

Determining Planning Prices

As of early October, the Kentucky average price for 400 pound feeder steers is about \$72 per cwt. We have used a price of \$76 per cwt. in the budgets to account for purchase costs. To develop budgets, you will need additional price information. You may need prices for other classes of cattle you are considering for your program, and you will certainly need expected prices to project profitability.

For current prices you have two alternatives. One is to use current prices, as reported by the Market News Service. These can be collected from the weekly "Kentucky Livestock and Grain Market Report," (call 502/564-4896 to subscribe for this free publication), get the information from the Internet (see the Kentucky Department of Agriculture's Marketing page—<http://www.state.ky.us/agencies/agr/Markets.htm>) or other sources.

The second alternative, which is better for making comparisons, is to use common differences in prices. These are shown in the following table:

Base: 400 lb. steer		Example: \$93
500 lb. steer	subtract \$3 - \$5 per cwt.	\$89
400 lb. heifer	subtract \$7 - \$9 per cwt.	\$85
500 lb. heifer	subtract \$8 - \$12 per cwt.	\$83

Planning Prices: For prices in the future, we use what are known as "buy/sell margins." These are simply the differences in prices between the purchase price in the fall for the calf and the sale prices for the yearling in the spring. Because of the uncertainties of forecasting, it is best to use general history of these margins. Table 1 showing "Historical Backgrounding Margins" shows that the buy/sell margin has averaged -\$13 for steers and -\$8 for heifers. With an expectation of rising overall markets, we expect the buy/sell margin to be more favorable this year, averaging -\$6 for steers and -\$2 for heifers.

To use the expected buy/sell margin, start with the purchase price, for example, \$89 per cwt. Then subtract the margin, which would give an expected "planning price" of around \$76 for yearling steers to be sold this spring. Likewise, for heifers, if you use \$83 for your starting calf price, your planning price would be \$80 for the yearling heifers to be sold in the spring. If you want to be more conservative or are more pessimistic about the price outlook, raise your margins.

Table 1: Historical Backgrounding Margins - (for calves bought in October)

	5 Yr. Avg.	Best	Worst
steer calves sold at:			
600-700 lbs.,			
in Jan:	-\$9	-\$6	-\$12
in Mar:	-\$8	-\$6	-\$10
in May:	-\$9	-\$2	-\$14
700-800 lbs.,			
in Mar:	-\$13	-\$7	-\$21
in May:	-\$14	-\$5	-\$21
heifer calves sold at:			
600-700 lbs.,			
in Jan:	-\$5	-\$1	-\$9
in Mar:	-\$5	-\$3	-\$6
in May:	-\$7	-\$0	-\$12
700-800 lbs.,			
in Mar:	-\$8	-\$4	-\$11
in May:	-\$10	-\$2	-\$17

Table 2: Input and Output Prices Used in the Budgets

Input Prices	units	price
500# steers	cwt	\$88.00
corn	bu	\$2.10
soybean meal	ton	\$165
grass hay	ton	\$65
corn gluten	ton	\$80
soybean hulls	ton	\$80
wheat midds	ton	\$77
preconditioning ration	lb	\$0.125
pasture cost	head	\$25
interest rate	%	8.0%
death loss	%	2.0%
Output prices	units	price
750# steers		\$77.00