

In The Cattle Markets

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The *Select-Choice* Spread?

Each week in this newsletter, we report the spread between retail choice and select grade beef. It's a useful measure to gauge the relative demand for higher value cuts versus lower value cuts and the relative supply of heavy weight well-finished cattle versus lighter weight less-finished cattle. The Choice-Select spread has a strong seasonal tendency to be highest during May and early June and lower in late July and August, as the graph below illustrates (red line). The high during May corresponds to slaughtering calf-feds that were fed from late fall through the winter and typically weigh less and are finished to lower quality grade when sold in May (before the seasonal decline in fed cattle prices in June and July). This also happens to be when demand for Choice beef increases with the start of the summer grilling season. Fall-weaned calves that are backgrounded through the winter and go on feed as yearlings are more likely to finish in July and August at relatively heavier weights than calf-feds and produce more Choice grade carcasses – at a time when grilling demand tapers off at the end of the summer.

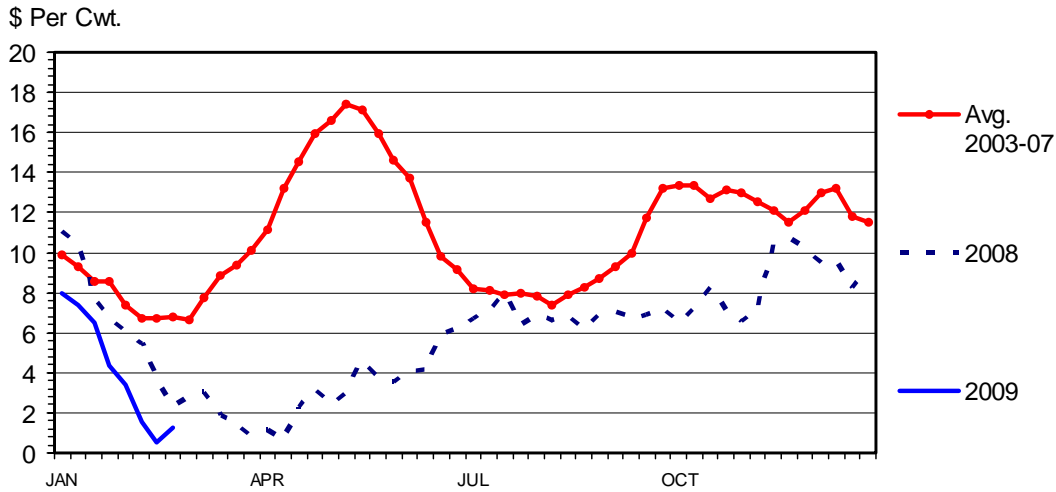
The Choice-Select spread also tells us something about the relative demand for Choice versus Select beef during tough economic times like those we've experienced since last fall. Clearly, consumers have been "trading down" in their retail beef purchases (away from loin cuts to ground beef) and in their restaurant purchases (away from fine and causal dining to rapid-serve restaurants). The result is a relative demand improvement in lower value/grade cuts compared to higher value/grade cuts. Note that demand for all beef was lower this last year; however, the relative comparison here is that demand for Select beef hasn't dropped as much as for Choice beef.

Observe on the graph below the dramatic decrease in the Choice-Select spread since the beginning of this year. While the spread typically declines some during February, this year's narrowing of the spread is dramatically more than seasonal averages. In fact, the Choice-Select spread actually inverted on February 23, 2009 when Select boxed beef prices were \$0.09/cwt higher than Choice (the weekly average prices in the graph below don't reflect this one-day spread inversion).

Although one day doesn't make a trend towards having a "Select-Choice" spread instead of a "Choice-Select" spread, it appears like the Choice-Select spread will likely remain narrower than usual this year. Until consumer spending increases, job losses slow, and the recession abates, it's unlikely the demand for Choice beef will appreciably grow relative to Select beef. Observing the stock market's reaction (as a general gauge of businesses' and consumers' outlook on the economy) to the government's economic stimulus plans, it doesn't appear like growth in the economy will occur very soon. It will likely be late this year before some improvement takes place. As a country, we'll probably eat more hamburgers and fewer steaks until then.

CHOICE MINUS SELECT BEEF PRICES

Carcass Cutout Value 600-900 Lbs., Weekly



The Markets

The cash slaughter cattle market improved last week to average prices above the psychological \$80 level. For the week, live weight prices in Kansas were up about \$1.50 to average \$81.46/cwt while Nebraska dressed prices also improved by more than \$1/cwt to nearly \$130. Choice boxed beef prices averaged \$1.46/cwt lower than last week, but the Choice-Select spread did widen to \$1.29/cwt from its historical narrow level the prior week. The feeder cattle market responded to the slight improvement in fed cattle prices last week, with yearling feeder cattle prices increasing about \$2/cwt in Nebraska and Kansas last week. Calf prices in Nebraska were also about \$1.50/cwt higher, but averaged more than \$3.50/cwt lower in Kansas. The relative weakness in calf prices versus yearling prices last week is reflective of the \$0.10/bu gain in corn prices last week. Although DDGS prices in Iowa were \$2.50/ton lower, the relative price of DDGS increased to 109% of the corn price (on a dry matter basis) from 104% the previous week.

	Week of 2/27/09	Week of 02/20/09	Week of 02/29/08
Kansas Fed Steer Price, live weight	\$81.46	\$79.92	\$93.08
Nebraska Fed Steer Price, dressed weight	\$129.71	\$128.50	\$148.38
700-800 lb. Feeder Steer Price, KS 3 market average	\$93.50	\$91.51	\$105.31
500-600 lb. Feeder Steer Price, KS 3 market average	\$107.64	\$111.18	\$127.09
700-800 lb. Feeder Steer Price, NE 7 market average	\$93.50	\$91.60	\$103.59
500-600 lb. Feeder Steer Price, NE 7 market average	\$114.17	\$112.63	\$129.81
Choice Boxed Beef Price, 600-900 lb. carcass	\$133.30	\$134.76	\$149.41
Choice-Select Spread, 600-900 lb. carcass	\$1.29	\$0.48	\$2.74
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.55	\$3.45	\$5.24
DDG Wholesale Price, Iowa, \$/ton	\$122.50	\$125.00	\$158.50