

In The Cattle Markets

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Commodity Price Trends

I have been looking at historical forage and grain prices as well as cattle prices over time and found some very interesting relationships. In the mid 1970's, the following prices existed: Alfalfa, \$50/ton; Sandhills grass, \$10/ animal unit month (AUM); Corn, \$2.50/bu.; Fed Cattle \$40/cwt.; and 550 lb. Steers, \$40/cwt. Based on these prices I would guess that the total cost per cwt. of gain for steers in a feedlot was between \$40-45. The cost of gain for steers on grass was probably around \$35/cwt. There was likely more money to be made with a calf if it was not placed in a feedlot. Feeding the calf through the winter on relatively cheap hay and then getting that calf on to grass for additional cheap gain was the mindset of the cattle industry.

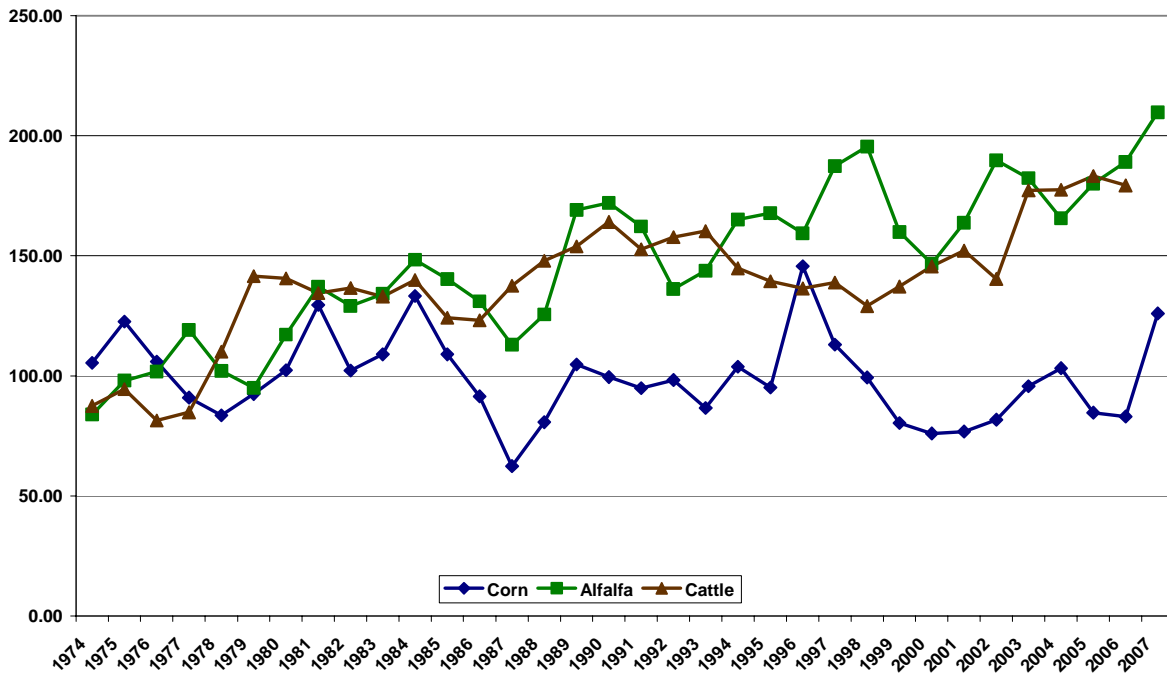
By the early 1990's the price of Alfalfa had increased to \$80/ton, Sandhills grass was being leased for \$15/AUM, Fed Cattle were trading around \$75/cwt., 550 lb. Steers were at \$95/cwt., while Corn had declined to \$2.40/bu. Feedlot cost of gain was still between \$40-45/cwt. but cost of gain on rented Sandhills grass had risen to about \$45/cwt. It became as cheap to feed calves in a feedlot as it was to hold them back through the winter and then summer them on grass.

