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In The Cattle Markets

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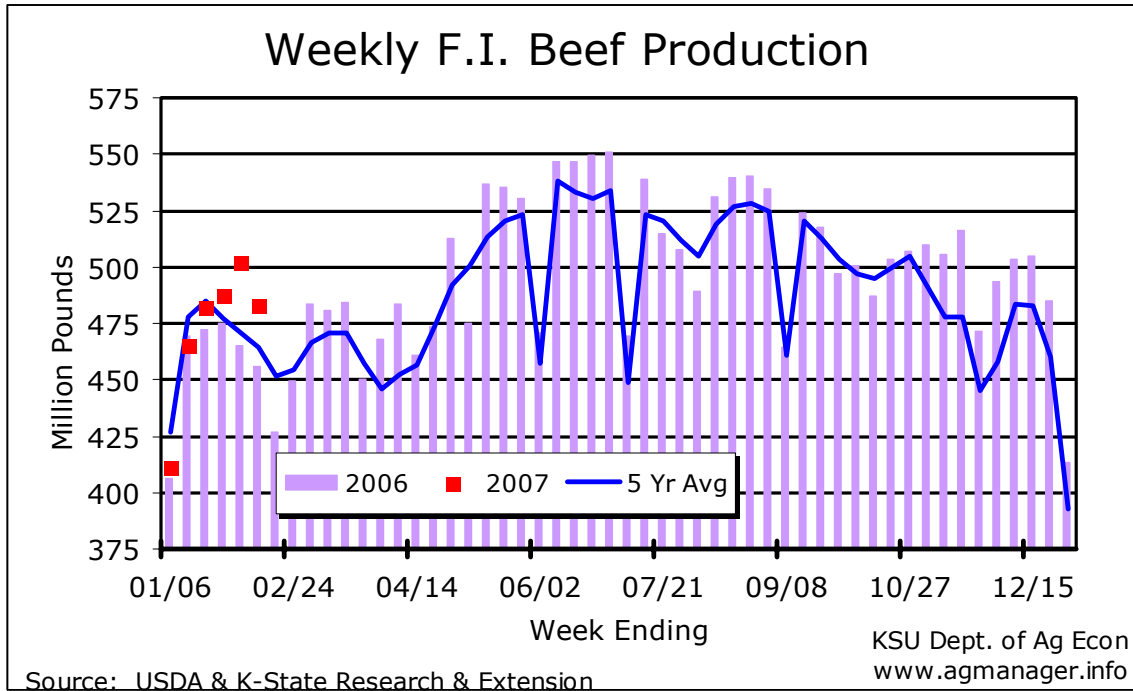
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Winter Weather & Cattle Prices: What's Happened?

Cattle feeders have been surprised and frustrated that slaughter cattle prices this year did not strengthen (until last week) when harsh winter weather hit the Plains states. The frustration stems from the fact that severe winter storms normally slow down fed cattle marketings, reduce weights, and lower beef production which leads to markedly higher prices. But that has not happened this year. So far this year, Kansas slaughter cattle prices have averaged \$88.24/cwt., about 6% lower than last year and only modestly higher than December's average of \$86.25. The reason appears to be that cattle slaughter and beef production, at least so far, have not slowed down in response to the storms.

Federally inspected cattle slaughter this year (through February 10th) has actually been 3.4% larger than a year ago. Dressed cattle weights have fallen below a year ago, but just barely, averaging 780 pounds vs. 781 last year. Fed cattle weights, as indicated by dressed steer weights, during January were actually 0.3% heavier than in January 2006, averaging 833 pounds vs. 831 a year ago. As a result, federally inspected beef production this year has actually been 3.2% larger than this time last year. Given the year-to-year increase in beef production, the fact that prices so far this year have been lower than last winter is not surprising.

So, is the effect of this year's winter weather all behind us? I don't think so. Based on past experience, the effect of winter weather on cattle performance, marketing rates, and weights is likely to linger through the rest of the winter and probably much of the spring quarter. Dressed steer weights have fallen 12 pounds since the first of the year vs. a five-year average decline of just 5 pounds and were fractionally below a year ago in late January. Weights are expected to continue to fall more sharply than normal as poor feeding conditions are more widely reflected in market ready cattle. And fed cattle slaughter volume is likely to tighten as winter turns to spring. This combination should lead to reduced boxed beef production, which will be supportive of fed cattle prices in late winter and spring.



The Markets

After languishing in the \$80's for nearly four months, Kansas slaughter cattle prices finally broke through the \$90 barrier last week, averaging \$90.70/cwt. (live weight) in Kansas and \$144.67/cwt. (dressed weight) in Nebraska. Stronger slaughter cattle prices provided a boost to feeder prices as 700-800 lb. steer prices increased nearly \$5/cwt., averaging \$98.80/cwt. and \$100.50/cwt. in Kansas and Nebraska, respectively. Light weight steer prices also increased, but the increase was larger in Nebraska than in Kansas. Despite last week's price increase, heavy weight feeder steers are still priced about 10 to 13% below a year ago in Kansas and Nebraska, respectively. High corn prices have had an even bigger impact on light weight steer prices as prices for 500-600 lb. steers in Kansas were down 19% and Nebraska prices for the same weight steers were down 17%, compared to a year ago.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$90.70	\$88.53	\$90.45
Neb. Fed Steer Price, dressed weight	\$144.66	\$137.87	\$143.40
700-800 lb. Feeder Steer Price, Kansas 3 market average	\$98.80	\$94.12	\$110.21
500-600 lb. Feeder Steer Price, Kansas 3 market average	\$115.83	\$114.89	\$143.02
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$100.59	\$95.99	\$115.28
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$119.64	\$112.34	\$143.75
Choice Boxed Beef Price, 600-900 lb. carcass	\$143.34	\$143.06	\$145.92
Choice-Select Spread, 600-900 lb. carcass	\$6.65	\$8.15	\$10.31
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.78	\$3.72	\$1.96
DDG Wholesale Price, Iowa, \$/ton	\$126.00	\$127.50	\$83.50