

Livestock Enterprise Budgets & Livestock Insurance Resources...

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SPEAKERS

Christa Hartsook, Tim Christensen, Olivia Hanlon

C Christa Hartsook 00:15
Hello, and welcome to the small farms podcast, a production of the small farms program at Iowa State University Extension and Outreach. Our podcast covers the opportunities and challenges associated with rural life.


O Olivia Hanlon 00:29
In this episode I visited with Tim Christensen farm management specialists with Iowa State University Extension and Outreach. Today we are talking about recent updates to the livestock enterprise budgets. I'm Olivia Hanlon farm food and enterprise development education extension specialist. And we hope you enjoy the show. Tim, welcome. We're glad to have you joining us today.

T Tim Christensen 00:49
Yeah, good. Good morning, and I'm happy to be here. So

O Olivia Hanlon 00:53
alright, Tim, I think this is maybe your first time on the podcast. So why don't we start with you telling us a little bit about yourself and what you do for Iowa State Extension?

T Tim Christensen 01:02
Yeah, thanks for having me. In fact, not only is this my first time on this podcast, it's my first time on any podcast, which is exciting for me, because I listen to podcasts all the time, because


there's so much great information. So thanks for having me. But I mean, like you said, I'm a farm management specialist with the Iowa State Extension. And I cover the southwest part of the state and in farm management, we we deal with all of the financial decisions that farmers are making. We deal a lot with the farmland leasing, cost of productions, farm transition, farm bill stuff, grain marketing, women in ag, the list goes on and on. But when you kind of think of the money side of farming, that's that's where we come in.

 Olivia Hanlon 01:41

All right, so like you said, the money side of farming that puts you focusing on some enterprise budgets lately. Let's start with kind of a general overview on those. So could you tell us a little bit about why enterprise budgets are so important to an operation?

 01:56

Yeah, so the livestock enterprise budgets are attempt for us to try to determine what the costs are for somebody in their operation. So their spreadsheets where you can go in and we have them broke down by cow calf, swine, sheep, several different options there, you can choose from to best fit your operation, and we break it down to a single Animal Unit, and try to determine what the costs are, and where we are profitable, or where the breakevens are on those costs. So they're really important for people to know what their costs actually are, we make them super flexible to where you can enter your own numbers in a lot of those places, we have numbers there for you, if you're not sure what some of those costs might be for something on your operation, you can use the examples we give you. But we highly encourage you to use your own numbers for feed costs, or cost of the animals or, or all those things so that you can really get detailed numbers on what those operations look like on your farm. And the reason those are so important is we can look at your operation or you can look at your operation. When you think about the year coming up and any changes you might make, what the price conditions might be any anything that might be abnormal, you can kind of play what if and put different numbers in there under different scenarios, say what if corn goes to \$7 this year? What does that do to my operation? What if it goes back down to five? What does that do to my operations profitability. So it's a really great way for people to sit around and kind of run through some of those scenarios, without having to actually go through them to see what comes out at the end. We can kind of make some projections that way.


 Olivia Hanlon 03:33

Yeah, absolutely. So recently, you've updated a few of these budgets in mind, correct?

 03:39

Yeah, we update them. I try to update them yearly. Try to do them in the spring of the year Lee Schulz, and I go through and do those updates and put those numbers in that we think that are good kind of average numbers, I would say we typically stay fairly conservative on some of those numbers, just because we don't want anybody getting over confident about something.


But we also say that we want you to use your own numbers. Because really, when we talk about commodity prices, by the time we hit Enter on the computer, most of the time, our prices are already outdated, so we take a yearly stab on it, and try to get a snapshot for the year.

 Olivia Hanlon 04:13

That is absolutely true. It seems we can never keep anything truly up to date. So all of those budgets have been updated. Then were there any major changes to these budgets for 2021?

