

LIVESTOCK RISK PROTECTION: PRICE RISK MANAGEMENT FOR LIVESTOCK PRODUCERS

Last year was not kind to many Wyoming crop and livestock producers, and John and Cindy Robb's Weston County cow-calf operation was no exception*. Extreme winter and summer weather affected their calf numbers and weaning weights. Price declines beginning in late summer, when they typically market their calves, further reduced revenues.

Covering at least some of their risk for revenue loss caused by price declines is one of their goals for the next production season. There are many alternatives to manage price risk; however, the Robbs would prefer an insurance option for several reasons: minimal cash outlay when compared to utilizing futures and options marketing plans, and coverage is tied to the overall feeder cattle market price.

Livestock Risk Protection Insurance (LRP)

LRP insurance helps livestock producers manage market price risk. LRP is available in Wyoming for feeder and fed cattle, swine, and lamb production.

A producer first determines the number of head (in total pounds) and their marketing period. Contract lengths are available from 13 to 52 weeks in four-week increments (see chart, right). LRP prices and coverage are determined by Chicago Mercantile Exchange (CME) prices, based on the contract length and are posted daily by the Risk Management Agency (RMA).

Producers can insure from 70 to 100 percent of the expected ending value for a contract, with the premium paid at the beginning of the LRP contract period. Indemnities are paid on the difference if the actual ending value is lower than the contract coverage price.

Note that the actual price received for the insured animals has no bearing on the prices used in the LRP contract; prices are based on the CME index price and are basically a reflection of the overall market. There are limits on numbers of head, both per contract and for the overall year, and those vary by species insured.

Application and Analysis

For purposes of our example, we will assume the Robbs will use an LRP feeder cattle policy for price protection on their steer calves. They typically calve in March and market their calves at the end of September.

This year they expect to market 100 head of steers, weighing 600 pounds (60,000 pounds or 600 cwt). We will assume a 21-week contract at 96 percent coverage. Using the cost estimator from RMA, we enter the information shown. The tool provides results showing a total insured value of \$77,964 and a total producer premium cost of \$2,967.

Important Reminder

Sign-up has begun for the Coronavirus Food Assistance Program (CFAP) offering direct assistance to crop and livestock producers negatively affected by the coronavirus outbreak.

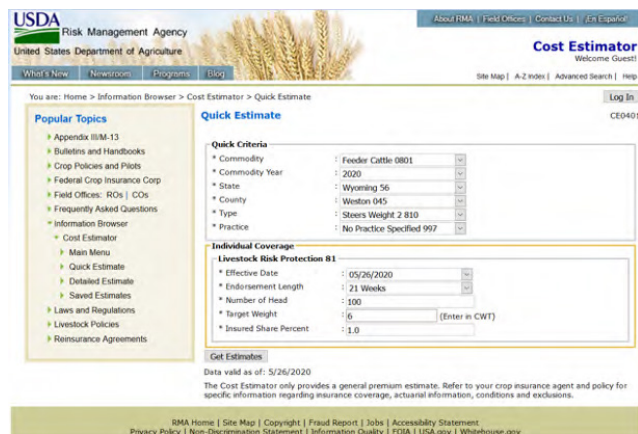
Producers who sold livestock from January 15-April 15, are eligible for assistance through the first round of payments.

Producers will be eligible for a second payment based on their highest inventory number from April 16-May 24.

For more information, including worksheets showing payment rates for various livestock classes and eligibility, visit Farmers.gov/CFAP/livestock

Useful LRP Links

- Cost estimator: ewebapp.rma.usda.gov/apps/costestimator/
- Daily prices, rates, and ending values: www.rma.usda.gov/Information-Tools
- Agent locator: www.rma.usda.gov/Information-Tools/Agent-Locator-Page



next installment, we will examine how the Robbs might use the RSP tool to evaluate their proposed LRP coverage.

*The Robb operation is a case study example created to demonstrate RightRisk tools and their application. No identification with actual persons (living or deceased), places, or agricultural operation is intended nor should be inferred.

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For more information on insurance and other risk management resources

There is no time like the present to assess and improve your risk management planning. Numerous options are available under the Federal Crop Insurance umbrella of programs, including policies for most crop, livestock, and forage production. Chances are good there is a program that will meet your needs. Visit the USDA Risk Management Agency (RMA) at rma.usda.gov or a local crop insurance representative to learn more. See RightRisk.org for risk management education, including online tools, courses, and other resources dedicated to helping producers with risk management planning.



