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In The Cattle Markets

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Choice-Select Spread in 2007

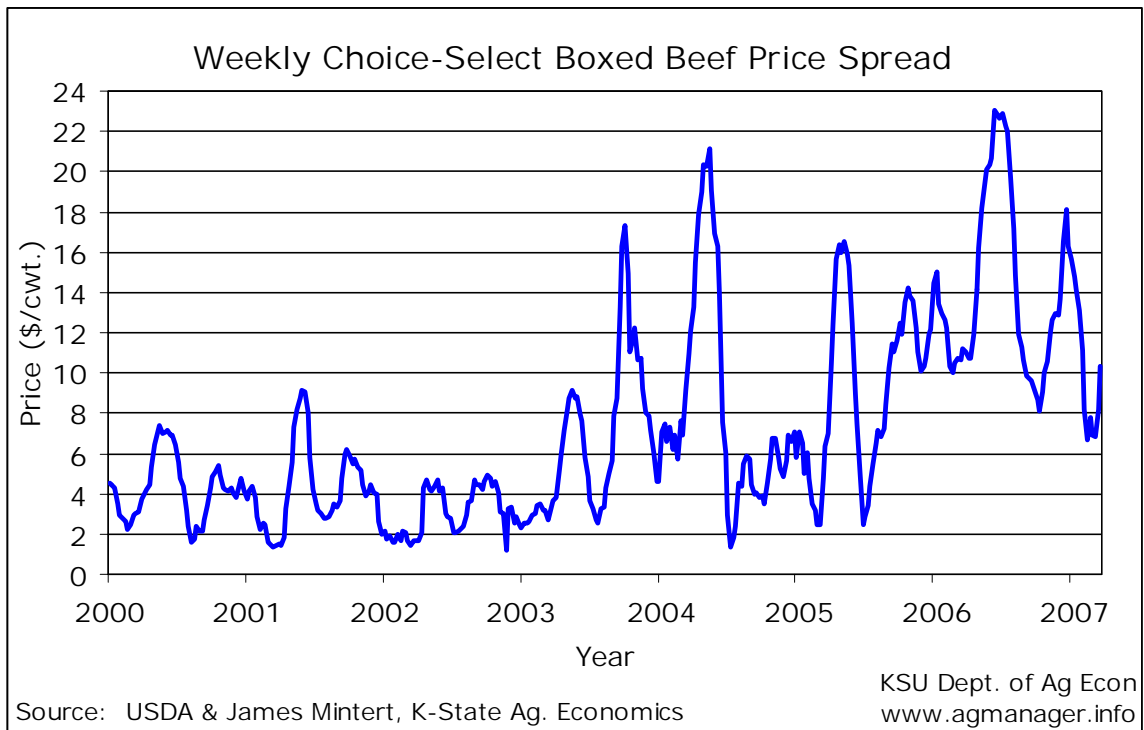
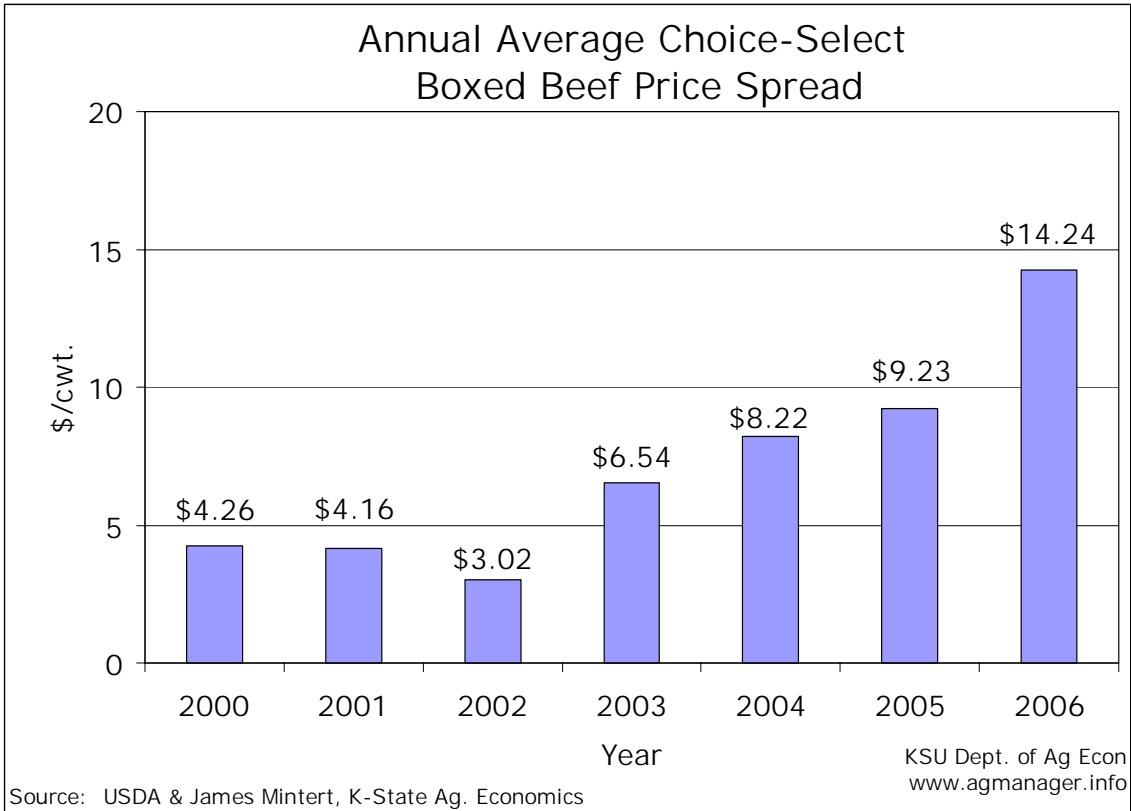
The Choice-Select spread is an important determinant of returns for many carcass merit pricing systems. As a result, it's important for cattle feeders to be able to anticipate changes in the spread over time to optimize their feeding regimen. Changes in the price spread over time can be indicative of shifts in supply of Choice vs. Select beef, shifts in demand for Choice vs. Select beef, or a combination of the two. And, over longer periods of time, the spread reflects changes in the cost of producing Choice vs. Select beef. Increases in the cost of producing Choice beef, relative to Select beef, are expected to yield an increase in the Choice-Select price spread. And that could be the case in 2007.

