

Can You Afford Replacement Heifers?

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August is here with its heat and dry conditions, prompting fires across much of the state. As we look forward to better weather conditions, the markets continue to provide optimism. Five-weight steer calves have sold on the video well over \$5.00 per pound.

Data indicates that our cowherds are getting older, as many producers have opted to hold on to older cows and retain as few replacements as possible, cashing in on this runaway market. It's a hard decision to pass up \$2,500 for a heifer calf and turn her into a replacement heifer.

If you are shopping for bred replacement heifers today, they will cost North of \$4,000. Interestingly, the dairy industry faces the same dilemma with heifers of similar value. The question you should be asking yourself is, will that \$4,000 replacement heifer ever pay for herself?

USU Extension Ag Economist, Andrew Anderson, recently published a Drought Decision Tool on the Extension website (www.farmanalysis.ueu.edu). This tool does a great job of adding objectivity to the decision about whether to cull cows or purchase feed during drought conditions. Using your cost structure and expected future markets, the tool will calculate the Net Present Value (NPV) of your cows by age. NPV is the current value of the cow's potential future earnings discounted to today's dollar. It is the best estimate of what that animal is worth to you today. In short, if you already own the animal and her NPV is greater than what you can sell her for, then you should keep her. If you are considering purchasing a heifer, her NPV must be greater than her purchase cost minus her expected cull value. For example, if you can purchase a heifer for \$4,000 and you expect her value as a cull cow to be \$1,000, then her NPV must be over

\$3,000 to consider the purchase. The closer the NPV is to your potential purchase price minus cull value, the greater the risk of losing money on the heifer.

Key to this calculation is knowing your costs, specifically your variable costs. Variable costs are those that are specific to each animal. Feed and veterinary costs are good examples. For each additional cow you own, those costs increase. Additional variable costs may include hired labor, fuel, equipment maintenance, freight, and marketing. Knowing these costs will allow you to make informed decisions for the future.

It is also important to have a good idea of your average weaning weights, cow death loss, and weaning rates. Typically, death loss is higher, weaning weight and weaning rate are lower for young and old cows. The Decision Tool includes ranges that may help you estimate your numbers.

Lastly, you need to pull out your crystal ball and decide where this market is going. That's not an easy task, but there are good indications about this year's direction. I suggest being conservative on the future year's prices.

The Drought Decision Tool lets you plug in different numbers to see how they affect the NPV.

I ran a scenario through the evaluation tool, assuming a variable cost per cow of \$1,000 and a 2026 calf price of \$5.00/pound at 500 pounds. I then assumed \$4.00 per pound out for 10 years. Based on this scenario, current prices for bred heifers are warranted.

Now comes the disclaimer...I am 100% certain that your ranch's cost structure and production parameters are different than those that I used in this example. This underscores the importance of reliable production and financial information for making sound decisions. The old adage of "Garbage in and Garbage Out" applies here.

On a different note, the Western Ranch Management Academy will be holding a seminar on August 26 and 27 in Logan. We will cover the human resources and legal issues ranchers face today. We have an excellent line-up and look forward to seeing you there.

Please feel free to reach out with any questions or comments.

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