costs to the owner of the cattle that should not be overlooked. Interest, figured at 10 percent on the value of the animal and feedlot charges, will amount to \$11.25 per head. Death loss and trucking costs must also be included.

The total cost for custom feeding, including the value of the animal at the beginning of the feeding period, amounts to \$412. Based on a sale weight of 1,050 pounds at 40 cents, this example program would return over \$5 per head to compensate the cowman's risk and management. These price and cost assumptions indicate a small profit margin, but a slight price change could alter the outcome substantially.

There is additional risk in retained ownership, and additional capital will be required. In addition to financing the cattle, the feed must also

EXHIBIT 4

WORKSHEET FOR TESTING BACKGROUNDING ALTERNATIVES

DESCRIPTION OF PROPOSED PROGRAM BACKGROUNDING CALVESBeginning date 10/1/75Ending date 4/1/75

Item	Description	Per head (\$)	Total for _____ head (\$)
1. Ending value	(<u>670</u> lbs. @ \$ <u>.31</u>)	207.70	
2. Beginning value	(<u>400</u> lbs. @ \$ <u>.29</u>)	116.00	
3. Feed costs			
Concentrate	(<u>540</u> lbs. @ \$ <u>.05</u>)	27.00	
Hay	(<u>1</u> tons @ \$ <u>50/ton</u>)	50.00	
Grass	(_____ mos. @ _____)		
Other	(salt, minerals, etc.)	.50	
Total feed costs		77.50	
4. Non-feed costs			
Death loss	(<u>2</u> % of line 2)	2.35	
Vet & medical		1.50	
Interest on cattle	(<u>10</u> % for <u>6</u> mos.)	5.80	
Interest on feed	(<u>10</u> % for <u>3</u> mos.)	1.95	
Other	(taxes on cattle, fees, fuel, etc.)	1.50	
Total non-feed costs		13.10	
5. Total variable costs	(lines 2 + 3 + 4)	206.60	
6. Return to labor & fixed costs	(lines 1 - 5)	1.10	

EXHIBIT 5

WORKSHEET FOR TESTING CUSTOM FEEDING ALTERNATIVES

DESCRIPTION OF PROPOSED PROGRAM FINISH YEARLING STEERSBeginning date 10/1/75Ending date 2/20/76

Item	Description	Per head (\$)	Total for ____ head (\$)
1. Ending value	(<u>1050</u> lbs. @ \$ <u>.40</u>)	420.00	
2. Beginning value	(<u>700</u> lbs. @ \$ <u>.30</u>)	210.00	
3. Custom lot charges			
Feed cost	(<u>350</u> lbs. gain @ \$ <u>.50</u>)	175.00	
Yardage (if extra)	(<u>140</u> days @ \$ <u>.07</u>)	9.80	
Vet & medical		1.00	
Other	(implants, insurance, etc.)	.50	
Total lot charges		186.30	
4. Owner's other costs			
Trucking to lot	(<u>7</u> cwt. @ \$ <u>.35</u>)	2.45	
Death loss	(<u>2</u> % of line 2)	4.20	
Interest on cattle	(<u>10</u> % for <u>4 2/3</u> mos.)	8.20	
Interest on lot charge	(<u>10</u> % for <u>2 1/3</u> mos.)	3.05	
Other	(Taxes on cattle, fees, etc.)	.50	
Total owner's costs		18.40	
5. Total variable costs	(Lines 2 + 3 + 4)	414.70	
6. Return to management	(Lines 1 - 5)	5.30	

be purchased. Preplanning with the lender is important. The programs do not always prove out as planned. Cattle prices could unexpectedly drop, resulting in a loss.

If you are considering this option, pencil out your estimates of the net returns using various prices and costs of gain. With an estimate of the magnitude of highest likely loss, you should evaluate your financial position and judge whether you have the capacity to incur such a loss.

Because of the risk and financial requirement, custom feeding is a recommended alternative for only some ranchers. Even then it may take special circumstances such as high-quality, efficient feeders or a particularly depressed feeder-cattle market to overcome the disadvantages.

If you choose this alternative, you can soften the risk and capital requirement by putting only one-third or one-half of your best yearlings into the custom feeding program.

Marketing Options

The best financing and production strategies may, in the end, result in poor profits (or larger losses than necessary) if you pay no attention to marketing options. To be sure, no degree of sophistication in marketing can eliminate the excess production of beef and relatively high feed grain prices that are plaguing the cattle industry. However, price movements do occur, and you should attempt to take advantage of them. Also, opportunities exist for you to take out "price insurance." The following comments may alert you to these alternatives.

Market Information

Much market information is available that is not completely utilized. Available information includes not only current cattle prices, but weather and growing conditions, number of cattle on feed, range conditions, trends in feed prices, cattle marketings, storage stocks of beef, and prices of poultry, pork, lamb and mutton. Much of this information can be obtained from USDA reports (often free), Extension publications, trade organizations, and private firms specializing in market information. Cattle price

predictions also are periodically provided from a variety of sources. You should be alert to this type of information and learn to understand it and use it in making your marketing decisions.

Above all, you should use all available local information to make sure that the prices you receive for your cattle are at least competitive in the local market. The first bid received may not be the best bid and could be out of line. Use your telephone to collect your own local market information by calling neighbors, local auction yards, the county Extension agent, the agricultural college, trade association offices, USDA and privately sponsored code-a-phone market reports, and USDA market news offices.