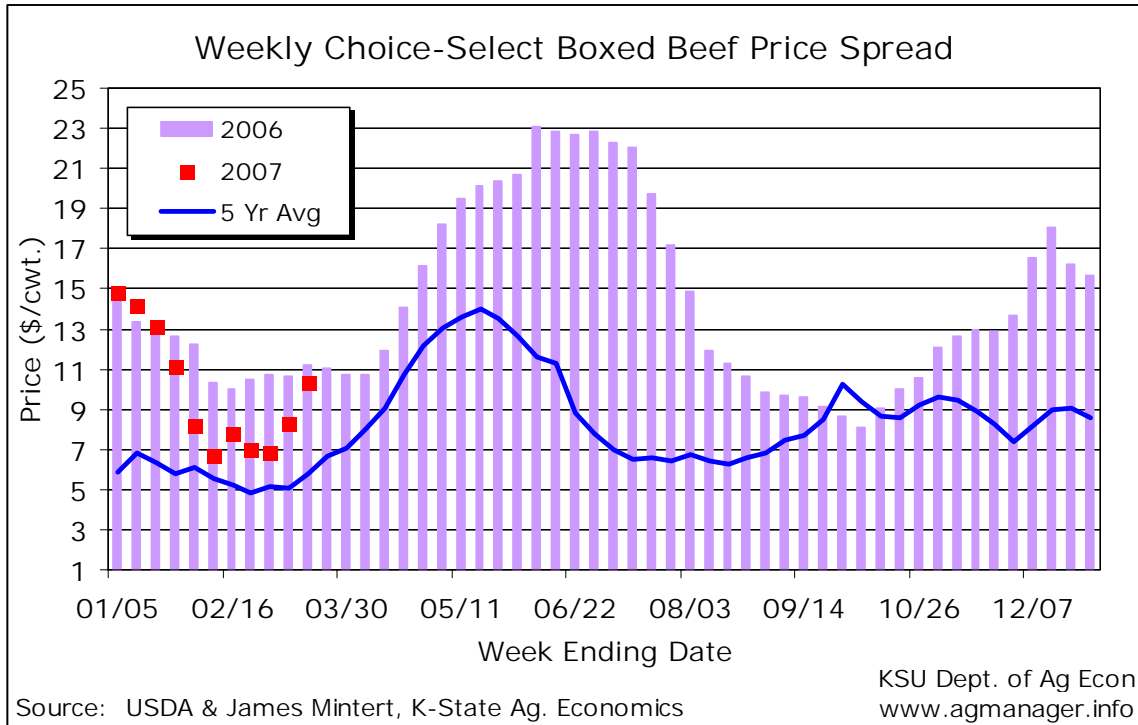
A review of the annual average Choice-Select spread in recent years reveals that the price spread has been trending upward, starting in 2003. After averaging from \$3 to about \$4 per cwt. during 2000 – 2002, the Choice-Select boxed beef price spread began to increase. The price spread during 2003 averaged more than double 2002's average. By 2006 the spread average was about 3.5 times the size of the average Choice-Select price spread in both 2000 and 2001.

