

## In The Cattle Markets

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### Insuring Forage

With the main calf marketing period closely approaching, it is easy to forget the bigger picture. High cattle revenues are good, but costs should continue to be monitored and controlled when feasible. A major cost is forage, whether it be grazed or stockpiled as hay. November 15 is an important fall deadline to purchase or change coverage of Pasture, Rangeland, Forage (PRF) insurance. PRF is not available nationwide. It is available using a Rainfall Index in many Plains states, in many Eastern U.S. states and in California. PRF is available using a Vegetation Index in many Western states. With other insurance products and disaster programs, it makes sense to visit this option to mitigate cost risk.

The *2012 Census of Agriculture* gives some perspective on the importance of forages. In the U.S. there were 914.5 million acres of farmland. Of those, 415.3 million acres were in permanent pasture. In addition, there were 28.0 million acres in woodland pasture and 12.8 million acres of other pasture. There were also 55.8 million acres of some type of harvested forage. In 2012 there were only 48.3 million acres insured using PRF, with covered acres increasing slightly in the past two years. In the absence of PRF, many landowners use the Noninsured Disaster Assistance Program or NAP coverage on forage. There are also specific forage products, such as Forage Production insurance on alfalfa. Returning to the mix from the Farm Bill is the Livestock Forage Disaster Program or LFP.

PRF, like insurance on other major crops, contains a subsidized premium. Thus, since inception the various PRF products have consistently paid out more in indemnities than producers have paid in from their share of premiums. PRF is known for complicated intervals and a productivity level that are selected when the coverage is purchased. The presence of the subsidy suggests that any eligible landowner would benefit from some coverage, regardless of how it is allocated. The subsidy is not everything. In South Dakota the most common coverage level is 90%, which does not have the highest subsidy level. PRF can be used to insure from close to normal levels down to the level NAP provides. Both NAP and LFP are based on county losses and have potentially long delays between losses and payments.

Is there a place for all of these programs? There are minimal costs for NAP and LFP. In contrast, one has to pay premiums for PRF and other insurance (at subsidized rates). Again, the subsidy level suggests much higher usage of PRF would be expected. It may be possible to assess the likely gaps that NAP and LFP would not cover and use that to guide the choice of PRF coverage. As for some specifics, preliminary findings for several South Dakota counties suggest that spreading the coverage across multiple intervals is preferable to trying to guess or pick a single best interval to insure. When looking at haying outcomes, it is possible to improve on equal weights. Intervals with spring and early summer months can be identified and loaded more heavily to better match indemnities with forage losses.

## The Markets

The cattle markets were higher last week compared to a week earlier. Feed grains were lower. An accurate comparison to the prior year is problematic. As readers may recall, there were no AMS reported prices last year because of the Federal shutdown. Live cattle futures have reached new contract highs, and when combined with lower grains have resulted in new contract highs in feeder cattle futures. The higher prices lead to a question from one of our Extension Field Specialists, “With the feed available and higher prices, could someone lock in protection on next year’s calf crop?” Yes. There are options listed (tradable) out to September 2015. Option coverage could be established now and rolled up, rolled forward or offset with other strategies once calves are born and deferred months become available.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 10/3/14</b>	<b>Week of 9/26/14</b>	<b>Week of 10/4/13</b>
<b>5-Area Fed Steer Price</b>	all grades, live weight, \$/cwt	\$160.54	\$156.75	--
	all grades, dressed weight, \$/cwt	\$251.99	\$245.78	--
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$238.19	\$239.62	--
	Choice-Select Spread, \$/cwt	\$11.36	\$13.04	--
<b>700-800 lb. Feeder Steer</b>	Nebraska 7-market average, \$/cwt	\$247.10	\$245.07	--
	Oklahoma 8-market average, \$/cwt	--	\$236.71	--
<b>500-600 lb. Feeder Steer</b>	Nebraska 7-market average, \$/cwt	\$294.17	\$294.31	--
	Oklahoma 8-market average, \$/cwt	--	\$254.35	--
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$2.72	\$2.98	--
	DDGS Price, Nebraska, \$/ton	\$105.30	\$106.50	--