



Fremont County ranchers use VI-PRF pilot insurance program to help manage financial risk – part III

By James Sedman and John Hewlett

Recent articles have reviewed how a Fremont county ranch, owned by Bob and Betsy Zomer, used Vegetative Index-Pasture Range and Forage insurance (VI-PRF) to address the risk of worsening spring and summer drought.

Their planning included insuring spring and summer pastures, 3,500 acres and 5,500 acres, respectively. Purchasing VI-PRF coverage made these acres eligible for federal disaster aid.

The Livestock Forage Disaster Program (LFP) was created as part of the 2008 farm bill legislation to aid livestock producers in the event of drought or fire.

Eligibility requirements include a producer having owned the eligible livestock for at least 60 days previous to the disaster. The qualifying loss must have taken place in a declared disaster county (in cases of drought) or a recognized major fire area.

A producer must have either purchased Non-insured Crop Disaster Assistance Program (NAP) coverage or VI-PRF insurance. Like all disaster programs, income limitations apply.

In the Zomers' case, the county received a "D2" drought



declaration for 10 weeks. Given the Zomers purchased VI-PRF coverage for their spring and summer pastures, they are eligible for one month's indemnity payment under the LFP program. Any disaster assistance payment would be separate from a VI-PRF indemnity payment, as the payments are triggered by independent criteria.

LFP payments are determined by the smaller amount resulting from either 1) 60 percent of the FSA payment rate times the number of head, or 2) the average carrying capacity times 30 days times the approved feed cost.

Using the first method, assume the payment rate from FSA is \$40.04 for cows/pairs,

bulls, and yearlings that in this case are more than 1-year old. The monthly feed cost times the number of head (\$40.04 X 456 head) times 60 percent equals \$10,954.94. The second method is calculated as: carrying capacity of 19.48 acres/Animal Unit (AU) or a normal carrying capacity of 462 AUs times 30 days (\$13,860) times the daily feed cost (\$40.04/30 = \$1.334) times 60 percent equals a total payment of \$11,093.54. Therefore,



the lower payment is the first calculation or \$10,954.94.

Z-F Ranch Looks to Improve Strategy

When contacting their FSA representative, the Zomers learned they could have signed up for Non-insured Crop Disaster Insurance (NAP) coverage in addition to VI-PRF insurance that would apply to all of their pasture acreage – with the added benefit of making all of their acres available for disaster coverage.

If the Zomers had utilized NAP coverage the previous year, they could have received two added benefits. The first would have been raising the total acreage considered for disaster payment; assuming their fall and winter pasture was also affected by the drought for another eight weeks. If we suppose the Zomers sold the yearlings and ran their cowherd on their fall and winter pasture, it could have added another 3,000 acres to the total acreage considered for forage loss and raised the LFP payment

an additional \$7,351.34 (306 head X 40.04 X 60 percent).

The second benefit would be a potential NAP payment. NAP provides coverage against losses greater than 50 percent on enrolled acres. If we assume a 55-percent reduction in forage across the Zomers' pastures and FSA's value of \$2/acre for pasture, the payment rate per acre under NAP would have been 55 percent of the approved value or \$1.10 per acre (\$2 x 0.55). NAP coverage for the Zomers' situation would be calculated as 6,600 acres lost production (12,000 total acres x 0.55), times \$1.10 per acre equals \$7,260 in a total NAP payment in addition to any VI-PRF insurance payments received.

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For More Information

To learn more about VI-PRF insurance and how it can work in your operation, visit InsuringSuccess.org and take the interactive PRF course. For information on individual crop insurance policies or disaster aid programs, visit the Western Risk Management Library online at agecon.uwyo.edu/riskmgmt or contact a local crop insurance or Farm Service Agency representative.

Market volatility – Always a concern for ranchers

By Bridger Feuz

Although the fundamental factors affecting calf prices would indicate strong prices for this fall, producers should keep an eye on volatile market factors.

The current supply and demand relationship coupled with a strong export market favor the cow/calf producer this fall.

Producers should also be aware of a few important factors putting downward pressure on price, such as increasing retail food prices, increasing feedstuff prices (primarily corn), and increasing commodity prices.

Supply, Demand, and Trade

Last year's calf crop of 35.7 million head is the smallest since the early 1950s and represents a 0.7-percent decline from 2009. This year's calf crop is expected to be even smaller. One strong indication of this is that there were 5.4 percent fewer heifers retained as beef cow replace-

ments this year. Due primarily to these factors, forecasters are predicting U.S. beef production will decline nearly 2.5 percent in 2012 from the 2005-2009 average.

Demand for beef has remained relatively stable the last few years due to two opposing trends. Individual demand for beef as represented by the demand index has declined nearly 8 percent from 2004. Some of this decline can be attributed to the relative poor national economy during that time. While individual demand has declined, the good news is the U.S. population continues to grow. This growth has helped keep overall demand for beef relatively stable.

The third piece of good news for producers is the international trade markets. Currently, the United States is exporting more pounds of beef than it is importing. Additionally, the value of the beef we export is greater than the value of the beef we import.

Factors to Watch

Retail food prices have recently increased. We have seen an increase of 8 percent over last year on 16 key items tracked for food prices. This is a significant yearly increase and could affect consumer demand for beef going forward. One mitigating factor is that, prior to this year, food prices had remained relatively constant over the last few years. This means the current year's 8-percent increase when averaged over the last few years is much closer to a normal rate of inflation.

Corn prices used to be tied much closer to cattle numbers. In years with very low cattle numbers, like we are now seeing, the demand for corn would be low and corn prices would be relatively low. However, corn prices are now heavily influenced by the energy markets due to a significant portion of corn being utilized in ethanol production. Currently, Omaha

corn is trading at near \$6.50 a bushel. If prices continue to climb, it will be difficult for feeders to maintain profitability.

Finally, as commodity prices such as oil continue to trend higher, this will also reduce the

amount of disposable income available for beef purchases. This again could impact consumer demand for beef going forward.

Summary

The fundamentals still support the idea of strong calf prices this fall, and producers should be reasonably optimistic about the overall position of the beef industry. However, as ranchers plan for marketing cattle, keeping tabs on the above factors is important.

With the volatility of commodity markets over the last few years, and looking into the near future, producers should consider locking in a solid profit when such marketing opportunities arise.

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