 04:25

No, there was no major changes. And I really tried to keep from making any major changes on these. I try to make minor changes throughout time. I look at what conditions are out there in the world. Like recently I looked in the cattle feeding budgets, I believe, had the market weight of 1150 pounds. And I think in the real world, we're probably feeding cattle a little heavier than that. So I bumped it up a little but I try to make those changes gradually. We're kind of chasing a moving target and I don't try to take too big of swings on it and that way producers can use these from year to year and have confidence in them and there's not major changes that are gonna catch them off guard.

 Olivia Hanlon 05:01

So you listed the species that these budgets are available for, can you find them all in the same place? Or where should producers go about looking for these budgets?

 05:11

Yeah, they're all in one place. on ag decision maker, if you go to livestock and look under the livestock enterprise budgets, down the right hand side, you'll see all the different tools there for all the different scenarios you might have. And then hopefully, there's one that fits your operation fairly well that you can pick from so there's just one site you can go to, then they're all housed there in the same spot.


 Olivia Hanlon 05:31

Perfect. So I know you've got like just printed budgets, but are there interactive tools? And are those hosted in the same place?

 Tim Christensen 05:38

Yeah, there you can print them off and do them longhand. Or there's also Excel spreadsheets, that you can put your own numbers in those Excel spreadsheets, and they will automatically make those changes as you go through that. And the nice thing about those either way you do it, we do profitability over variable costs, and over fixed cost, you know, are all costs. So you


can kind of look at it a couple of different ways. One thing I like to point out on those is a lot of people think they, they want to give their labor away for free, we put in labor charges, because let's face it, if we weren't doing this, we could go to town and get a job and do something else. So we need to understand that the labor costs money, the equipment, even if we're maybe doing row crop on the side, but using that tractor to work with the livestock as well, we still need to make sure the livestock is paying for some of that equipment as well, too.

 Olivia Hanlon 06:26

So I was gonna ask if you have one big tip for everybody to make sure that they're utilizing these well. And I know that with the vegetable ones, my biggest tip is always to make sure you count your own labor. So aside from that, is there something else that you think that folks should be doing that would really make sure they get the most out of these tools?

 Tim Christensen 06:44


Really, just like we talked about earlier that what if you know, especially if you're borrowing money, bankers love to see these, and they're gonna have a lot more confidence. So you've done your research, if you've if you fill one of these out, print it off and take it in with you. If you're looking for some operating money and be realistic, you know, I say junk in junk out, right? If we put junk numbers in there, the numbers that come out aren't going to do as much good. So the more realistic and accurate the numbers we put in these are, the better it can predict what's going to happen in that operation.

 Olivia Hanlon 07:12

Definitely, that makes a lot of sense there. So could you list the species again, sorry, I missed it the first time that you have these for.

 07:20

currently, there's swine, beef, and sheep, and several variations of all of those, whether you're pasture raising farrow to finish, or, you know, cow calf or feeder operation or feedlot operation. There's different variations amongst all those species.


 Olivia Hanlon 07:38

All right, so the big question, are there any plans for more livestock budgets in the future? goats, chickens, anything like that coming down the line?


 07:46

Yeah, actually, I have one developed for goats for meat goats. I haven't published it yet. I've kind of been putting it out there to some producers to have them look at it and give me some


suggestions and try to fine tune it and get it ready for publication. So stay tuned. Meat goats are on their way.

 Olivia Hanlon 08:05

Perfect. That is good to hear. It's been an ever changing world with sheep and goat markets lately. So I'm sure that's been a tough one to put together right now.

 Tim Christensen 08:13

Yeah, for sure.

 Olivia Hanlon 08:14

So along with updating these livestock budgets, you also recently released some resources for cattle producers about insurance or risk management planning. Could you walk us through what that livestock risk insurance plan covers?