Recent data also suggest the Choice-Select spread is becoming more variable, in absolute terms, than in the past. From 2000 through 2002, the standard deviation of the weekly average Choice-Select spread ranged from \$1.15 to \$2.02 per cwt. In contrast, from 2003 through 2006, the standard deviation of the weekly average Choice-Select spread ranged from \$3.77 to \$5.28 per cwt. The increase in variability means that it is becoming more difficult to forecast the Choice-Select price spread.

Although forecasting the Choice-Select spread is becoming more difficult, the spread still follows a seasonal pattern where the spread usually peaks in mid-spring, weakens during the summer, and then rises again in early to mid-fall. The five-year average depicted in the chart contrasting this year's spread with last year's illustrates the spread's seasonal pattern.

Cattle feeders and beef buyers are both wondering what the implications are for this year's Choice-Select spread. A sharp rise in feeding costs this year vs. last year means that the cost of producing Choice beef, relative to Select beef, is markedly higher than in 2006. The Choice-Select spread has widened sharply the last two weeks, averaging \$10.30/cwt. last week compared to just \$6.83/cwt. two weeks ago. The widest weekly average Choice-Select spread of this decade was \$23.08 in June 2006. The increase in feeding costs this year means that the odds are in favor of a new record wide Choice-Select spread being established later this spring.





The Markets

Slaughter cattle prices last week changed little from the prior week's average in Kansas, but in Nebraska averaged \$4.00 cwt. (dressed) higher than a week earlier. Cattle traded at mid-week brought higher prices than late week trade as both boxed beef and live cattle futures prices weakened late in the week. Choice boxed beef prices averaged \$165.50 last week, nearly \$10/cwt. higher than the previous week's average. The Choice-Select spread increased for the second week in a row, averaging \$10.30/cwt. last week. Prices for light-weight feeder cattle increased sharply as demand for grass cattle strengthened. In Kansas, 500-600 pound steer prices averaged about \$135/cwt., approximately \$7/cwt. higher than a week earlier. Prices for 500-600 pound steers in Nebraska also increased last week, but the rise was a more modest \$2/cwt. In contrast, heavy-weight feeder prices in both states were steady to slightly higher, despite the fact that corn prices declined over \$0.20/bu. compared to a week earlier.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$97.94	\$98.29	\$86.13
Neb. Fed Steer Price, dressed weight	\$159.59	\$155.36	\$136.40
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$106.21	\$105.94	\$105.74
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$134.86	\$127.68	\$131.08
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$108.95	\$107.46	\$106.12
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$129.54	\$127.63	\$138.18
Choice Boxed Beef Price, 600-900 lb. carcass	\$165.50	\$155.70	\$145.11
Choice-Select Spread, 600-900 lb. carcass	\$10.30	\$8.22	\$11.21
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.73	\$3.94	\$1.85
DDG Wholesale Price, Iowa, \$/ton	\$130.00	\$132.50	\$79.50