

Darrell R. Mark, Ph.D.**Asst. Professor, Department of Agricultural Economics, University of Nebraska****Feed Calves or Yearlings?**

In the mist of calf weaning season in October and November, cattle feeders typically place more calves on feed relative to other times of the year. Typically, the price spread between 550 lb. steers and 800 lb. steers is about \$9.50/cwt (based on the Nebraska average from 1999-2002). This year, the price spread has been substantially lower, averaging \$3.70 for the past three weeks. Clearly, cattle feeders have continued to bid aggressively for yearling steers that can be finished by the end of 2004's first quarter, when strong fed cattle prices are expected to continue due to tight supply conditions. The relatively lower prices for calves this fall is resulting from uncertainty associated with fed cattle selling prices in the second quarter, which are likely to be influenced to some degree by the resumption of live cattle trade with Canada.

So, are yearling steers or calves the better buy right now? Based on traditional cattle feeding budgets, an 800 lb. steer purchased for \$103/cwt with a total cost of gain of \$61/cwt will be finished at the end of March with a breakeven selling price of \$88.73/cwt. With April futures currently at \$81.50/cwt and an expected basis (Nebraska) of \$1.37/cwt, an expected sale price of \$82.87/cwt could be hedged. This is \$5.86 less than breakeven. For a 550 lb. steer bought for \$109/cwt and placed on feed in November and fed until the beginning of June at a cost of \$54.50/cwt, the breakeven selling price is \$81.58/cwt. This is \$5.46/cwt higher than the expected sale price if hedged in June futures at \$74.60 with an expected basis (Nebraska) of \$1.52/cwt. Both the calves and yearlings would result in similar losses based on these conditions. Another consideration associated with the decision to feed yearlings or calves relates to Country of Origin Labeling (COOL) requirements. Because the calves will finish later than the yearlings, they are more likely to need COOL documentation.

In recent weeks, USDA has published proposed rules for mandatory COOL. The rules were very similar to the guidelines for voluntary COOL. Currently, appropriation of funding for COOL enforcement is being decided between a House and Senate joint committee. The House generally opposes providing funds for COOL enforcement, whereas the Senate strongly supports COOL enforcement. A decision will likely result this week. Until this issue is definitively settled (and in the case of COOL enforcement occurring), cattle feeders should insist on obtaining COOL documentation for cattle (especially calves) they purchase now as the beef from those cattle could be sold in the retail beef case after the September 30, 2004 deadline. At a minimum, cattle feeders should request a signed affidavit from sellers indicating: 1) the country of origin of the cattle, 2) the existence of paperwork to document the country of origin claim, and 3) permission to access those records. Cattle feeders have already received similar requests from beef packers. If cattle feeders can't provide this information to their buyers, they could be at risk of losing market access or suffering discounts when packers begin to enforce COOL documentation requirements. Thus, cattle feeders need to obtain this information from their buyers and retain it through the feeding period (and for another two years, according to the COOL regulations). Unfortunately, based on recent conversations with feeder cattle producers and sale barn managers, it appears many sellers are not prepared to do this yet.

The Markets

Last week, Kansas slaughter cattle prices were about \$4.50 lower on a live weight basis. On a dressed basis, Nebraska dressed steers were \$6.61 lower at \$159.37. Choice boxed beef prices declined about \$0.50 last week, but are 50% higher than last year. The Choice-Select spread widen by \$0.14 and is more than \$15 wider than last year. Last week, 700-800 lb. steer prices in Kansas were steady to lower, but more than \$2 higher in Nebraska. Steer calf prices were \$2-4 higher in Kansas and Nebraska.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight (35-65% Choice)	\$99.26	\$103.77	\$69.79
Neb. Fed Steer Price, dressed weight (35-65% Choice)	\$159.37	\$165.98	\$106.09
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$104.97	\$105.36	\$82.49
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$112.13	\$107.82	\$90.82
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$109.22	\$106.84	\$85.86
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$113.79	\$111.22	\$90.24
Choice Boxed Beef Price, 600-750 lb. carcass	\$169.41	\$169.97	\$113.24
Choice-Select Spread, 600-750 lb. carcass	\$21.46	\$21.30	\$5.99