 08:29

Sure. And I want to start by saying these aren't new. These came out, I believe in 2007. And these are livestock insurance plans. Very similar to crop insurance. Most crop producers, corn or soybeans, are buying crop insurance. And these are products that producers can purchase similarly, for their livestock operations. Now, even if you've looked at these in the past, there's been a lot of changes in the last year. And that's why I'm excited about this publication and talking about this just because these have become much more appealing, there's been a lot of changes to make it more user friendly, and better for the producers, higher subsidy rates, a lot of positives that have come out in the last year on changes on those. So there's two products available. There's livestock risk protection, which basically is locking in a minimum price. In the future. When you plan on marketing your animals, you can look out at the futures on the Chicago Mercantile Exchange, you can see a price that you find appealing or that you want to purchase coverage for and you can lock that in. So that's the livestock risk protection. The second product is livestock gross margin, which not only do we look at the price of those animals in the future, those are available for market animals. We can look at what that market price is in the future for when we're expecting to market those. But we also do some calculations on determining what those animals cost you to purchase them what the feed would cost and what kind of margin you should expect. And we can start with locking in a minimum margin that you could expect to receive on those animals. So if you're borrowing money, if you're in an operation that is tight on cash and cannot endure a major crisis in the livestock markets, this is a great way to protect yourself against those things.

 Olivia Hanlon 10:16

Okay, so I know that the most recently updated one, I believe, is the cattle, is that correct?



10:21

That is correct. I just updated the cattle one and I'm working on the swine one. So the same products are available on cattle as swine, and they work very similarly. And that should be coming out here soon. So stay tuned for that one. And there's also the livestock risk protection is available for sheep producers. However, that program, still going through some changes and issues and is actually not available for sale. At this point. Hopefully, it will be in the future. And as soon as they get all that stuff figured out, I'll have a publication available on that as well. But with that being said, there is a tool in the cattle publication, which is B1-50. There is a tool, on Excel spreadsheet where you can go in and look at livestock risk protection, the LRP product, and compare different coverage levels versus cash markets and see how your bottom line would be affected by those things. And when we built that tool, we went ahead and put swine in there as well. So the tool is up and available for swine, but the actual publication talking about it is coming soon.



Olivia Hanlon 11:26

Okay, good to know, I guess I asked you about the livestock budgets. But as for these risk management plans, are there any future plans for various species,



Tim Christensen 11:37

um, these programs or products are through RMA, which is USDA Risk Management Agency, I do not know of anything new coming forward, I think the changes they've made have been great trying to make those more appetizing to people. And changing those subsidy levels, you pay for them at the end of your coverage period. So after you sell the animals versus having to pay for it up front, that's a major change. So nothing new coming that I know of. But the other thing I want to say about those is, the great thing about these products is they're available for small producers. So you don't have to have 5000 head, you don't have to have a large operation, you can have three four animals, and still purchase these products. So even your smaller farmers starting out, that have a smaller number of animals, they can still purchase these products through a licensed insurance agent, which they can find on the RMA website. If you know any crop insurance agents, there's a good possibility they can sell these as well. They came to come through the same agency. But you don't have to be a large producer, you get a lot of the same benefits. You know, the large producers can go on the on the Chicago Board themselves and hedge their own prices and hedge their own corn. But the smaller producers don't have enough numbers to do that. And this allows them to still be able to utilize some of those tools.



Olivia Hanlon 12:56


Well, we always love to hear that this helps out small farmers here on the small farms podcast, Tim, when we're looking at these tools, where can producers go to find these resources? And you've kind of covered it a little bit, but how can they really make the most out of these.



12:56

 13:10


There's licensed agents through RMA and like said these are these insurance plans are subsidized by the USDA similar to crop insurance, they have to be purchased through a licensed agent and all the agents are going to have the same price and the same products. So just finding that agent and there's an agent locator on the USDA RMA website, you can go on there and pull up a map and look at where you're at and see what agents are near you to find out more about these products. And I'm really excited about them if you can't tell. But the other thing I forgot to mention not only are they great for small, small producers, but we also talked about new things. And one of the great additions that they've added to this as you can now purchase insurance on unborn calves and swine. So if you're a cow calf producer, you're getting ready to calve in the spring you look out into the fall and the futures prices look really good. And something that would be profitable for you, you can go ahead and purchase those before the animals are even born. And it locks in a minimum price. So it's kind of like a put option to where if the price goes up, you can still take advantage of that and take advantage of the higher price but it kind of locks in a floor to give you somewhat of a guarantee on the bottom price to make sure that you can stay profitable. The only risk you have after that is margin which is the difference between the Chicago Mercantile Exchange price and your local livestock markets.

