

## **In The Cattle Markets**

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### **Forage Prices Have Not Caught Up With Corn Prices...Yet**

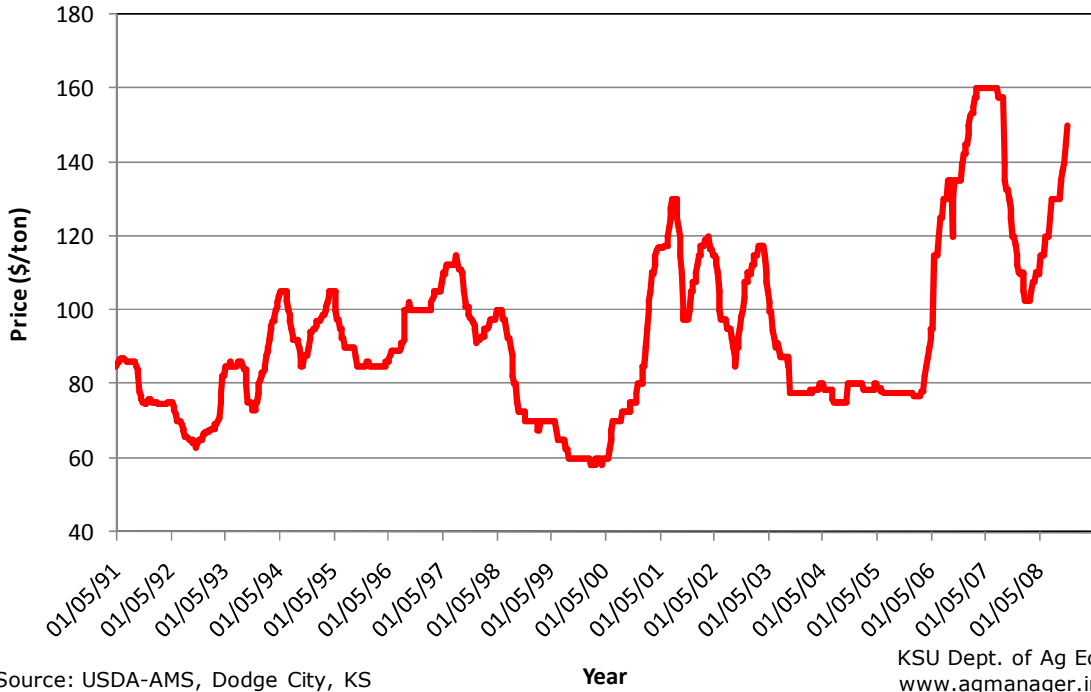
To help put the change in feed costs the last couple of years into perspective, it's useful to look back at the prices over time to see how much things have changed. Prices in Southwest Kansas for ground and delivered alfalfa averaged about \$96 per ton from 2002 to 2006. During 2007, ground alfalfa prices increased sharply, partly because of tight hay supplies and partly in response to a rapid escalation in corn costs. As a result, ground alfalfa prices during 2007 rose 35% compared to the previous five years, averaging \$130 per ton. But, surprisingly, ground alfalfa prices in Kansas during the first half of 2008 actually averaged 2% below the 2007 annual average. In contrast, prices for premium dairy quality alfalfa have increased more sharply than prices for lower quality hay. During 2007 prices for dairy quality alfalfa hay rose 38% above the 2002-2006 average. So far in 2008 prices for premium dairy quality alfalfa increased again, averaging about 14% above 2007's annual average.

Although these price increases are large, they are smaller than the increase in corn prices observed during 2007 and 2008. For example, cash corn prices at Omaha during 2007 averaged \$3.55/bu., which was 55% above the 2002-2006 average of \$2.16/bu. And corn prices have skyrocketed during 2008, averaging \$5.50/bu. at Omaha during the first half of the year, 64% higher than the 2007 annual average. So, the increase in corn prices has been more dramatic than the increase in forage values.

One way to look at the relationship between corn and alfalfa hay prices is to examine the ratio of these two price series and see how the ratio has behaved over time. Over both the five year ((1997-2006) and ten year (2002-2006) periods, the ratio of Omaha corn price per lb. and the Southwest Kansas ground alfalfa hay price per lb. averaged between 0.84 and 0.85. Over the ten year period the ratio was relatively stable, although it increased dramatically during the mid-1990s when corn prices peaked, before falling back toward its longer term average. During the first half of 2008 the rapid run-up in corn prices, and smaller increase in hay prices, pushed this ratio to an average of 1.53. What does this imply for feeding programs and forage values over the next several years?

Long-term the relationship between corn and alfalfa hay prices is based in part on their relative value in livestock rations. The big increase in corn prices and relatively smaller increase in hay prices provides producers an incentive to emphasize forage based diets to take advantage of lower costs of gain derived from forage based feeding programs. At the same time, increased usage of forages in rations will exert upward pressure on forage prices. The result over a period of several years could be a sharp increase in forage values.

### SW Kansas Ground & Delivered Alfalfa Prices Weekly Averages, 1991-2008



Source: USDA-AMS, Dodge City, KS

KSU Dept. of Ag Econ  
www.agmanager.info

### SW Kansas Premium Dairy Alfalfa Prices Weekly Averages, 1991-2008



Source: USDA-AMS, Dodge City, KS

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## The Markets

Slaughter cattle prices in Kansas the week ending July 4th broke through \$100 to average \$101 per cwt. (live weight) in Kansas, an increase of over \$3/cwt. from a week earlier. Dressed weight slaughter cattle prices in Nebraska increased about \$5/cwt. last week to average \$159.78 per cwt. Strength in slaughter cattle prices was fueled in part by strengthening wholesale beef prices. USDA's Choice boxed beef cutout averaged \$170/60 last week, a 4% increase. And the Choice-Select spread increased for the fifth week in a row, averaging \$6.73/cwt. last week. Feeder cattle trade volume in both Nebraska and Kansas was too light for a market test as most auctions were closed because of harvest activity and the July 4<sup>th</sup> holiday.

	<b>Week of 7/4/08</b>	<b>Week of 06/27/08</b>	<b>Week of 07/06/07</b>
Kansas Fed Steer Price, live weight	\$101.00	\$97.92	\$90.03
Nebraska Fed Steer Price, dressed weight	\$159.78	\$154.80	\$139.38
700-800 lb. Feeder Steer Price, KS 3 market average	--	--	--
500-600 lb. Feeder Steer Price, KS 3 market average	--	--	--
700-800 lb. Feeder Steer Price, NE 7 market average	--	\$117.70	\$113.99
500-600 lb. Feeder Steer Price, NE 7 market average	--	\$127.29	\$135.35
Choice Boxed Beef Price, 600-900 lb. carcass	\$170.60	\$164.25	\$139.87
Choice-Select Spread, 600-900 lb. carcass	\$6.73	\$6.18	\$6.43
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$7.07	\$7.16	\$3.19
DDG Wholesale Price, Iowa, \$/ton	\$200.00	\$192.50	\$95.00