In The Cattle Markets
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Is Chicken The Problem?

Cattle prices have declined sharply since peaking in mid-February. Rising supplies of slaughter cattle are partly to blame. For example, the four-week rolling average of federally inspected cattle slaughter ranged from 2.3 to just 0.2% above a year earlier during February. In contrast during the last three weeks of March, federally inspected cattle slaughter was 3.7 to 4.9% larger than the prior year. At the same time, cattle weights continued to average above the prior year. Federally inspected weekly dressed cattle weights averaged 782 pounds during March, 3.6% higher than a year ago. Weights during March were actually two pounds heavier than during January. This was in sharp contrast to the seasonal pattern since dressed cattle weights normally decline about 2% from January to March. The combination of larger slaughter and heavier weights pushed average daily beef production during March up about 9% compared to 2005. Per capita supplies facing U.S. consumers likely did not increase as much as production because of improvements in international trade (even in the absence of exports to Japan) since last year. Still, rising beef supplies clearly provided much of the impetus for falling cattle prices in late winter 2005.

But haven't rising domestic chicken supplies also contributed to the price decline? In a word, yes. Trade reports indicate that chicken exports, especially of dark meat, have fallen sharply as foreign consumers have reduced their chicken consumption in response to fears of bird flu. At the same time, total chicken production has been running ahead of last year's pace. Preliminary weekly data indicate chicken production during March was about 5% greater than a year ago. The result has been a huge increase in cold storage stocks of dark meat chicken. At the end of February, U.S. cold storage stocks of chicken drumsticks (+64%), leg quarters (+180%), legs (+162%), thigh and thigh quarters (+77%), and thigh meat (+31%) were all up dramatically compared to a year ago. And the situation likely did not improve during March. As a result, chicken prices have fallen sharply, providing stiff competition for beef and pork cuts. For example, during March broiler leg quarter prices averaged 45% below a year ago. And even higher valued white meat prices were well below 2005's. Chicken tender and chicken breast prices during March were 37 and 33%, respectively, below a year ago. Integrators are starting to respond to low chicken prices. Chick placements finally fell below a year ago during February and remained below 2005's during March. But it's going to take time for the situation to improve.

In The Markets

Slaughter cattle prices dropped again last week. Live weight prices in Kansas averaged $84.07/cwt., 3% lower than the prior week. Slaughter cattle prices in Kansas have fallen 13% since mid-January, when the weekly average peaked at $96.60/cwt. Dressed weight prices in Nebraska averaged $133.73/cwt., a decline of 4% compared to the prior week. Light weight steer prices in Kansas increased $2.52/cwt. to average $132.78/cwt. Despite last week's modest increase, prices for 500-600 pound steers are still well below their mid-February peak. This is counter to the seasonal pattern. Over the last five years light weight steer prices increased about

8% from mid-February to late March. This year prices for 500-600 pound steers in late March were 7% lower than in mid-February. Prices for 750 lb. steers in Kansas last week increased $1.60/cwt. to average $106.67/cwt. A 750 pound steer placed on feed at last week's Kansas average price would likely require a sale price near $86/cwt. in mid-August to breakeven. In contrast, the 4/4/06 settlement price for August live cattle futures implies a Kansas cash slaughter cattle price of about $74/cwt. in mid-August. That means a 750 pound steer placed on feed last week and hedged in August live cattle futures on 4/4/06 would likely lose between $140 and $150 per head. The implication is that there is additional downside risk in feeder cattle prices.

	Last Week	**Previous Week**	**Last Year**
Kansas Fed Steer Price, live weight	$84.07	$86.34	$92.05
Nebraska Fed Steer Price, dressed weight	$133.73	$137.54	$152.40
700-800 lb. Feeder Steer Price, KS 3 market average	$106.67	$105.07	$114.00
500-600 lb. Feeder Steer Price, KS 3 market average	$132.78	$130.26	$142.63
700-800 lb. Feeder Steer Price, NE 7 market average	$108.41	--	$115.23
500-600 lb. Feeder Steer Price, NE 7 market average	$134.62	--	$143.13
Choice Boxed Beef Price, 600-900 lb. carcass	$140.19	$142.22	$151.09
Choice-Select Spread, 600-900 lb. carcass	$10.75	$11.04	$10.49