

In The Cattle Markets

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Is Weather & Corn Price Shifting Cattle Placements?

Traditionally, Texas, Kansas and Nebraska rank as the top three cattle feeding states, in that order, amongst feedyards with 1,000+ head capacities (see Figure 1). A unique combination of severe winter weather, high corn prices, and the rapidly increasing production of ethanol byproducts may have been shifting that pattern in recent months. Cattle on feed data from February's report, for example, showed that Nebraska now has the second largest number of cattle on feed in lots with 1,000+ head capacities. This resulted from a 24% increase in on feed numbers since September 2006 in Nebraska. Interestingly, other Northern Plains feedyards saw increases as well. Iowa and South Dakota on feed inventories increased 17% and 48%, respectively, during this time period. Texas inventory declined 5% since September 1, 2006 and Kansas and Oklahoma increased inventory by less than 2% (the U.S. average was a 6.7% increase during this five-month time period).

Figure 2 shows cattle on feed placements expressed as a percent of the previous year for September 2006 through January 2007 for selected states. While conclusive trends are not evident from this data, it does indicate that placements in Southern Plains states like Texas, Oklahoma, and Kansas were down this past winter compared to last year. Northern Plains states like Nebraska, Iowa, and South Dakota generally posted smaller placement declines or increases during these past five months.

So, are cattle moving north? It appears so – at least temporarily. The competitive advantage for cattle feeding may have shifted to the Northern Plains states recently for several reasons. First, successive winter storms from December through February hit Southern Plains states hard, causing tough pen conditions and substantially lowering feeding performance. As a result, southern feeders have placed fewer cattle on feed. While storms have recently impacted cattle feeders on the Northern Plains, this will not likely be evident in placement numbers until the March Cattle on Feed report is released later this month. A second reason for the shift in placements and on feed numbers is cost of gain differences between the Northern and Southern Plains. For example, the average corn price in the Texas Triangle area was \$3.73/bu from September through February, \$0.54/bu higher than the average Omaha, NE price during that time. Typically, Southern Plains feeders can afford to feed higher priced corn (due to transportation costs from the Corn Belt) because cattle feeding performance in the winter months exceeds that in the Northern Plains. However, that better performance didn't materialize this winter, as mentioned earlier. Thirdly, cattle feeders in Nebraska, Iowa, and South Dakota are able to take advantage of wet and dry distillers grains from nearby ethanol production. While ethanol byproducts can be shipped to the Southern Plains, bulk and moisture content lead to cost disadvantages for feeders farther from ethanol plants. Also important is that feeding ethanol byproducts, particularly wet distillers grains, typically results in significant improvements in cattle feeding performance.

The extent to which these geographic shifts in cattle numbers will continue or become permanent isn't yet known. Certainly, long term weather conditions will eventually return the Southern Plains to have performance advantages for winter feeding. And, improvements in transportation logistics or construction of ethanol plants in the Southern Plains could enable those feeders to reap some of the benefits of feeding ethanol byproducts.

