3-5-1996

Retained Ownership : Cattle

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ECONOMICS COMMENTATOR

SOUTH DAKOTA STATE UNIVERSITY No. 360 March 5, 1996

RETAINED OWNERSHIP -- CATTLE

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Cattle producers often follow the same marketing and/or pricing pattern year after year. Changes are not made unless something "shocking" occurs. That shock can take many forms, not the least of which is lower prices. Then, there is a danger that producer reaction to the shock may result in inappropriate action which results in less profit, not more.

Retained ownership (holding cattle longer than would "normally" be the case) is one action some producers take in response to low prices at the time they would normally sell their cattle (calves). Positive returns to retained ownership are possible; so are losses (Table 1).

In deciding whether one should retain ownership of calves, there are some major factors to consider. The focus of this newsletter is on some of those factors. Factors are not necessarily presented in order of importance; what may be important to one producer may not be important to another.

Impact on Cash Flow

Changing the sale date of any product can affect cash flow. To illustrate, postponed sales may affect a family's loan repayment (lenders also have an interest here), ability to meet production and personal living expenses, and taxes. Each of these areas should be evaluated to see what happens. For example, moving the sale of calves from the Fall to after January 1 could affect not only income tax (for two years) but also social security taxes (for two years).

Price Risk

The longer one retains ownership of any product, the more price risk there is. That price risk for cattle may be related to a general change in prices, to changes in animal quality or expected quality, and changes related to weight (generally heavier animals receive a lower price per hundredweight than do lighter animals). If one is unable to handle that price risk (or is unable or unwilling to transfer that risk to someone else by using forward prices), then retaining ownership may not be suitable for you.

Cattle Performance

If a producer does not have knowledge of how "his/her calves will perform" as they get older, retained ownership can be a disappointment. All cattle are not created equally. Some gain faster than others. Some are more efficient than others. And, some yield a more desirable end product than others. That means some cattle will be more profitable (or yield greater losses) than others. While returns from placing calves directly into a feedlot are positive on average, they vary greatly depending upon the performance of the calves (Table 2). Unless you know the performance of your cattle, retained ownership is risky.

Other Enterprises

Retaining ownership of calves can affect other enterprises. Capital and labor requirements for retained calves may be more than some producers can spare. Or, the returns to labor may be greater elsewhere. Even a trip South in the middle of Winter may not be possible if you "have to take care of the cattle."

Inputs

In some cases, inputs which cannot be sold (or at least not for very much) can be used in a retained ownership project. However, if some inputs can be sold or if other inputs must be purchased, then those considerations must be included in the decision-making process. Keeping cattle to use surplus feed and labor could end up being very costly if other inputs are purchased. Cattle should be kept to earn profits, not for other reasons.

Conclusion

There are many factors which should be considered before retaining ownership of calves. Each factor should be evaluated by each producer for each situation. What worked last year for last year's cattle on the neighbor's farm or ranch may not work for you this year for this year's cattle on your farm or ranch. And, next year the process has to be reevaluated again.

Table 1. Retained Ownership Returns Compared to Selling a 475 lb. Weaned Steer Calf ($/head) from 1980-1995.

Retained Ownership Program	Average	Highest	Lowest
Dry Lot Winter	-33	26	-105
Dry Lot Winter & Summer Grass	16	132	-77
Dry Lot Winter, Summer Grass & Feedlot	27	132	-114
Dry Lot Winter & Feedlot	-6	133	-118
Background	2	73	-97
Background & Feedlot	-9	154	-135
Direct to Feedlot	51	209	-79

Source: Adapted from Cattle-Fax, "Retained Ownership Analysis," 1995 Edition.

Table 2. Variability of Retained Ownership Returns from Steer Calves Placed Directly in a Feedlot ($/head).

Year	No. of Pens	Average	Best	Worst
1990-91	51	38.49	131.21	-56.57
1991-92	73	27.94	98.54	-53.01
1992-93	31	113.67	176.41	51.75
1993-94	85	-87.84	-20.63	-173.03
1994-95	51	-12.03	33.74	-115.10

Source: Adapted from Wagner, et.al., 1991-1995, "S.D. Retained Ownership Program," S.D. Beef Report.

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