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In The Cattle Markets

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Corn Prices and Cattle Weights

This fall's rapid run-up in corn prices leads to questions regarding the impact of rising feed costs on cattle weights. So far higher corn prices appear to have had little or no impact on cattle weights. For example, dressed steer weights hit 848 pounds in mid-November, the second highest weekly average of the fall quarter. But that could change. The real impact on dressed weights, and beef production, is likely to occur during 2007.

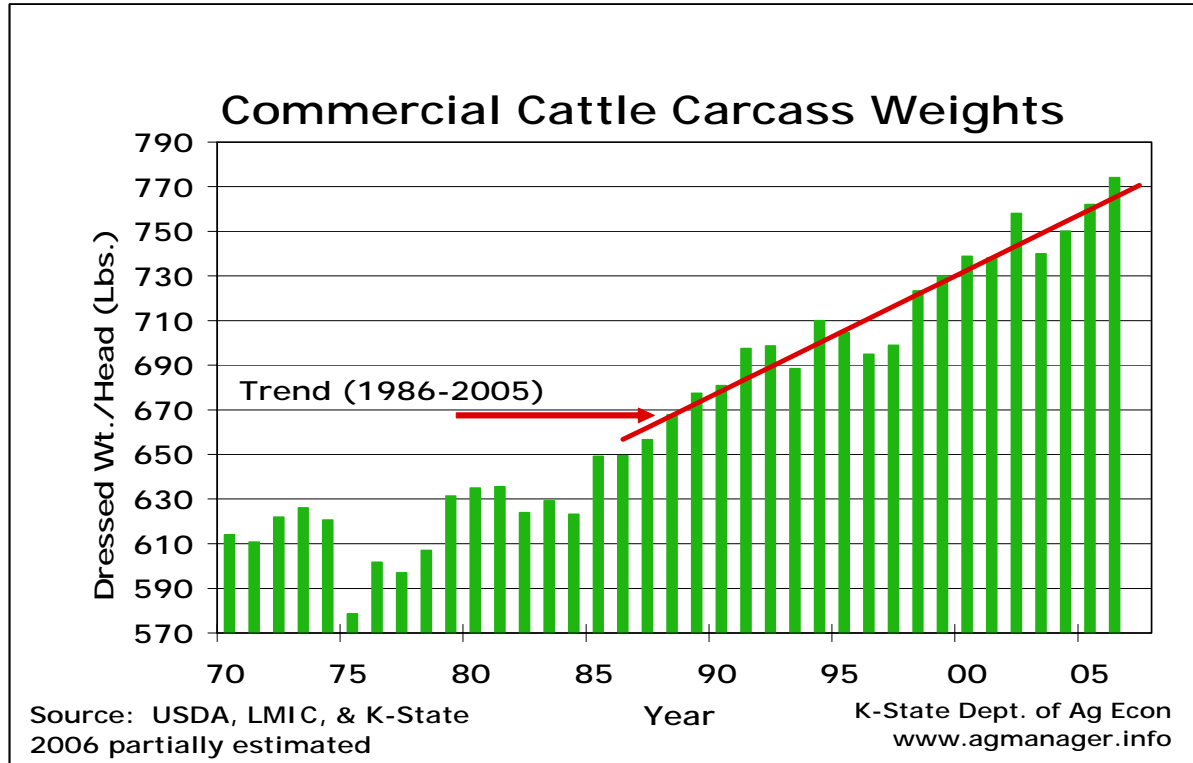
Over the last twenty years dressed cattle weights increased dramatically, which was simply a continuation of an even longer-run trend in weights. Commercial carcass weights averaged about 649 pounds in 1986. Based on data through mid-November, it looks like commercial carcass weights will average near 774 pounds in 2006, an increase of about 19 percent compared to 1986's average. The 125 pound increase in dressed weights over the last twenty one years works out to an annual average increase of over 5 pounds per year. Improvements in genetics and feeding technology are largely responsible for the long run trend to market cattle at heavier weights. As a result, it's usually a pretty safe bet that weights will increase from one year to the next. But will that be the case in 2007?

Opposing forces will pull weights in different directions during 2007. Improvements in genetics and technology will stimulate an increase in weights. But a sharp increase in feed costs will encourage feeders to market cattle at lighter weights. The last time these two forces really opposed each other was in 1996. An examination of what took place that year might shed some light on what's likely to happen during 2007.

Corn prices at Omaha in early 1996 traded at \$3.41 per bushel, about 26% higher than in mid-August 1995. By early July corn prices were trading at over \$5.00 per bushel, or about 50% higher than in early January. Despite the run-up in corn prices during fall 1995, federally inspected dressed cattle weights at the beginning of 1996 averaged 2% heavier than a year earlier. But high feed costs began to take a toll on weights as the year progressed. By April 1996 weights were consistently averaging below the prior year, a trend which continued the rest of the year. At first the year-to-year declines in weight were modest, averaging less than 1%. However, as the year progressed the impact of high feed costs on cattle management strategies became more pronounced. The result was weights falling 1%, 1.8% and 3.4% below a year earlier during the second, third, and fourth quarters of 1996, respectively.

What are the implications for the year ahead? A couple of points stand out. First, it takes awhile for rising feed costs to impact dressed weights. The fact that weights this fall have not fallen below a year earlier doesn't mean it won't happen this winter or spring. Second, it's apparent the relatively large reductions in weights that occurred in late 1996 were motivated by the dramatic run-up in corn prices that took place in late spring and summer of that year. It remains to be seen whether corn prices in 2007 will climb to levels last seen during the summer of 1996. During 1996 dressed cattle weights fell 2.3% below the trend "forecast" for 1996. But part of that decline

relative to the trend was motivated by the extraordinary corn price increase that took place during the spring and summer of 1996. As a result, weights during 2007 are expected to wind up near their trend level of about 770 pounds, which implies a decline from 2006's record level of about 1 percent. However, if corn prices increase dramatically during 2007, as they did in 1996, look for an even larger year-to-year decline in weights.



The Markets

Slaughter cattle prices were weaker last week, averaging \$85.86/cwt. (live weight) in Kansas and \$134.93/cwt. (dressed weight) in Nebraska. Prices for Choice boxed beef changed little compared to a week earlier, averaging \$140.97/cwt. The weekly average Choice-Select spread increased modestly to \$13.66/cwt., \$0.75 above a week earlier. Feeder cattle and calf prices in Nebraska changed little from a week earlier; there was insufficient trade volume in Kansas during Thanksgiving week to make a week-to-week comparison. Corn prices in Omaha last Thursday were \$3.53/bushel, \$0.16 higher than a week earlier and more than double a year ago.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$85.86	\$87.94	\$92.10
Neb. Fed Steer Price, dressed weight	\$134.93	\$138.53	\$148.42
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$102.30	--	\$118.56
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$110.93	--	\$133.40
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$106.23	\$106.52	\$118.99
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$118.31	\$119.64	\$140.55
Choice Boxed Beef Price, 600-900 lb. carcass	\$140.97	\$141.76	\$150.80
Choice-Select Spread, 600-900 lb. carcass	\$13.66	\$12.91	\$10.35
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.53	\$3.37	\$1.74