

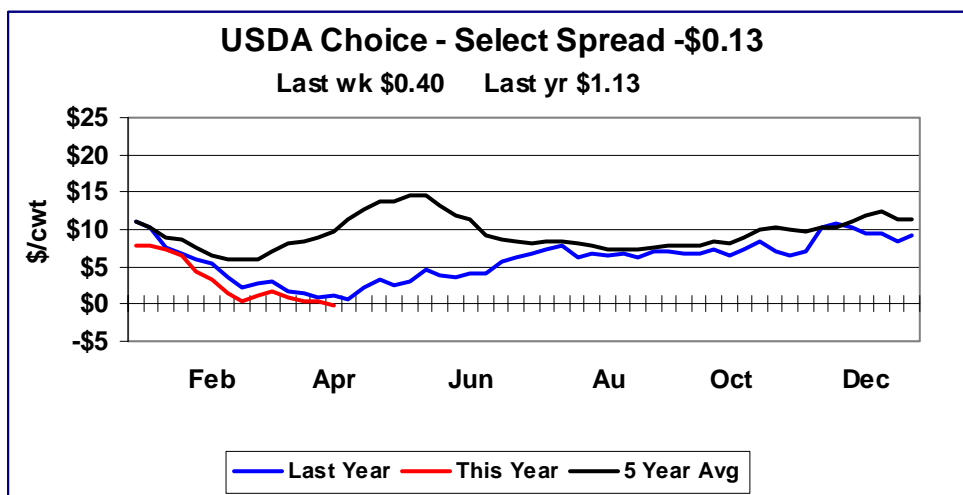
## In The Cattle Markets

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### Choice-Select Spread

The USDA Choice-Select spread for box beef went negative this week. Why? Don't we all like Choice better than Select beef? Doesn't it cost more to raise Choice than Select beef? Hasn't the cattle industry spent years and many dollars trying to figure out how to get more cattle to grade Choice? Is there some conspiracy here by the packers and retailers? Let me try and answer a few of these questions. Not all consumers like Choice better than Select beef. In fact, at equal levels of tenderness, many prefer Select. Therefore retailers have found that they have consumers who are loyal to Choice and those who are loyal to Select beef. If we view the Choice market and the Select market as separate but related markets, let's examine what has been happening in each market. Over the last year there has been an increase in the percentage of cattle grading Choice. This may be correlated with feeding cattle to heavier carcass weights, but it is also likely due to improvements in the grading system. Never the less, if nothing else changed in the world and you had an increase in the supply of Choice beef and therefore a reduction in the supply of Select beef, you would expect Choice beef prices to decline and Select beef prices to increase. Now consider the demand side of the market. If my income has been reduced because of the economy, or if I fear that it may be reduced, than when I go to the market to buy a steak and I see higher priced Choice steak and lower price Select steak, perhaps I choose the Select steak now compared to choosing the Choice steak in the past. If my budget is even tighter, perhaps I buy ground beef instead of a steak, and there generally is not a segregation of Choice and Select ground beef. The resulting demand pressure would be reduced demand for Choice and increased demand for Select, which would further pressure Choice prices lower and Select prices higher. That is how we can arrive at a zero spread, or even a negative spread for a short time period as retailers may need more Select product and less Choice product to refill their meat case. No conspiracy involved, just the fundamental market forces of supply and demand.



## The Markets

The fed cattle market was higher this past week. Trade took place mainly on Friday this week in both the south and the north with trade volume a little smaller than the previous week. Prices were \$84-85 in the south and were mostly \$135 in the north. Choice boxed beef prices were up about \$.50 this week. The Choice-Select spread decreased and remains much narrower than is typical. Feeder cattle prices were higher in Kansas and Nebraska compared to the previous week. Prices for 7-weight steers were about \$2 higher in Kansas and in Nebraska. Prices for 5-weight steers were up a little more than \$4 in Kansas and in Nebraska compared to last week. Corn prices were \$.13 per bushel higher. Dried Distillers Grain prices were a \$1.50 per ton higher for the week.

<b>Cattle or Meat Category</b>	<b>Week of 4/3/09</b>	<b>Week of 03/27/09</b>	<b>Week of 04/04/08</b>
Kansas Fed Steer Price, live weight	\$84.57	\$83.56	\$85.15
Nebraska Fed Steer Price, dressed weight	\$134.62	\$132.83	\$138.26
700-800 lb. Feeder Steer Price, KS 3 market average	\$95.53	\$93.41	\$100.84
500-600 lb. Feeder Steer Price, KS 3 market average	\$116.66	\$112.11	\$125.79
700-800 lb. Feeder Steer Price, NE 7 market average	\$98.49	\$96.13	\$102.25
500-600 lb. Feeder Steer Price, NE 7 market average	\$115.52	\$111.28	\$118.93
Choice Boxed Beef Price, 600-900 lb. carcass	\$135.20	\$134.73	\$138.07
Choice-Select Spread, 600-900 lb. carcass	(\$0.13)	\$0.40	\$1.13
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.91	\$3.78	\$5.69
DDG Wholesale Price, Iowa, \$/ton	\$121.50	\$120.00	\$165.00