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Better efficiency helps feedlot margins

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Better efficiency helps feedlot margins

Abstract

Livestock Outlook: Favorable feed costs are pulling lightweight feeder cattle into feedlots.

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KEEPING CURRENT: Feedlots are keeping cattle marketings current, as lower feed costs and improved productivity promise to lift profits in the months ahead.

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Livestock Outlook: Favorable feed costs are pulling lightweight feeder cattle into feedlots.

Lee Schulz | Sep 19, 2018

A recent surge in feedlot placements may not point to a wall of fed cattle marketings later. Rather, expectations of favorably priced corn plus dry pastures in some areas may simply be pulling calves into feedlots sooner.

USDA's August Cattle on Feed Report tallied in July 2018 puts U.S. placements up 8% compared to July 2017. This publication is based on surveys of feedlots with 1,000 head or more. Most of the year-over-year hike in July placements was in lightweight feeders. Those weighing less than 600 pounds were up 14%. Cattle weighing between 600 and 700 pounds were up 23%. These lighter-weight placements accounted for 83% of the total placement rise.

The rise in July placements was broad-based. All surveyed states, except South Dakota and Washington, showed increases. Of the total rise in placements, 39% occurred in Kansas and Nebraska. If Colorado is included, 59% of the growth in placements was accounted for in those three states.

Iowa farmer-feeders have edge

In Iowa, July placements were up 10% year over year in feedlots with 1,000 head or more capacity and were up 18% in less than 1,000-head capacity. In total, Iowa placements were up 13% in July. Farmer-feeders may be responding to economic signals from the market. Corn prices are forecast to remain near year-ago levels well into 2019. A large 2018 corn crop could further pressure feed prices. Adding value to corn by feeding it to cattle is an important marketing tool for Iowa producers.

The rise in placements of lightweight feeders makes sense given the dry conditions across a broad swath of cattle country. As of early September, combined D0 (abnormally dry) to D4 (exceptional drought) covered around 54% of the U.S. At this time in 2017, D0–D4 conditions covered 30% of the nation.

Auction and direct sale feeder cattle receipts were 82,400 head more this July than in 2017. August receipts were up 65,400 head. Placing calves in feedlots sooner does slightly reduce the supply of calves available to place on feed later in the fall. Total feedlot placements for feedlots with 1,000 head or more for the first seven months of 2018 are near year-ago levels, up only 0.2% for the year to date.

120-days on feed measure

Higher levels of lightweight placements set up a continuation of high numbers of

cattle on feed for over 120 days. On Aug. 1, an estimated 3.99 million head of cattle were on feed for over 120 days in 1,000-head-or-more-capacity feedlots. This is 499,000 head more than last year and 295,800 head more than the 2012-16 average for Aug. 1.

The number of cattle on feed for more than 120 days generally indicates how many cattle will soon appear on feedlot show lists and will be the most immediate cattle to be marketed. Analysts use the on-feed estimate over 120 days because it's an average amount of time to finish yearling placements.

However, cattle placed at lighter weights stay on feed longer and get counted on more cattle on feed reports, which can overestimate how much beef is coming later and underestimate how current the market is.

Feedlots remain current

Feedlot marketings have outpaced net placements (gross placements minus other disappearance) on average this year, which is helping hold monthly feedlot inventories 4% to 5% higher year over year since May. Feedlots have remained current this year continuing a strong performance that began in 2017.

If longer days on feed are primarily from lightweight placements and not from feeding cattle to heavier weights, then slaughter weights should remain in-check. For the week ending Aug. 25, steer dressed weights were up only 2 pounds compared to a year ago. While steer carcass weights were up 5.09 pounds for the year to date, carcass weights were up only 1.13 pounds year over year in the past eight weeks, indicating that feedlots, in general, remain current.

Supporting data from Kansas

Another indication of the propensity to place cattle at lighter weights but only keep them on feed marginally longer comes from the Kansas State University Focus on Feedlots survey. The survey is conducted monthly and provides basic feedlot performance data for steers and heifers, and feed ingredient prices.

Each month summaries of closeout data from various Kansas feedlots provide average values for days on feed, average daily gain, harvest weight, dry matter feed conversion, cost of gain and death loss, and corn and alfalfa hay prices.

Through the first seven months of 2018, steers entering these surveyed Kansas feedlots weighed in at 23 pounds lighter than January through July of 2017, averaging 763 pounds. Heifers also were placed at lighter weights, 724 pounds this year compared to last year's 732 pounds. The survey report says steers were on feed an average of 174 days, eight days longer than last year.

This translated to steers that weighed 1,378 pounds (live) on average this year when they were sent from the feedlot to the packing plant. This was only 5 pounds heavier than the same period last year. Similarly, heifers were on feed an average of 10 days longer than last year and closeout weights were 25 pounds higher.

Pay attention to cattle productivity

While feeders have been placed at lighter weights and are being fed a bit longer and to slightly heavier weights, an important aspect in the cattle feeding industry is productivity. Terms used to evaluate productivity are average daily gain (ADG) and pounds of feed per pound of gain (F:G).

ADG is calculated as the out-weight when shipped to the packer less the in-weight upon arrival at the feedlot, divided by the days the animal was fed in the feedlot.

At the risk of oversimplifying, heavy animals that have been on feed a long time gain weight less efficiently than lighter animals. Pounds of feed (on dry basis) per pound of gain gives the conversion (efficiency) of feed to weight added to the feeder. Again, this conversion usually becomes less efficient (more pounds of feed are required per pound of gain) for feeders after they surpass a certain weight level and time on feed.

Numbers for steers for 2018 show an ADG of 3.49 pounds. This is up slightly from 3.47 pounds per day during the first seven months of 2017. Pounds of feed (dry matter) per pound of gain for steers during 2018 year-to-date was 6.10 pounds. This

is down slightly from 6.14 pounds in 2017, and indicates feedlots are maintaining feed efficiency. Heifer closeouts showed similar changes in productivity.

Many factors affect how these productivity dynamics play out. Extremely cold and wet, or extremely hot, weather can impact productivity. However, the longer the time the data covers, the more likely the data will reflect the actual trend in performance.

Stronger prices for feeder cattle

Feeder bids are reflecting low feed costs, higher fed cattle prices and good performance. Feed costs in Kansas are slightly higher this year ahead of new-crop corn and drought pressure in the Southern Plains.

January through July corn costs averaged \$3.85 per bushel, compared to an average of \$3.62 per bushel in 2017. Ground alfalfa hay prices have moved \$55 per ton higher for Kansas feedlots in 2018, and that spread appears to be widening. July ground alfalfa hay costs were \$174 per ton, \$58 higher than July 2017.

Kansas steers marketed so far in 2018 have an estimated cost of gain per hundredweight of \$77.22, compared to \$73.80 in 2017. Heifers average cost was \$81.63 per cwt compared to last year's \$78.01 per cwt. Midwest region feedlots likely have lower cost of gain in 2018. This advantage is due to competitive grain, corn coproduct and forage costs. For example, corn prices in Iowa have averaged \$3.34 per bushel so far in 2018. Alfalfa prices have average \$121 per ton.

Cattle feeders are seeing red on closeouts when calculating on a cash-to-cash basis, according to the ISU estimated returns to finishing yearling steers model. Feedlots are currently paying lofty prices for feeder cattle, which means they are counting on the market to increase significantly in the next five or six months. Lower costs for feedstuffs and improved productivity would help the profitability picture, too.

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