

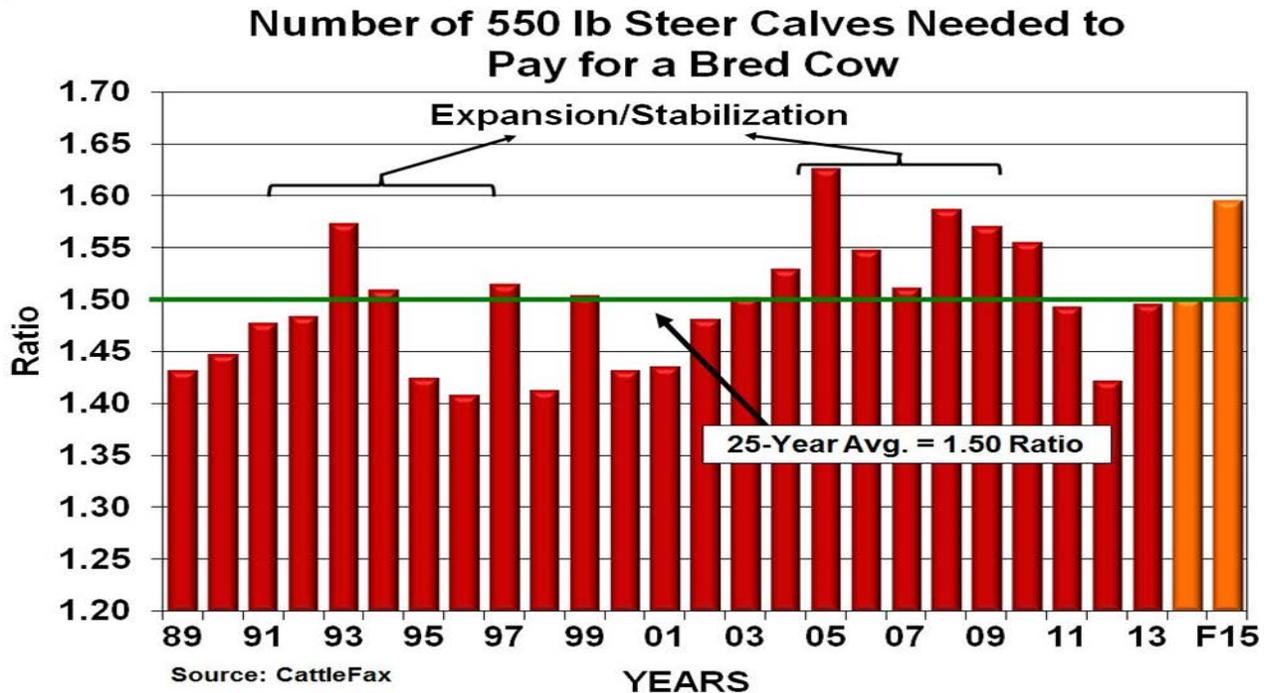
How Much Can I Pay For A Bred Replacement Heifer?

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We've gotten this question a few times this summer, "How much can I pay for a bred replacement heifer this fall?" This is indeed a tough question to answer because cow-calf producers and their operations are vastly different. That is, some producers have better soils, forages, cattle, records, and management than others. These top managers can afford to pay more for bred replacement heifers.

With record high cattle prices in 2014 and expected higher cattle prices in 2015, bred replacement heifers are expected to have a large price tag. In addition, only modest increases are expected in beef cattle inventory numbers for the next several years which would continue to support high cattle prices and higher bred replacement heifer prices.

Over the last 25 years, the cost of bred replacement heifers has averaged 1.5 times the price of a 550-pound steer. However, in years where cowherd expansion has taken place the ratio can move to 1.65, as illustrated in the chart below. By knowing the price relationship between the cost of bred replacement heifers and 550-pound steer calves, cow-calf producers have some guidance on how much they can pay for bred replacement heifers this fall.



