

## **In The Cattle Markets**

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### **Record Cattle on Feed Inventory – Again**

The October 1, 2006 cattle on feed inventory was record large compared to Octobers in previous years. That was the same situation at the beginning of September this year. At 11.385 million head, the on feed inventory was 8.6% higher than October 1, 2005, but very close to the average pre-release estimate. One reason for the record large on feed inventories for this time of year was the advanced pace for placements earlier this year as a result of the drought in the southern plains. This continued to affect placements through September too. Overall, net placements were down 5.8% last month. This resulted from a decrease in placements weighing more than 600 lbs. of 283,000 head or 15.8%. However, placements of steer and heifer calves weighing less than 600 lbs. were up 160,000 head or 28.3%.

In recent months, we've seen that yearling placements have declined relative to year-ago levels due to short supplies of heavier feeder cattle outside of feedyards (they were placed earlier in the year). The continued increase in light weight calf placements in recent months are a result of at least three factors. First, drought stressed pastures in the northern plains and western states likely prompted early weaning. Second, feeder calf prices have declined at least 8% (basis Nebraska) in the past month due to softer fed cattle prices and much higher corn prices. Given the outlook for fed cattle and corn prices, feeder cattle prices may not improve, so some producers are taking advantage of current prices that are still relatively good by selling calves now. Third, cattle feeders may be trying to take advantage of feedstuffs that may be cheaper than corn in some local markets and that are more suitable for growing calf rations than for finishing diets. For example, placements in South Dakota were up 25% in September where hay prices are \$50-75/ton less than in Texas where placements dropped 10%. Clearly, the rapid rise in the corn market of nearly \$1/bu in the past month (basis Omaha, Nebraska) negatively impacts feeding margins. Breakeven prices increase about \$4-6/cwt for a calf finishing operation from such a change in corn price. Interestingly, some areas of the country may be more insulated from these corn price shocks due to the availability of distillers grains. Although many plants price distillers grains in a fixed relationship to corn, continued rapid increase in ethanol and distillers grain production may weaken this relationship, making distillers grains even more price competitive relative to corn. Thus, those feedyards in close proximity to ample distillers grains products can more competitively substitute distillers grains plus solubles for corn. Interesting, the cattle on feed inventory numbers seem to reflect this. Cattle on feed inventories are up significantly in states leading in ethanol production: Nebraska (+14%), Iowa (+12%), and South Dakota (+31%).

## The Markets

Fed cattle prices in Kansas and Nebraska were steady to firm last week and close to year-ago levels. Live weight prices in Kansas averaged \$88/cwt and dressed weight prices in Nebraska were \$136.43. Choice boxed beef increased \$3/cwt last week and the Choice-Select spread widened \$1/cwt. Feeder cattle prices were down in Nebraska and Kansas last week in response to higher corn prices. Nebraska yearling steer prices declined about \$2/cwt while average calf prices dropped \$3.40/cwt. Yearling steer prices were more than \$5/cwt lower in Kansas and steer calf prices were close to \$4/cwt lower. Omaha, Nebraska corn prices averaged \$2.91/bu last week, \$0.17/bu higher than the previous week and \$1.43/bu *more* than last year.

	<b>Last Week</b>	<b>Previous Week</b>	<b>Last Year</b>
Kansas Fed Steer Price, live weight	\$88.00	\$87.95	\$87.71
Neb. Fed Steer Price, dressed weight	\$136.43	\$136.76	\$137.69
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$106.82	\$112.01	\$116.86
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$119.88	\$123.64	\$126.68
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$111.22	\$113.45	\$121.87
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$122.04	\$125.44	\$133.63
Choice Boxed Beef Price, 600-900 lb. carcass	\$146.11	\$143.02	\$146.41
Choice-Select Spread, 600-900 lb. carcass	\$10.02	\$9.04	\$14.22
Corn Price, Omaha Nebraska, \$/bu	\$2.91	\$2.74	\$1.48