Forward Contracting and Hedging

Particularly if you have decided that retained ownership of your cattle through the feedlot is one of your best production strategies, you may want to examine whether forward contracting and hedging is an option which you should choose.

The use of the forward-pricing hedge is not for the uninformed. Those interested in using the hedge for the first time are advised to consult with a broker, their lender, the county Extension agent, or specialists in the agricultural college. Easy-to-read references on the subject include Mark J. Powers, Getting Started in Commodity Futures Trading, Inverter Publications, Columbia, MD, 1973; Owen Wirak, "Hedging Feeder Cattle," Extension Bulletin 601, Washington State University, 1970; or T. M. Hammonds, The Producer's and Lender's Guide to Futures Trading, Conrad Press, Corvallis, OR, 1975.

Group Action

So far we have discussed only alternatives that can be selected and executed by you as an individual cattleman. However, cattlemen as groups--county, state, regional, national--have important roles to play. Collection, dissemination, and analysis of marketing information is one such area, where cattlemen as groups and in cooperation with existing agencies and institutions (USDA, agricultural colleges) can be more effective than the

individual. Similarly, the preparation of informational materials of all types, such as information on the Emergency Livestock Loan Act and instructions on how to participate are more effectively done through group effort than through individual effort.

THE ALTERNATIVES IN PERSPECTIVE

Projecting such items as prices, costs, and consumption is a difficult task. This task becomes more and more difficult as you make projections further and further into the future. Once you make such projections, they are of no value unless you use them in budgets that also cover several years. This again is an involved process. However, all businesses--and the cattle business is no exception--should attempt to anticipate conditions several years in advance to be able to make the necessary adjustments and to develop profitable production, financing, and marketing strategies.

Projections, budgets, and strategies covering several years cannot be made today and left unaltered for several years. While projections may be the best available today, conditions will change--perhaps necessitating a change in strategy. Thus, you are encouraged to seek out additional information continuously as the events unfold and select your best "options" in the light of changing events, both today and one or two years hence.

WORKSHEET

WORKSHEET FOR TESTING BEEF COWHERD PRODUCTION ALTERNATIVES

PRESENT PROGRAM:		PROPOSED PROGRAM:									
On Hand	Raised	Sold	Weight	Price	Income	On hand	Raised	Sold	Weight	Price	Income
						1975 cash income					
						1975 cash income					
						1976 cash income					
						1976 cash income					
						1977 cash income					
						1977 cash income					

PRESENT PROGRAM:		PROPOSED PROGRAM:									
On Hand	Raised	Sold	Weight	Price	Income	On hand	Raised	Sold	Weight	Price	Income
						1975 cash income					
						1975 cash income					
						1976 cash income					
						1976 cash income					
						1977 cash income					
						1977 cash income					

PRESENT PROGRAM:		PROPOSED PROGRAM:									
On Hand	Raised	Sold	Weight	Price	Income	On hand	Raised	Sold	Weight	Price	Income
						1975 cash income					
						1975 cash income					
						1976 cash income					
						1976 cash income					
						1977 cash income					
						1977 cash income					

Income summary:

Increase in income

1975

1976

1977

Accumulated increase

1975

1976

1977

WORKSHEET FOR TESTING BACKGROUNDING ALTERNATIVES

DESCRIPTION OF PROPOSED PROGRAM _____

Beginning date _____

Ending date _____

Item	Description	Per head	Total for _____ head
		(\$)	(\$)
1. Ending value	(_____ lbs. @ \$_____)		
2. Beginning value	(_____ lbs. @ \$_____)		
3. Feed costs			
Concentrate	(_____ lbs. @ \$_____)		
Hay	(_____ tons @ \$_____)		
Grass	(_____ mos. @ _____)		
Other	(salt, minerals, etc.)		
Total feed costs			
4. Non-feed costs			
Death loss	(_____ % of line 2)		
Vet & medical			
Interest on cattle	(_____ % for _____ mos.)		
Interest on feed	(_____ % for _____ mos.)		
Other	(taxes on cattle, fees, fuel, etc.)		
Total non-feed costs			
5. Total variable costs	(lines 2 + 3 + 4)		
6. Return to labor & fixed costs	(lines 1 - 5)		

WORKSHEET FOR TESTING CUSTOM FEEDING ALTERNATIVES

DESCRIPTION OF PROPOSED PROGRAM _____

Beginning date _____

Ending date _____

Item	Description	Per head	Total for ____ head
		(\$)	(\$)
1. Ending value	(_____ lbs. @ \$_____)		
2. Beginning value	(_____ lbs. @ \$_____)		
3. Custom lot charges			
Feed cost	(_____ lbs. gain @ \$_____)		
Yardage (if extra)	(_____ days @ \$_____)		
Vet & medical			
Other	(implants, insurance, etc.)		
Total lot charges			
4. Owner's other costs			
Trucking to lot	(_____ cwt. @ \$_____)		
Death loss	(_____ % of line 2)		
Interest on cattle	(_____ % for _____ mos.)		
Interest on lot charge	(_____ % for _____ mos.)		
Other	(Taxes on cattle, fees, etc.)		
Total owner's costs			
5. Total variable costs	(Lines 2 + 3 + 4)		
6. Return to management	(Lines 1 - 5)		



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