

In The Cattle Markets

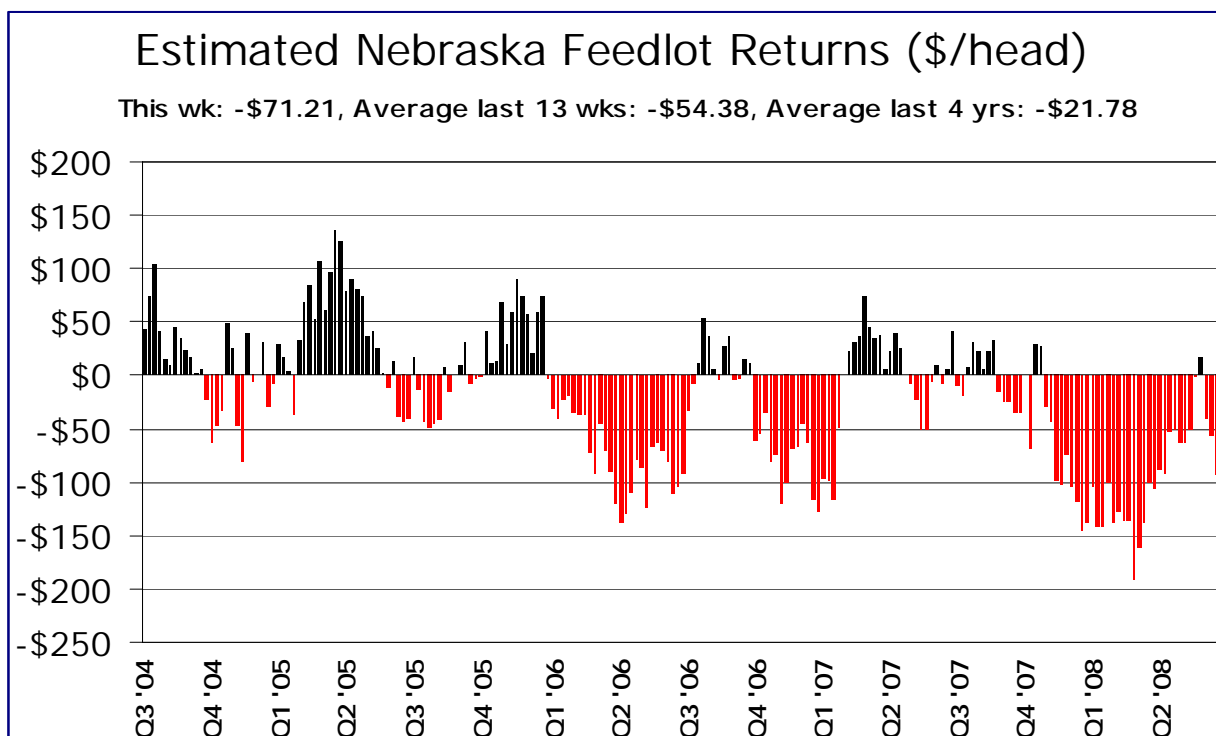
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Feedlot Economics

Last week Dr. Mintert reported the decline in cattle placed on feed from March to June at 659,000 head, a reduction of 9% from the prior year. He also discussed the USDA Cattle inventory mid-year report which showed a reduction in the number of beef cows and he pointed to several factors that may lead to a greater reduction in beef cows over the next six months. I would like to continue that discussion, particularly as it relates back to cattle feeding capacity and feedlot economics.

The last couple of years have been fairly difficult for the cattle feeding industry. The chart below is predicted returns for Nebraska feedlots assuming no hedging of cattle or corn. Some feedlots may have had better returns than this, but it is likely that on average there has been a loss of equity in cattle feeding. Sharply higher feed costs have certainly contributed to these negative returns. However, an excess capacity cattle feeding sector has also been chasing a shrinking feeder cattle supply and likely paying more for feeders than market conditions would warrant.



Higher grain prices are resulting in cattle being placed on feed at heavier weights and cattle are spending fewer days in the feedlot. This is compounding the excess capacity in the cattle feeding sector. I believe over the next few years, grain prices will remain sufficiently high that this trend will continue. It also appears that the number of calves being born each year will also be declining over the next couple of years. Feedlots tend to be more profitable if they are operating close to full capacity. Therefore, feedlots will continue to aggressively pursue the available supply of feeder cattle and there may be another year or two of minimal or no profits in this sector. Feedlot owners that are less financially stable, or who may be nearing retirement age will likely be forced to or choose to exit the industry. This forced reduction in cattle feeding capacity will not be pleasant, but probably will need to occur before profitability will return to this industry.

The Markets

After losing ground for three weeks, the fed market turned around this past week and gained a couple of dollars per cwt. Active trade took place in both the south and the north with good. Prices were mostly \$97 in the south and were mostly \$154 in the north with a few lots at \$155. Choice boxed beef prices were more than \$4 lower this week. The Choice-Select spread increased and remains near the historical level. Feeder cattle prices were higher in Kansas and were lower in Nebraska than they were the previous week. Prices for 7-weight steers were about \$2 higher in Kansas. Prices for 5-weight steers in Nebraska were about \$8 lower compared to last week. Corn prices were about \$.20 per bushel higher but are still likely to lose a little ground as the corn crop continues to improve. Dried Distillers Grains were steady for the week.

Cattle or Meat Category	Week of 8/1/08	Week of 07/25/08	Week of 08/03/07
Kansas Fed Steer Price, live weight	\$96.78	\$94.25	\$92.32
Nebraska Fed Steer Price, dressed weight	\$153.96	\$151.86	\$144.65
700-800 lb. Feeder Steer Price, KS 3 market average	\$115.57	\$113.96	\$118.17
500-600 lb. Feeder Steer Price, KS 3 market average	\$121.98	\$121.58	\$128.83
700-800 lb. Feeder Steer Price, NE 7 market average	\$116.96	\$118.07	\$117.13
500-600 lb. Feeder Steer Price, NE 7 market average	\$121.50	\$129.64	\$129.99
Choice Boxed Beef Price, 600-900 lb. carcass	\$158.84	\$163.11	\$143.75
Choice-Select Spread, 600-900 lb. carcass	\$6.90	\$6.37	\$5.99
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$5.49	\$5.27	\$3.11
DDG Wholesale Price, Iowa, \$/ton	\$175.00	\$175.00	\$92.50