Prices in the mid 2000's for Alfalfa had risen to \$100/ton, Grass rental rates were \$20/AUM, Fed Cattle were priced at \$85/cwt and a 550 lb Steer in Nebraska was around \$120/ cwt. Corn prices averaged about \$2.30/bu during this time frame. Total cost of gain in a feedlot remained around \$45/cwt. while cost of gain on pasture had increased to over \$60/cwt. No longer could gains on summer grass be considered "cheap gains". For yearling cattle to compete with calf feds, on a cost of gain basis, alternative "cheaper" winter programs needed to be a part of the system. Corn stalk grazing and wheat pasture grazing are two such alternatives where relative cheaper cost of gains can be found.

While pasture, hay and cattle prices have doubled over the last 30 years, corn prices have remained constant or declined somewhat. Other feed grains and soybeans have followed a similar pattern to corn over that time period. But, the world changed in 2006. Government mandates to use ethanol in our fuel and foreign oil being priced over \$60 per barrel of crude, finally kicked the U.S. ethanol industry into overdrive. Ethanol production went from around 3 billion gallons in 2003-04 crop year using about 1 billion bushels of corn to over 6 billion gallons in the current crop year using more than 2 billion bushels of corn. Projections are that in two more years the ethanol industry will produce 12 billion gallons and use more than 4 billion bushels of corn. That has increased the price of corn from around \$2.30/bushel in 2002-2005 to over \$3.00 per bushel in the current crop year. At times the futures market has had corn priced over \$4.00 per bushel for the next few years. It appears that farmers will grow enough corn to keep us from seeing much \$4.00 corn, but prices are likely to stay over \$3.00.

So, how does this change the relative costs of gains for different programs? This past winter, many feedlots saw costs of gains over \$70/cwt. I would expect that feedlot cost of gains will remain in the upper \$60 to lower \$70 per cwt. range for the next few years. There will likely be many producers that look at alternative feeding programs to put on more weight at a cheaper cost of gain for the next few years. Corn stalk grazing, wheat pasture grazing, other crop residue grazing using distillers grains has a supplement and then grazing cattle on grass will likely result in total costs of gain at or below those in a feedlot. However, this added pressure for these other resources will likely to continue to bid the prices for those resources higher over time as well. But in the near term, I think some of these yearling programs will be pursued. If these programs have cheaper costs of gain than a feedlot, they will be able to pay more for that fall calf and bid it away from feedlots.

Relative Commodity Prices



The Markets

Slaughter cattle prices were higher in the south with active trade on Friday and prices were also higher in the north with a trade on Friday this last week. Prices were \$90, up \$3, in the south and \$139-140 in the north, which was \$6 higher. Choice boxed beef prices were also higher this week increasing about \$1, while Select prices were \$1 higher as well for the week. The Choice-Select spread decreased this week and is near the historical level. Feeder cattle prices were not reported in Kansas and were steady to a little lower in Nebraska this week past week. Corn prices were 17 cents per bushel lower at Omaha this last week and the Dried Distillers Grains were steady to a dollar lower.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$90.03	\$86.93	\$83.19
Nebraska Fed Steer Price, dressed weight	\$139.38	\$132.73	\$131.52
700-800 lb. Feeder Steer Price, KS 3 market average	--	\$113.74	--
500-600 lb. Feeder Steer Price, KS 3 market average	--	\$119.00	--
700-800 lb. Feeder Steer Price, NE 7 market average	\$113.99	\$114.18	\$125.11
500-600 lb. Feeder Steer Price, NE 7 market average	\$135.35	\$135.87	\$144.38
Choice Boxed Beef Price, 600-900 lb. carcass	\$140.02	\$139.32	\$153.43
Choice-Select Spread, 600-900 lb. carcass	\$6.58	\$7.07	\$22.26
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.19	\$3.36	\$2.24
DDG Wholesale Price, Iowa, \$/ton	\$95.00	\$96.00	\$75.00