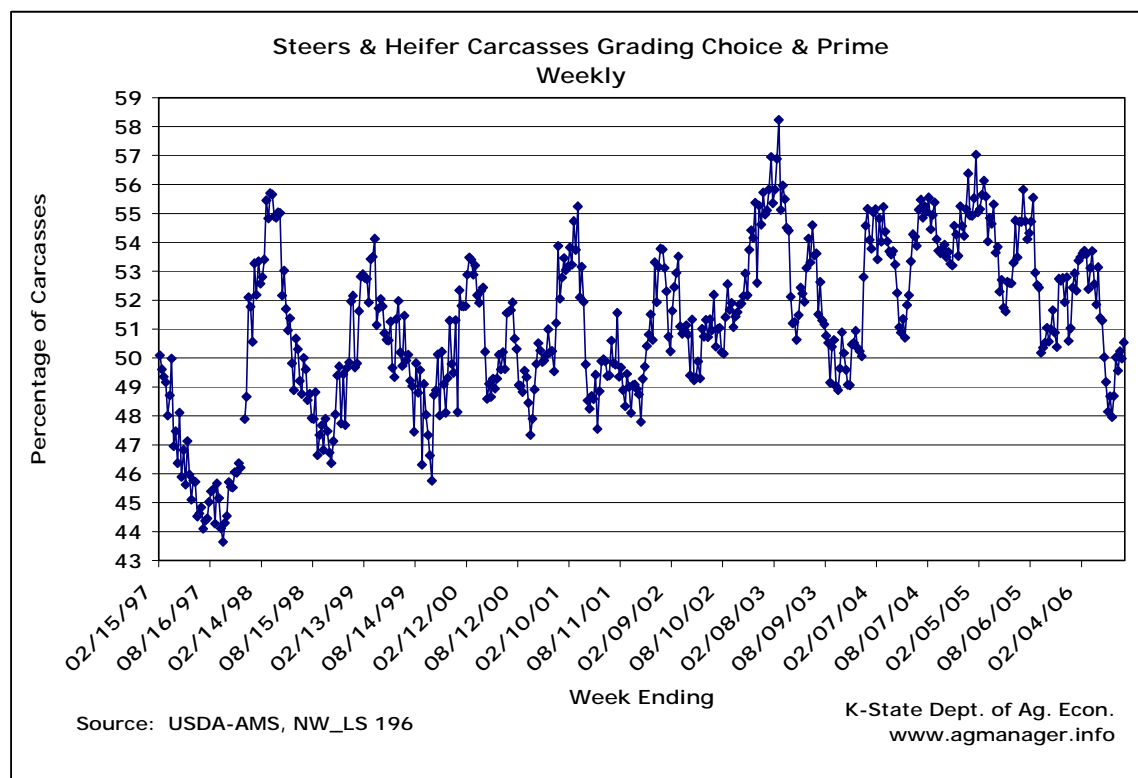


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Strong Choice Select Spread Persists Into Summer

One of the surprises of 2006 has been the fact that the Choice-Select spread has remained so strong into early summer. The reason it's surprising is the Choice-Select price spread normally exhibits a very strong seasonal pattern. The spread typically starts the year relatively low and then starts to increase in late winter and early spring. Most years the spread peaks between late April and early June and then weakens during June. Over the last five years, the spring peak in the price spread has been about triple the early winter bottom in the spread. After peaking in mid-spring, the spread weakens and, by mid-July, it declines back to its early winter level. Finally, in late summer the spread starts to strengthen again, reaching its fall peak during October and early November.

This year's pattern has differed markedly from normal. First, the spread started the year stronger than normal. The fall 2005 peak in the spread was \$14.22/cwt. After a brief decline to about \$10/cwt. in early December, the spread started increasing again, reaching \$15/cwt. at the start of the year. The spread did weaken as winter progressed, bottoming at \$10/cwt. in February, and then recovered seasonally to peak at \$23/cwt. in early June. But the Choice-Select spread has weakened very little since early June. For example, last week's spread was still \$22.05/cwt.



Why is the Choice-Select spread behaving differently this year than in year's past? There likely are several factors that help explain what's taking place this year vs. prior years, but one of them is undoubtedly a change in the percentage of cattle grading Choice or higher. Despite the fact that cattle are being marketed at heavier weights than a year ago, fewer cattle are reaching the Choice and Prime grades than the last several years. During the first half of 2006 Choice and Prime cattle averaged 51.4% of all cattle graded in the U.S., down from last year's 54.2% average and a three-year average of 53.9%. Furthermore, an examination of the weekly grading data published by USDA suggests the downturn in cattle grading Choice or higher dates back to early 2005. So, it looks like the spread might not return to a more typical summer level until the percentage of cattle grading Choice or higher starts to pick up.

In The Markets

Slaughter steer prices in Kansas averaged \$81.22 per cwt. (live weight) last week, \$2/cwt. below the prior week. Similarly, Nebraska dressed slaughter prices declined \$3.65/cwt. to average \$127.87/cwt. Boxed beef prices were also weaker, averaging nearly \$4/cwt. below the prior week's average. The Choice-Select spread remained unusually wide for this time of year, averaging \$22.05/cwt. compared to \$4.37/cwt. a year ago. A 750 pound steer placed on feed in Kansas in recent weeks at a price of \$112.31/cwt. would likely require a sale price between \$93 and \$94 per cwt. in early December to breakeven. December live cattle futures closed at \$87.90 on 7/18/06. Relying on average basis levels from the last three years to forecast a Kansas cash price average in December, the futures market suggests that Kansas cash prices will average near \$86.50/cwt., about \$7/cwt. below the expected breakeven.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$81.22	\$83.19	\$80.14
Nebraska Fed Steer Price, dressed weight	\$127.87	\$131.52	\$126.89
700-800 lb. Feeder Steer Price, KS 3 market average	\$117.12	--	\$115.36
500-600 lb. Feeder Steer Price, KS 3 market average	\$131.58	--	\$129.79
700-800 lb. Feeder Steer Price, NE 7 market average	\$122.15	\$125.11	\$120.26
500-600 lb. Feeder Steer Price, NE 7 market average	\$141.87	\$144.38	\$141.79
Choice Boxed Beef Price, 600-900 lb. carcass	\$149.59	\$153.43	\$133.87
Choice-Select Spread, 600-900 lb. carcass	\$22.05	\$22.26	\$4.37