

In The Cattle Markets

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Fat Cattle Weights

Slaughter steer carcass weights for the 5-state marketing area exceeded 900 pounds recently. That is the first time the weekly average has been over 900 pounds. So it is a new record. But is it a record the beef industry should be proud of?

In 2001, the average fed steer carcass weight for the same market area was 803 pounds. By 2005, the average had increased to 835 pounds, and last year the average was 859 pounds. This year the average may exceed 880. That means that the average carcass weights have been increasing about 10 pounds per year this decade. Prior to 1980, the average carcass weight was less than 700 pounds and in 1990 the average was about 750 pounds. Looking at the data, the trend for increasing carcass weights has been in place for a long time, but it appears that in more recent years there is even more weight being added.

I think there has been a very strong economic reason for the increase in weight. Prior to 2006, corn prices averaged around \$2.50 per bushel give or take a quarter for most years since the early 1970's. That led to feedlot total cost of gain values in the \$.40-.50 per pound of gain range. In the 1970's fed cattle prices were below \$.50 per pound for most of the decade. You fed cattle enough corn to get them to grade, but then you shipped them before your cost of gain exceeded the market price. In the 1980's fed cattle prices averaged \$.65 per pound and in the 1990's they average about \$.70 per lb. During that time, the cost of gain was still in the mid \$.40's per pound. Now there was an economic incentive to feed to heavier weight. When every extra pound only costs \$.45 to put on and I get paid \$.65-.70 for that weight it doesn't take much of an economist to figure out that heavier cattle make a feeder more money. Now back in the 1980's, packers were telling feeders they didn't want too heavy of cattle and they threatened to discount them if they were over 850 to 900 pounds; that help keep the average down, for awhile. By the 1990's, most packers were not discounting cattle until 950 pounds; so weight kept creeping higher as there was a clear economic incentive to do so. So far this decade, fat cattle have average about \$.78 per lb. Cost of gain have increased with higher priced corn, but with the exception of a few time frames the cost to put on weight as remained below the price a feedlot receives from selling that weight. As packers have built new plants, or retrofitted old ones, they have made it more convenient to handle larger carcasses. Some of them will now accept 1,000 pound carcasses with no discounts.

From this logic, one might ask the question, why is there any concern with carcass weights. It appears that feedlots have made more money selling heavier cattle and that packers have adjusted to dealing with heavier cattle. Retailers must also have discovered they can cut steaks in different sizes and get consumers to buy them.

But what has this added weight done to the total production of beef? The nation's cow herd peaked in size in the 1970's and has generally been declining since them. In fact, the numbers

are down about 30% from the peak. However, our total pounds of domestically produced beef are much higher than they were in the 1970's. Consider that with the 10 pounds of heavier weight per year this decade, then for each 80 steers slaughtered, there is effectively another steer each year. So from the start of the decade until now, for each 10 steers slaughtered today, there would have needed to be 11 steers in 2000 to produce the same total weight of beef.

Demand is downward sloping for all commodities. This means that to get consumers to eat more beef, more total pounds, the price must be lowered. Now, I could spend several more pages on this, but the point I am making is that added weight has not been free. Market prices for fed cattle are lower because of heavier weights. This brings us to a classic problem in agriculture: each producer doing what is best for him (adding more weight) results in a collective action that is bad for him (more total weight means a lower general market level price).

The Markets

The fed cattle market was lower this past week. Most trade took place on Thursday this week on a better volume than the prior week. Prices were \$82-84 on a live weight basis and were mostly \$129-131 on a dressed basis. Choice boxed beef prices were down slightly this week. The Choice-Select spread decreased a little but remains near the typical level. Feeder cattle prices were lower for 7-800 pound steers and were mixed for 5-600 pound steers this past week compared to the previous week. Nebraska prices for 7-weight steers were \$2 lower and 5-weights were \$4.50 higher. Prices for 7-weight steers in Oklahoma were down \$1 and 5-weight steers were down also \$1 compared to last week. Montana prices were \$2 lower for the heavier steers and were sharply lower for lighter steers, down \$9 for the week. Corn prices were fairly steady with last week. Dried Distillers Grain prices were \$2 per ton higher and wet distillers were \$1.50 higher per ton in Nebraska for the week.

		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		9/18/09	09/11/09	09/19/08
5-Area Fed Steer	all grades, live weight, \$/cwt	\$83.57	\$84.01	\$98.17
	all grades, dressed weight, \$/cwt	\$129.68	\$130.33	\$150.72
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$142.04	\$142.12	\$160.67
	Choice-Select Spread, \$/cwt	\$7.75	\$7.98	\$6.83
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$95.22	\$97.43	\$105.00
	Nebraska 7-market average, \$/cwt	\$100.95	\$102.81	\$112.93
	Oklahoma 8-market average, \$/cwt	\$98.91	\$100.04	\$111.44
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$100.51	\$109.50	\$109.07
	Nebraska 7-market average, \$/cwt	\$112.14	\$107.64	\$121.06
	Oklahoma 8-market average, \$/cwt	\$107.20	\$108.34	\$112.48
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.13	\$3.12	\$5.12
	DDGS Price, Nebraska, \$/ton	\$95.30	\$93.25	\$134.50
	WDGS Price, Nebraska, \$/ton	\$28.50	\$27.00	\$49.00