

February 14, 2008

In The Cattle Markets

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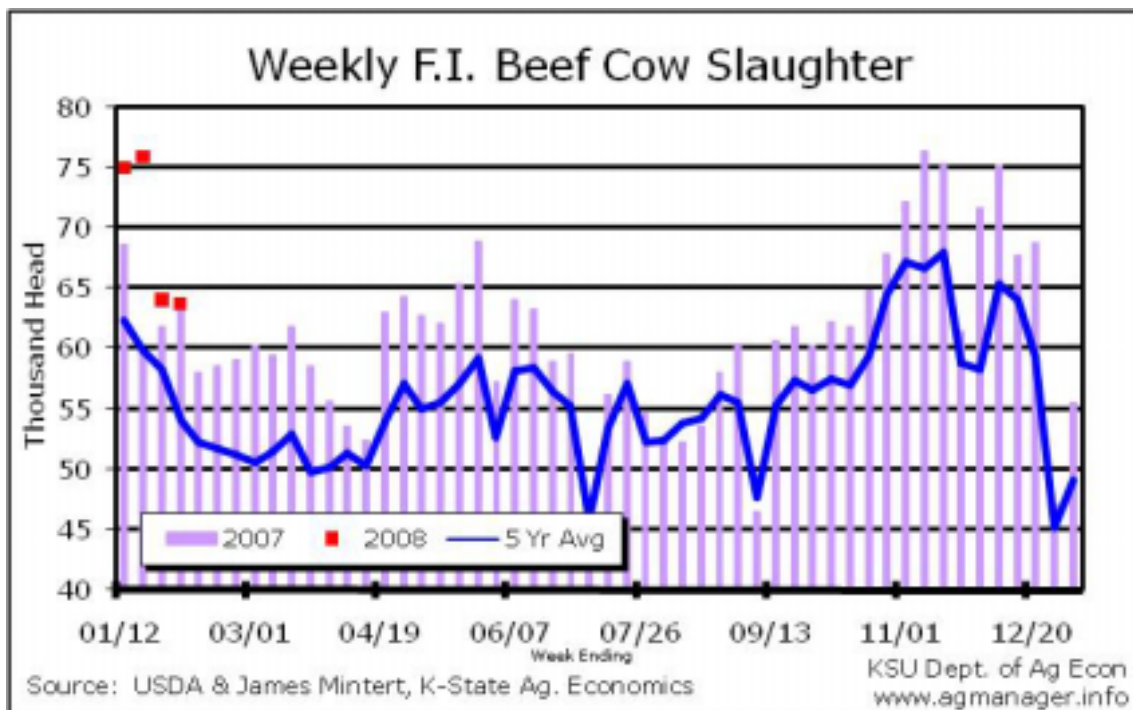
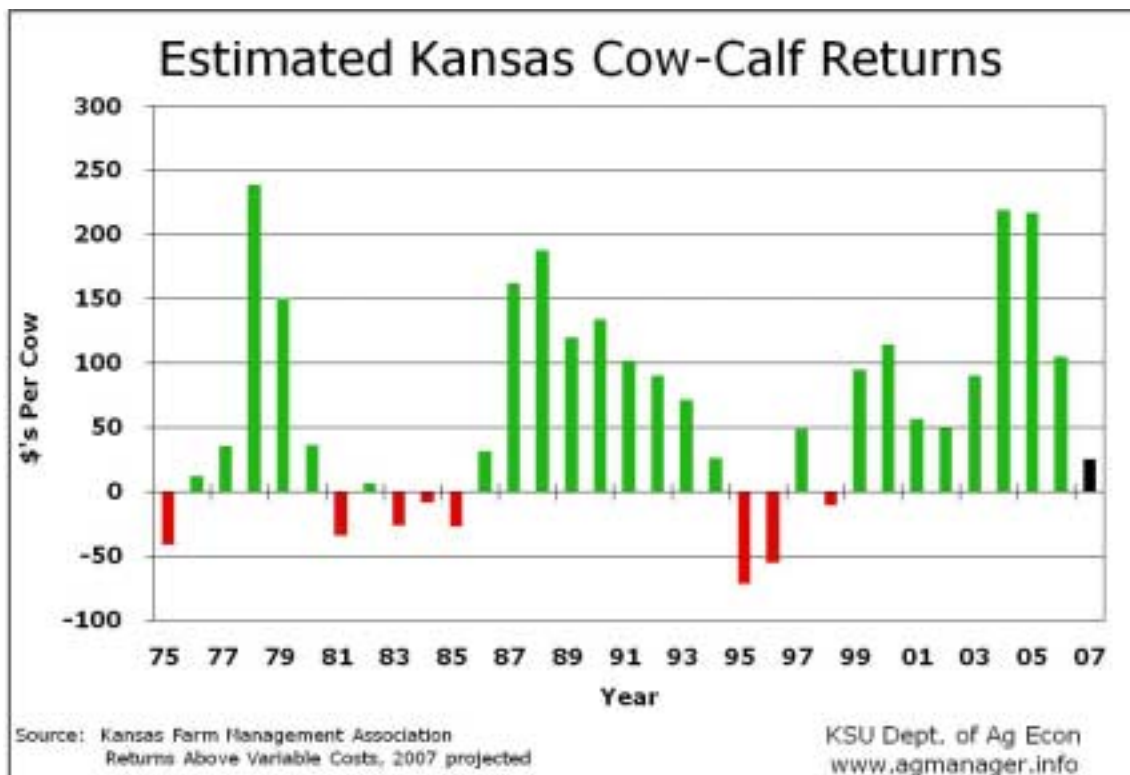
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Beef Cow Herd Liquidation On The Horizon?