Based on strong consumer beef demand and reduced cattle inventories, the average U.S. cow-calf producer should be profitable for the next several years. The

higher calf prices received in 2013 and 2014 should provide producers the economic incentive to expand their herds. However, in order for any significant expansion to take place in the U.S. cowherd, a large number of replacement heifers must be retained by producers. The high demand for bred replacement heifers this year combined with a smaller supply of bred replacement heifers will make expansion extremely difficult. These combinations of factors should drive the ratio of 550-pound steers to bred replacement heifers higher this fall.

Table 1 describes the expected cost of bred replacement heifers for various feeder steer prices (\$/cwt.) and the ratio of 550-pound steers needed to pay for a bred replacement heifer. For example, the expected cost of a bred replacement heifer assuming 550-pound steer calves at \$200/cwt. and a ratio of 1.4 results in a value of \$1,540 for a bred replacement heifer. Thus, in this table the expected cost of bred replacement heifers range from \$1,540 to \$2,574 based on the combinations of 550-pound feeder steer prices and ratios listed.

| Table 1. Expected Cost of Bred Replacement Heifers, Fall 2014 | | | | | | | | | |
|--|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 550 lb. Steer Prices** \$/cwt. | Number of 550 lb. Steers | | | | | | | | |
| | 1.40 | 1.45 | 1.50 | 1.55 | 1.60 | 1.65 | 1.70 | 1.75 | 1.80 |
| \$200.00 | \$1,540 | \$1,595 | \$1,650 | \$1,705 | \$1,760 | \$1,815 | \$1,870 | \$1,925 | \$1,980 |
| \$205.00 | \$1,579 | \$1,635 | \$1,691 | \$1,748 | \$1,804 | \$1,860 | \$1,917 | \$1,973 | \$2,030 |
| \$210.00 | \$1,617 | \$1,675 | \$1,733 | \$1,790 | \$1,848 | \$1,906 | \$1,964 | \$2,021 | \$2,079 |
| \$215.00 | \$1,656 | \$1,715 | \$1,774 | \$1,833 | \$1,892 | \$1,951 | \$2,010 | \$2,069 | \$2,129 |
| \$220.00 | \$1,694 | \$1,755 | \$1,815 | \$1,876 | \$1,936 | \$1,997 | \$2,057 | \$2,118 | \$2,178 |
| \$225.00 | \$1,733 | \$1,794 | \$1,856 | \$1,918 | \$1,980 | \$2,042 | \$2,104 | \$2,166 | \$2,228 |
| \$230.00 | \$1,771 | \$1,834 | \$1,898 | \$1,961 | \$2,024 | \$2,087 | \$2,151 | \$2,214 | \$2,277 |
| \$235.00 | \$1,810 | \$1,874 | \$1,939 | \$2,003 | \$2,068 | \$2,133 | \$2,197 | \$2,262 | \$2,327 |
| \$240.00 | \$1,848 | \$1,914 | \$1,980 | \$2,046 | \$2,112 | \$2,178 | \$2,244 | \$2,310 | \$2,376 |
| \$245.00 | \$1,887 | \$1,954 | \$2,021 | \$2,089 | \$2,156 | \$2,223 | \$2,291 | \$2,358 | \$2,426 |
| \$250.00 | \$1,925 | \$1,994 | \$2,063 | \$2,131 | \$2,200 | \$2,269 | \$2,338 | \$2,406 | \$2,475 |
| \$255.00 | \$1,964 | \$2,034 | \$2,104 | \$2,174 | \$2,244 | \$2,314 | \$2,384 | \$2,454 | \$2,525 |
| \$260.00 | \$2,002 | \$2,074 | \$2,145 | \$2,217 | \$2,288 | \$2,360 | \$2,431 | \$2,503 | \$2,574 |

*The value of bred heifers and cows will vary considerably by location, quality, and condition.

