

In The Cattle Markets

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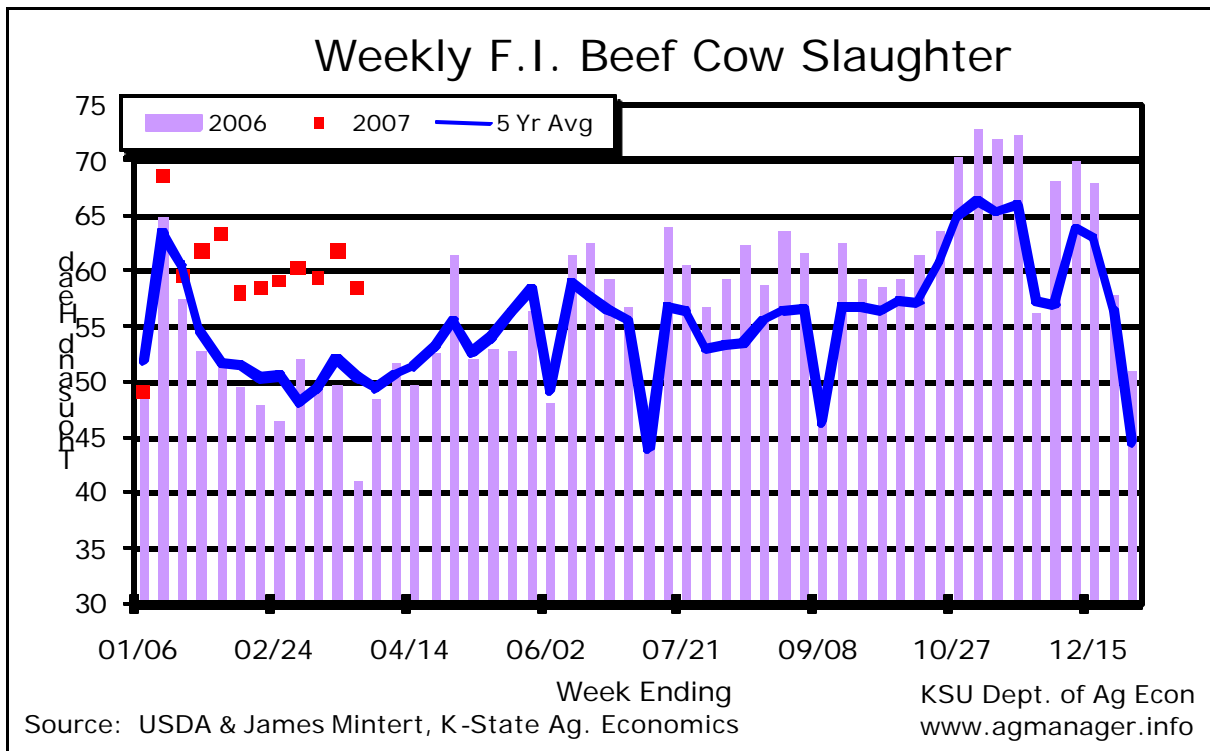
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No Herd Expansion In Sight

The U.S. cow-calf sector has been profitable since 1999 and returns the last three years have been the highest the industry has experienced in over 25 years. Ordinarily a string of profitable years would be enough to encourage producers to increase their herd size, primarily by holding back heifers. But that is not what's been taking place so far in 2007.

During the first quarter of 2007 beef and dairy cow slaughter combined were about 15% larger than in 2006. The biggest slaughter increase was in the beef cow sector as federally inspected beef cow slaughter was 17% greater than 2006's, whereas dairy cow slaughter was up approximately 13% compared to last year. It looks like cow slaughter will remain large relative to last year until mid-to- late spring. Percentage increases in cow slaughter will likely moderate by late spring because cow slaughter last year increased sharply from about June forward.

To gauge whether producers are actually reducing the size of the U.S. herd, it's useful to examine the ratio of female (cow and heifer) slaughter to steer slaughter. When female slaughter exceeds steer slaughter, it indicates herd liquidation is underway. When female slaughter falls far below steer slaughter, herd rebuilding is usually underway. So far this year female slaughter has averaged about 97% of steer slaughter. The implication is that U.S. producers are still holding the nation's cowherd steady. If forage production prospects this summer improve substantially compared to last year, it could still encourage some producers to think about herd expansion, but that hasn't happened yet.



The Markets

Slaughter cattle prices last week in Kansas averaged \$100/cwt (live weight) for the first time since November 2003. Kansas slaughter cattle prices rose 4.5% compared to a week earlier and were actually 20% higher than a year earlier. Choice boxed beef prices averaged \$156.20 last week, which was just 1% higher than during the prior week, although it was about 13% higher than last year. The Choice-Select spread declined to an average of \$8.73/cwt, a 4% decline compared to a week earlier and about 18% lower than in 2006. Prices for all weights of feeder cattle increased last week in Kansas whereas prices in Nebraska were steady for heavy feeders and lower for lightweight steers. Fed cattle price strength, combined with weaker corn prices and good pasture prospect helped support feeder and light weight steer prices in Kansas. Omaha corn prices last week were \$0.28/bushel lower than a week earlier, in the wake of USDA's Prospective Plantings report.

| Cattle or Meat Category | Last Week | Previous | Last Year | %Chng | % Chng |
|---|-----------|----------|-----------|------------|------------|
| | | Week | | Prev. Week | Prev. Year |
| Kansas Fed Steer Price, live weight | \$100.04 | \$95.69 | \$83.14 | 5% | 20% |
| Nebraska Fed Steer Price, dressed weight | \$159.79 | \$155.49 | \$128.98 | 3% | 24% |
| 700-800 lb. Feeder Steer Price, KS 3 market average | \$110.36 | \$106.46 | \$102.70 | 4% | 7% |
| 500-600 lb. Feeder Steer Price, KS 3 market average | \$134.88 | \$131.13 | \$131.65 | 3% | 2% |
| 700-800 lb. Feeder Steer Price, NE 7 market average | \$111.26 | \$111.29 | \$108.32 | 0% | 3% |
| 500-600 lb. Feeder Steer Price, NE 7 market average | \$127.74 | \$132.03 | \$134.15 | -3% | -5% |
| Choice Boxed Beef Price, 600-900 lb. carcass | \$156.20 | \$154.06 | \$138.69 | 1% | 13% |
| Choice-Select Spread, 600-900 lb. carcass | \$8.73 | \$9.14 | \$10.71 | -4% | -18% |
| Corn Price, Omaha, NE, \$/bu (Thursday quote) | \$3.41 | \$3.69 | \$2.12 | -8% | 61% |
| DDG Wholesale Price, Iowa, \$/ton | \$122.50 | \$127.50 | \$83.50 | -4% | 47% |