

## **In The Cattle Markets**

**Darrell R. Mark, Ph.D.**

**Asst. Professor, Department of Agricultural Economics, University of Nebraska–Lincoln**

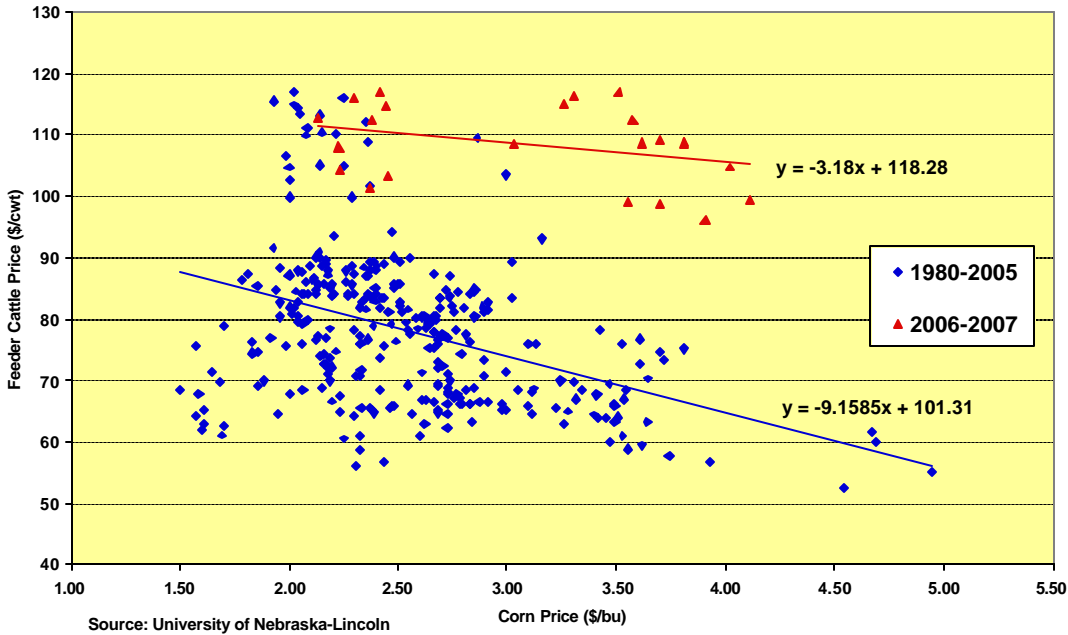
### **Feeder Cattle & Corn Prices**

Depending upon whether I'm visiting with a cow-calf producer or a cattle feeder, feeder cattle prices have either dropped way too much or not nearly enough. Both viewpoints are quite valid and have merit, especially from the standpoint of the relative profitability in each sector of the industry. Whether the drop in feeder cattle prices in response to the corn market rally is too much, too little, or just right is a complex issue governed by a number of factors.

One way to begin considering this question is to consider the historical relationship between feeder cattle and corn prices. Using monthly futures price averages, I plotted feeder cattle prices against corn prices from 1980 to 2007 (see graph). The blue points on the graph show the relationship between feeder cattle and corn prices from 1980 to 2005. Of course, the trend line through these points is downward sloping, confirming that higher corn prices lead to lower feeder cattle prices. In fact, the slope of that line at -9 can be interpreted to mean that, on average, when the price of corn increased by \$1/bu, the price of feeder cattle declined by \$9/cwt. That's pretty close to the traditional rule of thumb that a dime increase in corn price results in a \$1/cwt drop in feeder prices. Now consider the corn/feeder cattle price points for 2006 and 2007 shown in red on the graph. Notice that for the last two years, feeder cattle prices at given corn price levels have been higher than during the previous 16 years. Also notice that the slope of the line has changed as well – it is much flatter. This means that feeder cattle prices have been less responsive to corn prices in the past two years compared to the previous 16 years. In fact, based on the slope of the red trendline, a \$1/bu corn price increase only led to a \$3/cwt drop in feeder cattle prices on average during 2006 and 2007.

These comparisons ignore other important factors, including fed cattle prices, that affect feeder cattle prices. Still, this suggests that feeder cattle prices haven't dropped as much as they historically would have. There are likely three reasons why: 1) calf supplies are very tight as a result of liquidation in the cow herd, 2) ample bunk space in feedyards, and 3) feeding ethanol byproducts. Feeding ethanol byproducts can result in significant improvements in cattle performance and lower cost of gain, savings that can be bid back into feeder cattle prices.

## Relationship Between Feeder Cattle and Corn Price Nearby Futures, 1980-2007



### The Markets

The fed cattle market was \$2-3/cwt higher last week in Nebraska on a dressed basis, with a weekly average price of \$148.38. Live cattle prices in Kansas were up \$1-1.50 as well, averaging \$93.08. The advance in slaughter cattle prices occurred in spite of boxed beef prices holding mostly steady for the week. Choice boxed beef averaged \$149.41 last week, virtually the same as the previous week. The spread between Choice and Select widened by \$0.46/cwt. Feeder cattle prices were mostly lower last week. Yearling steers in Nebraska were \$2-3 lower, while steer calf prices lost about \$2 for the week. Feeder cattle prices found more support in Kansas, with calf prices down \$1.24 and yearling prices up \$0.48. Corn prices continued to be the big driver behind the drop in feeder prices. Corn was up 19 cents/bushel last week through Thursday, basis Omaha, NE. However, dried distillers grain prices were down about \$1.50/ton.

	Week of 2/29/08	Week of 02/22/08	Week of 03/02/07
Kansas Fed Steer Price, live weight	\$93.08	\$91.89	\$94.04
Nebraska Fed Steer Price, dressed weight	\$148.38	\$145.70	\$149.39
700-800 lb. Feeder Steer Price, KS 3 market average	\$105.31	\$104.84	\$101.99
500-600 lb. Feeder Steer Price, KS 3 market average	\$127.09	\$128.33	\$123.14
700-800 lb. Feeder Steer Price, NE 7 market average	\$103.59	\$106.27	\$104.65
500-600 lb. Feeder Steer Price, NE 7 market average	\$129.81	\$131.75	\$124.00
Choice Boxed Beef Price, 600-900 lb. carcass	\$149.41	\$149.39	\$149.29
Choice-Select Spread, 600-900 lb. carcass	\$2.74	\$2.28	\$6.83
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$5.24	\$5.06	\$3.99
DDG Wholesale Price, Iowa, \$/ton	\$158.50	\$160.00	\$132.50