

## **In The Cattle Markets**

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### **Grass Cattle Economics**

Federal government mandates for ethanol are creating an artificial demand for corn and driving up not only the price of corn, but also the price of other grain and oil seed crops. This has in turn dramatically increased the cost of gain in feedlots. Just two years ago, total feedlot cost of gain was in the \$45-50 per hundred pounds of gain range. Today total feedlot cost of gain is closer to \$90 per hundred pounds of gain. In addition to the obvious consequences of this being a loss of profitability in the cattle feeding sector and downward price pressure on feeder cattle prices, another consequence has been a renewed interest in stocker programs that include grazing cattle on grass. In general, if weight can be placed on feeder cattle for less than \$90 per hundred pounds of gain on a grass stocker program, then it should be more profitable than placing those feeders in a feedlot.

In reviewing recent market quotes from Montana, Wyoming, South Dakota, and Nebraska it appears the market for lighter 6-weight steer calves is in the \$111-121 per cwt. range. If we assume a market price of \$116 per cwt. then a 625 pound steer would cost \$725 per head. Let's assume you can rent grass for \$20 per head per month for yearlings from May through August. That is a cost of \$80 for the four months. Veterinary, medicine, tags, death loss and other non-labor cost are probably about \$22 per head and interest on the calf and other costs would be about \$18 per head. Total costs for the summer would be about \$120 per head. If the yearling steers averaged 1.67 lbs. per day gain for 120 days, then total gain would be 200 lbs. The cost per pound of gain would be \$0.60 (\$120/200 lb). The break-even value for an 825 lb. steer on September 1, would then be \$102.42 per cwt. (\$845/825lbs).

Near the end of April, September Feeder Cattle futures were trading near \$110 per cwt. The basis for an 825 lb. steer in Nebraska is typically \$1 in September. Therefore, based on the current futures market, one might expect 825 lb. steers to be priced at \$111. If my numbers are correct, returns from placing light 625 lb. steers on grass would be \$70.75 per head. One factor leading to these higher grass returns is that the present expectations for fed cattle prices increases into fall and winter. Therefore, delaying entry into the feedlot and hence delaying the time that these feeder cattle will be finished will also add value due to the increase in fed cattle price.

### **The Markets**

Slaughter cattle prices were \$2.00-3.00 higher in the south with active trade, and prices were \$3-4 higher in the north with active trade on Thursday. Prices were mostly \$92 in the south and were \$150 in the north. Choice boxed beef prices were higher again as well this week compared to last week. Choice prices have increased over \$13 per cwt. in the last two weeks. The Choice-Select spread increased last week but still remains historically narrow. Feeder cattle prices were steady to higher in Kansas and were mixed in Nebraska this past

week. Prices ranged from \$5 higher for 7-weight steers in Kansas to \$1 lower for 5-weight steers in Nebraska. Corn prices were down \$.25 a bushel at Omaha, just under \$5.50 per bushel and the Dried Distillers Grains were \$4 per ton higher for the week.

<b>Cattle or Meat Category</b>	<b>Week of 4/25/08</b>	<b>Week of 04/18/08</b>	<b>Week of 04/27/07</b>
Kansas Fed Steer Price, live weight	\$92.00	\$89.80	\$96.34
Nebraska Fed Steer Price, dressed weight	\$150.00	\$146.52	\$154.71
700-800 lb. Feeder Steer Price, KS 3 market average	\$109.72	\$104.61	\$111.33
500-600 lb. Feeder Steer Price, KS 3 market average	\$122.31	\$122.23	\$126.94
700-800 lb. Feeder Steer Price, NE 7 market average	\$104.92	\$104.33	\$109.32
500-600 lb. Feeder Steer Price, NE 7 market average	\$119.98	\$120.86	\$130.34
Choice Boxed Beef Price, 600-900 lb. carcass	\$154.50	\$149.03	\$161.54
Choice-Select Spread, 600-900 lb. carcass	\$3.20	\$2.26	\$13.01
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$5.47	\$5.72	\$3.45
DDG Wholesale Price, Iowa, \$/ton	\$172.50	\$168.50	\$107.50