

In The Cattle Markets

Dillon Feuz, Ph.D.

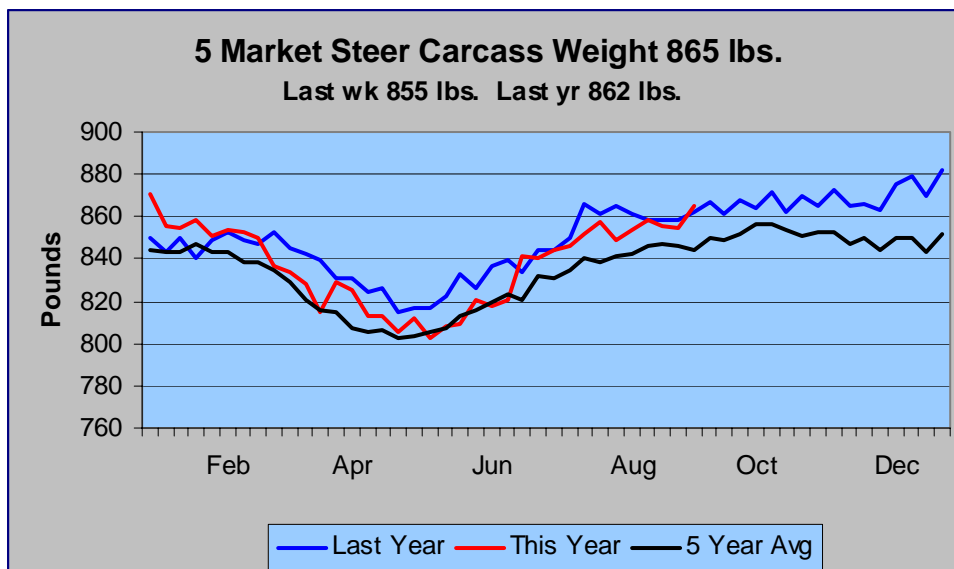
Professor, Department of Economics, Utah State University

Corn Prices and Fed Cattle Weights

What relationship is there, if any, between the price of corn and fed cattle slaughter weights? If you look at the chart below you can see that steer weights started the year heavier than the previous year but by March were below the prior year weights. Some may have said this was the result of higher priced corn. However, if you look at the trend since late June, you can see that weights have again increased and are now about equal with year ago weights, even though corn prices are still considerably higher than they were a year ago.

Every student of economics knows that the decision rule to maximize a firm's profit is to produce up to the point where Marginal Cost = Marginal Revenue. In the case of a feedlot producing fed cattle, that rule would suggest that a feedlot should continue to add weight to the cattle so long as the cost of the last pound was less than the price received for that last pound. If total feedlot costs per pound of gain are currently averaging about \$.70, then even if you assume that efficiency of gain decreases by 25% at the end of the feeding period, the cost of the last additional pound would only be \$.88. Fed cattle prices on a live weight basis have been above \$.90 per pound for most of the year. Therefore, it would appear to be the economically correct decision for a feedlot to continue to feed cattle up to the point where there is a risk of the cattle being discounted for heavy weight carcasses or yield grade 4 carcasses.

There are some other market implications of feeding cattle to heavier weights that impact the relative bargaining position of feedlots and packers. Feedlots know, that when their cattle are getting too big, the packers have all the bargaining power. Therefore, it is unlikely, that feedlots would consistently feed to that end point. However, I think that given the current relative prices of corn and fed cattle, we will continue to see feedlots push weight higher to explore where that optimal point is.



The Markets

Slaughter cattle prices were steady to a little lower in the south with trade on Friday and prices were a little lower in the north with a small volume of trade on Friday this last week. Prices were \$95 in the south and \$148 in the north. Choice boxed beef prices were higher this week increasing about \$2, and Select prices were also about \$2 higher for the week. The Choice-Select spread decreased this week and remains below the historical level. Feeder cattle prices were fairly steady in Kansas and steady to lower in Nebraska this week past week. Corn prices were about a dime per bushel lower at Omaha this last week and the Dried Distillers Grains were \$2.50 per ton higher.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$94.91	\$95.02	\$91.20
Nebraska Fed Steer Price, dressed weight	\$148.00	\$148.33	\$141.70
700-800 lb. Feeder Steer Price, KS 3 market average	\$120.71	\$120.13	\$124.39
500-600 lb. Feeder Steer Price, KS 3 market average	\$130.58	\$131.09	\$131.44
700-800 lb. Feeder Steer Price, NE 7 market average	\$123.31	\$123.04	\$123.75
500-600 lb. Feeder Steer Price, NE 7 market average	\$129.87	\$136.01	\$135.34
Choice Boxed Beef Price, 600-900 lb. carcass	\$148.47	\$146.52	\$148.07
Choice-Select Spread, 600-900 lb. carcass	\$6.50	\$6.77	\$9.69
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.01	\$3.10	\$2.06
DDG Wholesale Price, Iowa, \$/ton	\$95.00	\$92.50	\$69.00