WYOMING SBDC ASSISTS SMALL AGRIBUSINESSES, PRODUCERS, WITH COVID-19 RECOVERY AND RESILIENCY

Wyoming Small Business Development Center (SBDC) Network advisers across Wyoming are available to help agricultural producers and agribusinesses affected by COVID-19 secure funding through programs such as the federally appropriated Economic Injury Disaster Loan (EIDL) funds.

The EIDL low-interest loan program is available only to agribusinesses that need capital to recover business losses and remain operational. Wyoming SBDC Network regional directors and business advisers cover every Wyoming county and can provide more information on the application process and loan preparation advice.

The Wyoming SBDC Network is working closely with the University of Wyoming Extension to further expand its reach and better understand the needs of the agribusiness community.

"As part of federal funding the Wyoming SBDC Network has received to address COVID-19 recovery to existing businesses, we are seeking to solidify our partnership with UW Extension to help with recovery

efforts in the agribusiness community," said Jill Kline, Wyoming SBDC Network state director. "We look forward to providing joint programming and targeted assistance in the coming months to directly address agribusiness needs in Wyoming."

Kelly Crane, UW Extension director and associate dean in the College of Agriculture and Natural Resources, said the full impact of this economic crisis will continue to unfold for producers in the near and long terms.

"We are pleased that SBDC is willing to assist our agribusiness partners in recovery efforts and exploring options that will help their businesses become more resilient and flexible over time," said Crane.

The Wyoming SBDC Network is Wyoming's premier source of small business expertise. It offers confidential, no-fee advising and technical assistance to all Wyoming small businesses in any stage of their life cycle. In addition to securing recovery capital, Wyoming SBDC Network experts

can provide strategies for marketing, product scaling, e-commerce, cash flow management, and business plan development.

Contact your local Wyoming SBDC Network adviser to make an advising appointment for advice on accessing COVID-19 strategies to not only help your agribusiness venture recover from the economic downturn, but also create a resilient business model to withstand ongoing and future negative business impacts.

Appointments can be made with a business adviser at wyomingsbdc.org or visit the Wyoming SBDC Network website for COVID-19 resources (wyomingsbdc.org/covid19). The effort is funded in part through a cooperative agreement with the U.S. Small Business Administration.

UNDERSTANDING RANCH FINANCIAL HEALTH KEY FACTOR FOR SUCCESSFULLY MANAGING IN CHALLENGING TIMES

Wyoming ranchers have watched livestock markets suffer as a result of COVID-19 over the last few months.

While some producers saw immediate losses due to sharply lower markets, most were not in a position to market their livestock. The impacts to Wyoming ranchers will be realized as we go through summer and enter fall. Most livestock in Wyoming gets marketed in the fall. Ranchers could face tough decisions as markets remain volatile and significant downside risk exists.

Having a good understanding of a ranch's financial health is key to making good decisions in challenging times. University of Wyoming Extension has two bulletins that can really help ranchers understand their current financial health.

Understanding Financial Statements (B-1308) walks ranchers through understanding the three key financial statements: the balance sheet, income statement, and cash flow statement. Each analyzes different aspects of an operation's financial health and should be viewed as a group.

Knowing how to measure financial success can help guide management decisions you are contemplating. Without using all three statements, choices can be made that may seem to help a ranch in the short-run but can actually be weakening its long-term financial health.

Calculating financial ratios may be helpful once you have an understanding of financial statements. *Calculating and Interpreting Financial Ratios to Gauge Ranch Business Health and Guide Management Decisions* (B-1307) discusses key indicators of liquidity, solvency, and income. On their own, these ratios can be helpful in making decisions, looking at them as a group can be even more useful; however, they are just another tool in the decision making toolbox and should be used in conjunction with other management tools.

- **Liquidity** is a short-run concept and can be defined as the ability of a ranch to cover short-term obligations from normal operations – usually commitments within the business year.
- **Solvency** is a long-run concept that measures a business' ability to cover all outstanding debt and the amount of the business owned by you as opposed to others (for example the bank).
- **Income analysis** – Obviously, net farm income (NFI) is a number you want to track. A more meaningful number is net farm income

from operations (NFI), as this is NFI before any gain or loss from the sale of capital assets not generally part of the core business of a ranch.

While the information in these bulletins may seem a little daunting, this level of financial analysis can be extremely useful when facing challenging decisions. Once a rancher has a solid understanding of their financial health, the decision tools, like the break-even budget tool and others found on the Wyoming Ranch Tools website, become even more powerful (www.uwoextension.org/ranchtools).

The bulletins can be found on the UW Extension website at www.uwoextension.org/publications.

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