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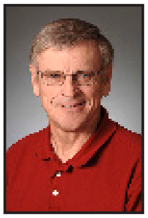

Livestock Gross Margin: A new risk management tool for cattle feeders

By Ron Hook, ISUE Farm Management Field Specialist, rhook@iastate.edu

A new risk management tool was made available to cattle feeders starting January 31, 2006. Livestock Gross Margin (LGM) is a livestock insurance product that protects an expected gross margin rather than a selling price, as is the case with Livestock Risk Protection (LRP). Both products allow small and medium sized operations to manage risk even if they do not have the volume or expertise necessary to use Chicago Mercantile Exchange (CME) futures and options contracts. LGM and LRP allow for numbers of cattle to be protected that do not match the specifications of the CME contracts, thus eliminating over or under coverage.

Coverage can be purchased from 5:00 pm on the last business day of each month until 9:00 am the next morning, when the CME opens. Although LGM can only be purchased during the short window allowed each month, it is possible to get an estimate of the premiums at the Center for Agricultural and Rural Development (CARD) website: http://www.card.iastate.edu/ under Ag Risk Tools.

Two types of enterprises can be insured under LGM—calf finishing and yearling finishing. In the calf finishing operation, the cattle are assumed to weigh 550 pounds when they enter the feedlot, to weigh 1,150 pounds at slaughter, and to consume 54.5 bushels of corn. In the yearling finishing operation, the cattle are assumed to weigh 750 pounds when they enter the feedlot, to weigh 1,250 pounds at slaughter, and to consume 57.5 bushels of corn. The gross margin is the estimated revenue from selling a finshed animal minus the purchase cost of the animal and the corn fed. The LGM policy provides insurance for the difference between the Gross Margin Guarantee and the Actual Total Gross Margin based on the producer's target marketings.

Each insurance period for LGM is eleven months long. No cattle can be insured during the first month of any insurance period. A producer must prepare a Target Marketing Report showing the number of cattle to be covered in each month of the insurance period, i.e., expected sales. The maximum number of cattle that can be covered is 5,000 head in any one insurance period and 10,000 head in any insurance year (July 1 through June 30).

Livestock Gross Margin insurance is sold by many crop insurance agents; check with yours for more details. The expected and actual gross margins for each month are available at the following website: http://www3.rma.usda.gov/apps/livestock_reports/. More information is also available at: http://www.rma.usda.gov/livestock/.

Cattle prices have declined recently and many forecasters have indicated that cattle prices may begin to decline later this year or into next year. This looks like a good time to put some risk management in place in the form of either a price floor or a guaranteed minimum gross margin. LRP insurance will lock in a minimum price for selling calves, yearlings, or finished cattle. LGM insurance will lock in a minimum gross margin for finishing calves or yearlings. (For more details see AgDM Information File B1-51, available at: http://www.extension.iastate.edu/agdm/livestock/html/b1-51.html.)

Updates, continued from page 1

Internet updates

The following updates have been added to www.extension.iastate.edu/agdm.

Livestock Gross Margin: A Risk Management Tool for Cattle Feeders – B1-51 (3 pages)

Partial Budgeting – C1-50 (2 pages)

Peter Drucker and Innovation – C5-10 (1 page)

Designing Successful Business Teams – C5-114 (2 pages)

Solving Conflicts Between Business Associates – C5-115 (2 pages)

Improving Value-added Business Communication Skills – C5-116 (2 pages)

Writing Press Releases – C5-132 (2 pages)

Writing a Newsletter – C5-133 (1 page)

Decision Tools

Storage Capacity – Use this decision tool to calculate the storage capacity of multiple types of grain storage facilities.

Partial Budgeting – Use this decision tool to evaluate the financial effect of incremental changes for a farm business.

Upcoming Events

Soil Management and Land Valuation Conference

Sponsored by the ISU College of Agriculture and ISU Extension, the Soil Management and Land Valuation Conference is intended for farm managers, rural appraisers, real estate brokers and others interested in the land use and farm real estate markets in Iowa. The Iowa Real Estate Commission has approved this conference for six hours of continuing education for renewal of a real estate and broker's license. This conference also has been approved for six hours of continuing education for Iowa Appraisal License renewal. It will be held in Ames, Iowa on May 17, 2006. For more information and to register, visit http://www.ucs.iastate.edu/mnet/soilmanagement/home.html.

Ag Credit School

The Ag Credit School is a complete learning experience for agricultural lenders that combines coursework, case-studies, computer applications, and in-depth personal attention from instructors. It is held June 5-9 on the Iowa State University campus in Ames, Iowa. This conference is sponsored by Iowa State University and the Iowa Bankers Association. For more information and to register, visit http://www.ucs.iastate.edu/mnet/iowaacs/home.html.

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