Figure 1

Cattle on Feed, 1000+ Head Feedyards, By States, 2004-2007

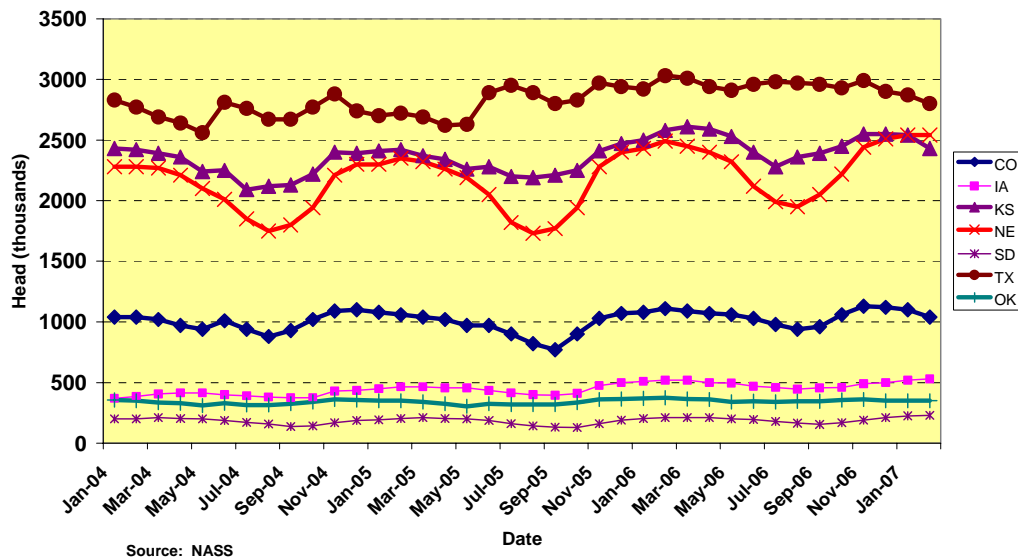
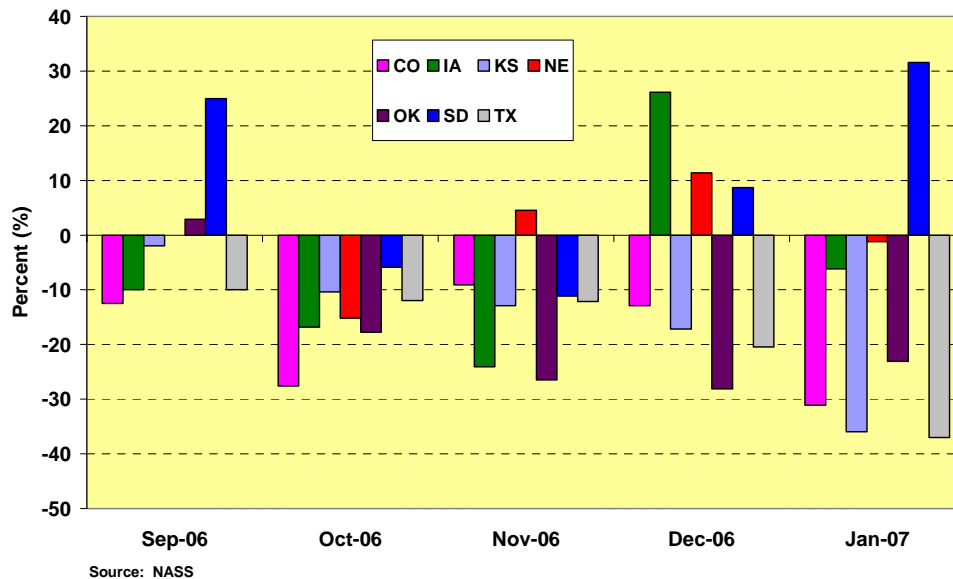


Figure 2

Cattle Placements, 1000+ Head Feedyards, Percent of Year-Ago, Monthly



The Markets

The fed cattle market traded mostly \$3/cwt higher on a live weight basis last week, with Kansas prices averaging \$94.03/cwt. Dressed sales in Nebraska averaged \$4.31/cwt higher. The rally in the fed cattle market came in spite of a nearly \$3/cwt drop in Choice boxed beef prices last week. Weakness in the stock market and Chinese economy sent the corn market lower last week, with prices \$0.15/bu lower than the previous week basis Omaha, NE. That resulted in significantly higher feeder cattle prices last week in Nebraska. Steer calf prices increased nearly \$5/cwt, while yearlings averaged nearly \$6/cwt higher. Feeder cattle prices in Kansas were also \$1-3 higher.

| | Last Week | Previous Week | Last Year |
|---|------------------|----------------------|------------------|
| Kansas Fed Steer Price, live weight | \$94.03 | \$90.80 | \$87.99 |
| Neb. Fed Steer Price, dressed weight | \$149.40 | \$145.09 | \$141.80 |
| 700-800 lb. Feeder Steer Price, Kansas 4 market average | \$101.99 | \$99.19 | \$108.38 |
| 500-600 lb. Feeder Steer Price, Kansas 4 market average | \$123.14 | \$122.19 | \$139.62 |
| 700-800 lb. Feeder Steer Price, Neb. 7 market average | \$104.65 | \$98.78 | \$113.98 |
| 500-600 lb. Feeder Steer Price, Neb. 7 market average | \$124.00 | \$119.21 | \$142.14 |
| Choice Boxed Beef Price, 600-900 lb. carcass | \$149.29 | \$152.25 | \$152.64 |
| Choice-Select Spread, 600-900 lb. carcass | \$6.83 | \$6.95 | \$10.76 |
| Corn Price, Omaha Nebraska, \$/bu (Thursday quote) | \$4.00 | \$4.15 | \$1.97 |