Rising costs, and prospects for lower calf prices, could lead to the U.S. beef cow herd declining over the next several years. USDA's *Cattle* inventory report, released a couple of weeks ago indicated that the January 1, 2008 beef cow inventory was about 1% smaller than a year earlier. Most observers think drought conditions, particularly in the Southern Plains during 2006 and the Southeastern U.S. during 2007, prevented U.S. producers from expanding their herds the last two years. This line of thinking suggests that, if weather conditions return to normal, cow herd expansion is on the horizon. But the delayed expansion is not likely to turn into future herd expansion. The reason is simple. For most U.S. cow-calf producers, there is simply no compelling profit motive to expand their herds. And rapidly rising costs, and stiff competition for pasture, are actually likely to lead to modest herd liquidation in 2008.

Kansas Farm Management Association data indicate that cow-calf producers' returns above variable production costs have been positive for the last nine years (including projected returns for 2007, actual 2007 data won't be available until later this spring), but the margin has been declining rapidly the last two years. And combining forecasts for lower calf prices in 2008 with a dramatic upturn in production costs, including higher feed grain prices, pasture rental rates, fertilizer prices, hay prices, and transportation costs, odds are high returns for average cost cow-calf operations will fall below variable production costs in 2008.

Recent cow slaughter data tends to support this view. Beef cow slaughter during 2007 was 6.6% larger than in 2006 and, during the first five weeks of 2008, was nearly 10% larger than a year earlier. Total female slaughter (cow and heifer slaughter, combined) expressed as percentage of steer slaughter is running ahead of last year and at a level that suggests liquidation is taking place. During the first five weeks of 2008, female slaughter totaled 101.6% of steer slaughter, well ahead of last year's pace during January of 96.2%. So, one of the early by-products of the ethanol induced run-up in grain prices could well be the beef cow herd expansion that didn't happen!



Despite that, feeder cattle prices strengthened moderately as 700-800 lb. steers in Kansas averaged \$104, an increase of over \$3/cwt. compared to a week earlier and over \$5/cwt. higher than a year earlier. Calf prices were also higher, especially in Nebraska where 500-600 lb. steer averaged \$127.15, \$3.63/cwt. higher than a week earlier and about \$7.50/cwt. above a year ago.

	Week of 2/8/08	Week of 02/01/08	Week of 02/09/07
Kansas Fed Steer Price, live weight	\$91.90	\$89.89	\$90.70
Nebraska Fed Steer Price, dressed weight	\$147.43	\$143.64	\$144.65
700-800 lb. Feeder Steer Price, KS 3 market average	\$104.13	\$100.91	\$98.80
500-600 lb. Feeder Steer Price, KS 3 market average	\$118.83	\$118.74	\$115.83
700-800 lb. Feeder Steer Price, NE 7 market average	\$104.46	\$103.50	\$100.59
500-600 lb. Feeder Steer Price, NE 7 market average	\$127.15	\$123.51	\$119.64
Choice Boxed Beef Price, 600-900 lb. carcass	\$148.57	\$143.44	\$143.34
Choice-Select Spread, 600-900 lb. carcass	\$5.47	\$6.04	\$6.65
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$4.72	\$4.76	\$3.78
DDG Wholesale Price, Iowa, \$/ton	\$172.50	\$177.50	\$126.00