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## **In The Cattle Markets**

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### **Calf Finishing Versus Background and Yearling Finishing Systems**

As corn prices have more than doubled in the last two years, cattle producers increasingly look for alternatives to finishing calves exclusively in feedlots on high concentrate rations. Historically, Nebraska feeders have always placed a high proportion of fall-weaned calves on feed in October and November and sold them as fed cattle in May before the seasonal summer price decline. However, as feeding cost of gain has increased from about \$50/cwt to nearly \$100/cwt in the past two years, livestock operators have more incentive to background calves during the winter and following summer on forages and delay placing the cattle on feed until they are long yearlings at the end of the summer grazing season. However, one factor that must be considered before changing the production system is cattle size. Large-framed, heavy calves weaned in the fall may have to be fed as calf-feds to minimize overweight carcasses.

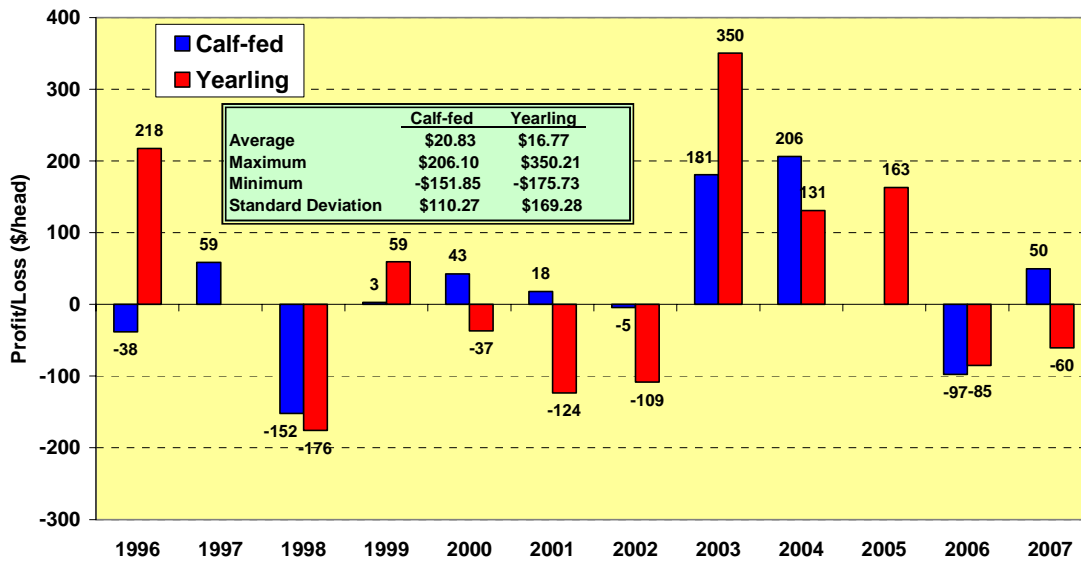
Based upon University of Nebraska–Lincoln research examining the performance of cattle in both types of systems from 1996 to 2007, the relative difference in returns to calf finishing versus yearling systems is relatively small (about \$4/head) on average, but highly variable (see Figure 1). Average returns to the calf and yearling system were \$20.83/head and \$16.77/head, but ranged from losses exceeding \$175/head to profits greater than \$350/head. In the ten years of the study where both systems were directly comparable, the yearling system was more profitable than calf finishing in four years and less profitable in six of the years. And, there was little correlation between higher profits to the yearling system and high corn prices.

As cattle feeders, backgrounders, and ranchers considering retained ownership look ahead to this fall's calf crop, decisions need to be made whether to: 1) place calves on feed or 2) background them through the winter and possibly the following summer and not place them on feed until they are long yearlings next fall. Assuming cattle performance in these systems is similar to the previous years in this study and using forecasted prices as of late August 2008, it appears that the yearling system could generate returns of \$69.48/head, compared to \$2.40/head for calves placed directly on feed and targeted to sell in May 2009. This is based on 640 lb. feeder steers being placed on feed this November at \$121/cwt and 525 lb. feeder steers entering the backgrounding/yearling finishing system this November at \$130/cwt. The steers in each system would be sold for a projected \$170/cwt and \$172/cwt (dressed) in May 2009 and December 2009, respectively. Corn price was projected to be \$5.94/bu and \$6.05/bu for the calf-feds and yearlings, respectively. The steers in the yearling system would be backgrounded on grass at an expected cost of \$29/AUM.

The \$67/head improvement in forecasted returns for the yearling system over calf finishing should be viewed with caution, however. Previous years' returns were highly variable for

both systems, but standard deviations of historical profits were larger for the yearling system: \$169.28/head versus \$110.27/head (see Figure 1). This indicates that the yearling system has been relatively more risky over time. And, this makes sense, too, when considering that the cattle in the yearling system are owned for longer periods of time and are grown and fed using several diverse methods (e.g., winter corn stalks, summer pasture, and feedlot). Another consideration related to these economic comparisons is the winter feed cost for backgrounding yearlings. Many alternative feeds such as distillers grains, corn gluten feed, or distillers solubles can make growing calves in the winter much cheaper (increase the difference between yearlings and calf-feds by \$15 to \$35 due to cheaper gain in the winter), so the potentially greater variability in returns may be offset by substantially lower costs for some producers.

**Figure 1. Profit/Loss for Calf-Fed and Yearling Production Systems, 1996-2007**



Source: UNL

## The Markets

Last week, the fed cattle trade in Kansas was mostly steady, averaging \$98.84 for the week. Nebraska dressed prices were \$1-2 lower, averaging \$154.55/cwt. For the week, Choice boxed beef averaged \$159.06, \$2.18 lower than the previous week but more than \$10 higher than last year. The spread between Choice and Select widened to average \$7.03 last week. Steer calf prices were \$3-4 lower last week in Kansas and Nebraska on light volume. Yearling feeder steer prices were about \$2 higher in Kansas last week and were steady in Nebraska. The corn market continued its decline last week, losing another \$0.18/bu through Thursday. Dried distillers grains prices in Iowa were steady with the previous week.

	<b>Week of 9/5/08</b>	<b>Week of 08/29/08</b>	<b>Week of 09/07/07</b>
Kansas Fed Steer Price, live weight	\$98.84	\$98.96	\$94.91
Nebraska Fed Steer Price, dressed weight	\$154.55	\$155.77	\$148.00
700-800 lb. Feeder Steer Price, KS 3 market average	\$115.61	\$113.78	\$121.37
500-600 lb. Feeder Steer Price, KS 3 market average	\$123.45	\$127.13	\$130.58
700-800 lb. Feeder Steer Price, NE 7 market average	\$115.10	\$115.70	\$123.31
500-600 lb. Feeder Steer Price, NE 7 market average	\$123.06	\$126.09	\$129.87
Choice Boxed Beef Price, 600-900 lb. carcass	\$159.06	\$161.23	\$148.47
Choice-Select Spread, 600-900 lb. carcass	\$7.03	\$6.95	\$6.50
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$5.37	\$5.55	\$3.01
DDG Wholesale Price, Iowa, \$/ton	\$150.00	\$150.00	\$95.00