

Feeding Cost of Gain and Net Returns for Cattle Finishing

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Fed cattle prices have declined sharply since early September. This article discusses trends in feeding cost of gain and net returns for cattle finished in Kansas, with emphasis on the extremely large losses currently facing the industry.

Several data sources were used to compute net returns. Average daily gain, feed conversion, days on feed, in weight, out weight, and feeding cost of gain were obtained from monthly issues of the *Focus on Feedlots* newsletter. Futures prices for corn and seasonal feed conversion rates were used to project feeding cost of gain for the next several months. Net returns were computed using feeding cost of gain from monthly issues of the *Focus on Feedlots* newsletter, fed cattle prices and feeder cattle prices reported by the Livestock Marketing Information Center, and interest rates from the Federal Reserve Bank of Kansas City.

Figure 1 illustrates monthly feeding cost of gain from January 2006 to September 2015. Feeding cost of gain was above \$100 per cwt from August 2011 to December 2013. Feeding cost of gain declined in 2014, averaging \$92.35 per cwt. Feeding cost of gain since January of this year has ranged from a high of \$89.29 in February to a low of \$82.96 in August. Primarily due to low corn prices, feeding cost of gain for the fourth quarter of 2015 and the first quarter of 2016 is expected to range from \$75 to \$80 per cwt. Feeding cost of gain is sensitive to changes in feed conversions, corn prices, and alfalfa prices. Regression analysis was used to examine the relationship between feeding cost of gain, and feed conversion, corn prices, and alfalfa prices. Results are as follows: each 0.10 increase in feed conversion increases feeding cost of gain by \$1.18, each \$0.10 per bushel increase in corn prices increases feeding cost of gain by \$1.01, and each \$5 per ton increase in alfalfa prices increases feeding cost of gain by \$0.61 per cwt.

Monthly steer finishing net returns from January 2006 to September 2015 are presented in Figure 2. It is important to note that net returns were computed using closeout months rather than placement months. Net losses per head for 2012 and 2013 were approximately \$135 and \$115, respectively. Net returns per head in 2014 averaged \$165 and ranged from a loss of \$29 per head in December to a profit of \$280 per head in July. Losses have been the norm so far in 2015. Average losses in the first and second quarters of 2015 were \$160 and \$190, respectively. Losses in July and August at \$85 and \$120 per head, respectively, were somewhat smaller than those experienced earlier in 2015. However, these smaller losses did not persist as we moved into September. Even before the recent drop in fed cattle prices, losses were expected for September and October of this year. The substantial drop in fed cattle prices (a drop of over \$20

per cwt from the last week in August to the first week of October) have created extremely large losses per head. The preliminary estimate of loss per head for September is \$350 per head. The next largest loss per head during the last decade was \$300 in January of 2009. Using the fed cattle price for the first week in October yields an estimated loss of \$550 per head.

Feeder cattle that will be fed during the rest of 2015 have already been purchased. Thus, breakeven prices for the rest of this year do not reflect the recent drop in feeder prices. Using feeder cattle prices from May through July of this year, breakeven prices for October through December are projected to range from \$163 to \$166 per cwt., well above forecasted prices. Breakeven prices will remain relatively high through at least the first quarter of 2016.

This article discussed recent trends in feeding cost of gain and cattle finishing net returns. Information related to feed costs for other livestock species can be found on the web site for the Center for Commercial Agriculture ([here](#)).