**550 lb. Steer Calf, ML Frame, 1-2 Muscle Score

| | |
|--|-----------------------|
| | Normal Year |
| | Expansion Year |

Currently, a 550-pound steer calf averages \$225/cwt. which implies a bred replacement heifer price of \$1,856 per head or 1.5 times the value of a 550-pound steer in a normal year. In years when producers expanded their herds the ratio increased. If we assume a 550-pound steer price of \$225/cwt. and a ratio of 1.65, the expected cost of a bred replacement heifer would be \$2,042 per head. Given the record profits being realized this year, we should expect the ratio for the top cow-calf managers to exceed 1.65.

Producers have historically referenced bred replacement heifers in terms of how many calves are needed to pay for a bred replacement heifer or cow while ignoring production costs. In 2014, bred replacement heifers have been quoted as high as

\$2500/head. In the fall of 2014, there will be a wide range of prices for bred replacement heifers. Price levels this fall will vary for many heifers due to producers' focus on quality versus quantity, location, condition, value, and genetics. Producers can use this table below as a guide while purchasing replacement heifers this fall.

Table 2 describes the number of calves needed to pay for a bred replacement heifer. It ranges from 1.22 to 3.05 (550-pound steer calves) for the various feeder calf market prices and cost of bred replacement heifers.

| Table 2. Number of Calves Needed to Pay for a Bred Replacement Heifer | | | | | | | | | |
|--|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 550 lb. Steer Prices \$/cwt. | Cost of Bred Replacement Heifers | | | | | | | | |
| | \$1,750.00 | \$1,950.00 | \$2,150.00 | \$2,350.00 | \$2,550.00 | \$2,750.00 | \$2,950.00 | \$3,150.00 | \$3,350.00 |
| \$200.00 | 1.59 | 1.77 | 1.95 | 2.14 | 2.32 | 2.50 | 2.68 | 2.86 | 3.05 |
| \$205.00 | 1.55 | 1.73 | 1.91 | 2.08 | 2.26 | 2.44 | 2.62 | 2.79 | 2.97 |
| \$210.00 | 1.52 | 1.69 | 1.86 | 2.03 | 2.21 | 2.38 | 2.55 | 2.73 | 2.90 |
| \$215.00 | 1.48 | 1.65 | 1.82 | 1.99 | 2.16 | 2.33 | 2.49 | 2.66 | 2.83 |
| \$220.00 | 1.45 | 1.61 | 1.78 | 1.94 | 2.11 | 2.27 | 2.44 | 2.60 | 2.77 |
| \$225.00 | 1.41 | 1.58 | 1.74 | 1.90 | 2.06 | 2.22 | 2.38 | 2.55 | 2.71 |
| \$230.00 | 1.38 | 1.54 | 1.70 | 1.86 | 2.02 | 2.17 | 2.33 | 2.49 | 2.65 |
| \$235.00 | 1.35 | 1.51 | 1.66 | 1.82 | 1.97 | 2.13 | 2.28 | 2.44 | 2.59 |
| \$240.00 | 1.33 | 1.48 | 1.63 | 1.78 | 1.93 | 2.08 | 2.23 | 2.39 | 2.54 |
| \$245.00 | 1.30 | 1.45 | 1.60 | 1.74 | 1.89 | 2.04 | 2.19 | 2.34 | 2.49 |
| \$250.00 | 1.27 | 1.42 | 1.56 | 1.71 | 1.85 | 2.00 | 2.15 | 2.29 | 2.44 |
| \$255.00 | 1.25 | 1.39 | 1.53 | 1.68 | 1.82 | 1.96 | 2.10 | 2.25 | 2.39 |
| \$260.00 | 1.22 | 1.36 | 1.50 | 1.64 | 1.78 | 1.92 | 2.06 | 2.20 | 2.34 |

The price of bred replacement heifers will ultimately be decided by a willing buyer and willing seller. With both being fully informed about stronger consumer beef demand, constrained herd expansion, and a limited supply of bred replacement heifers, cow-calf producers should expect to pay higher prices for bred replacement heifers.

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