 Olivia Hanlon 14:30


So um, yeah, that is a really exciting thing that they're adding there, Tim. Thank you for sharing that with us. So these tools that you were talking about to start with and are those on ag decision maker as well.

 14:42

Yeah, it's ag decision maker File B1-50 And there's an Excel tool there that will work for both swine and beef. It's it says beef at the top but I when I was building that tool, we went ahead and added swine at the same time. And you can choose once you see that ending price You can choose different levels of coverage from that. So maybe you want to guarantee 80% of that price or 70% of that price. So then that tool allows you to look at different coverage levels and of what price you're protecting and compare those versus cash or it even compares it if you were to go out on the board and buy those calls, or hedge markets yourself and compare the differences and, and what happens over time with those. So it's a great tool, I'm kind of an Excel junkie. So it's one of those things you can stay up till three in the morning playing what if with and kind of run through a lot of different scenarios. Like I said, I just really liked it, because you can run through those scenarios, without having to pay the consequences financially for learning it on your own. And kind of, it's a great way for me to learn, I can kind of see how things change as we go through those.


 Olivia Hanlon 15:49

Yeah, for sure. I know not everybody loves excel as much as some of us business folks do. But it's a useful tool.



 Tim Christensen 15:55


So yeah, it's really user friendly, we make all those Excel spreadsheets have a lot of numbers on them. But just remember, anything in yellow is something you can change if you want. So if it's not yellow, you don't have to worry about it, just concentrate on the yellow numbers, and change those and for what works best for your operation.

 Olivia Hanlon 16:14

Perfect. So is there anything that we didn't cover today that you would like to add?

 16:19


No, just you know, make sure you're being upfront and honest with these numbers. And putting in real numbers, we all get carried away and excited. And I'm sure we're gonna sell our calves for \$3. This fall, right? That's what we hope best for but try to be realistic. Run through different scenarios, see how they affect your operation. And I said, use these with your lenders, lenders love to see that you've done your homework, you've thought about what's going to happen, they'd love to see that you might have some risk protection in place. But use these with your lenders, if you're borrowing money for operating money or seed money to help you get started. It'll be a welcome sight to your lender to see you've done their homework.

 Olivia Hanlon 16:56

Yeah, for sure.

 16:57

Also, these do not cover death loss, or peripheral performance loss, there's typically price protection. So it's something important for people to keep in mind.

 Olivia Hanlon 17:06

So if folks are looking for any more information on either of these topics, where should they look?

 Tim Christensen 17:12

Ag decision makers, always the go to website, if you're a web person, a lot of great information on these products there now and more coming. And I'll keep that up to date as best as I can. And they can always reach out to me, my email is tsc@iastate.edu. And they can email me and I'll get ahold of them and I'd loved to talk to anybody about this. Like I said, I'm pretty excited about these products. I think there's some great things for especially the small to medium sized producers that can take advantage of these.



Olivia Hanlon 17:41

It's always good to have people who are excited about what they're doing here, Tim.



Tim Christensen 17:46

Yeah, I really appreciate you having me on and enjoy talking with you today. So



Olivia Hanlon 17:51

yeah, I've enjoyed it as well. These do sound like a couple of great resources for people out there with livestock to look in no matter how small or large their operation is. So thanks for sharing that with us today. And thanks for being on this here Tim.



Tim Christensen 18:04

Yeah, and I hope everybody has a great summer.



18:07

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