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In The Cattle Markets

Brian R. Williams, Assistant Extension Professor
Department of Agricultural Economics, Mississippi State University

Discussions Begin Heating up for the 2018 Farm Bill: What Does it Mean for the Cattle Industry?

The 2016 elections are now a distant memory and the transition into a new presidential administration is nearly complete. Only three cabinet picks have yet to be confirmed, one of which is the Secretary of Agriculture whose confirmation hearing is set to begin Thursday. Now that the dust has settled a bit and most of the cabinet picks have been confirmed, talk about the 2018 Farm Bill has begun to heat up. Which programs will be cut, which will be changed, how will the new programs look, and will any funding be cut? These are just a few of the questions being asked regarding the next farm bill. Much of the focus has been on traditional row crops, with cotton and STAX gathering attention here in the South while potential changes to ARC and PLC dominating discussions in other parts of the country.

With all the discussion surrounding row crops, where does that leave livestock producers? On the dairy side of things, perhaps the item gathering the most attention is the Margin Protection Program (MPP). Under the MPP portion of the current farm bill, dairy producers receive payments based upon a “margin” that is calculated using a predetermined formula and current feed and milk prices. Any time the two-month calculated margin falls below the producer selected coverage level, a payment is received. At the time the farm bill was written, this seemed to be a great program that would provide a safety net for dairy producers. This did not turn out to be the case, as feed prices have fallen substantially and producer payments have been limited over the life of the farm bill. Current discussions regarding changes to the MPP include the possibility of altering the formula, using regional prices rather than national prices, and scrapping the program completely in favor of a new program similar to the revenue-based programs in past farm bills.

For beef cattle producers, there are two program areas that are being discussed. First, there is a discussion surrounding animal disease. Much of this discussion concerns the response to a potential foot and mouth disease (FMD) outbreak. The most recent case of FMD in the U.S. was several decades ago, however there has been a push to develop more robust preventative measures and a better response plan if an outbreak were to occur in the future. The current plan is based upon a “stamping out” philosophy that involves euthanizing any infected or susceptible animals. However, this approach is dated and was developed in an environment entirely different than current conditions. We are living in a much more mobile world today, and cattle are being shipped across state lines much more frequently. As a result, discussions surrounding a multi-faceted approach of euthanasia and vaccination are becoming more frequent. The next farm bill could offer a few solutions in the form of funds to support the creation of a vaccination supply, indemnity programs if depopulation were necessary to stop an epidemic, or authorizing new FMD vaccine manufacturing facilities in the U.S.

Second, what changes are coming to the livestock insurance programs? There are currently two primary insurance products for cattle producers: Livestock Gross Margin (LGM) insurance and Livestock Risk Protection (LRP) insurance. Although these insurance products are readily available, the adoption rate remains very low. Rather, most in the cattle industry elect to “self-insure” in the form of working capital. One proposed solution to increase enrollment and make the insurance programs more appealing to producers is to increase the premium subsidies. However, it is going to be quite difficult to find additional funding for the new farm bill, so any subsidies offered to cattle producers would likely have to come at the expense of reduced funding for other commodities.

The Markets

The five-area fed steer price ended the week averaging $128.64 for live sales, and $207.94 for dressed; respectively, up $3.41 and $6.38. Nebraska feeder cattle were higher on the week with 500-600 pound steers up $2.38 averaging $167.91 and 700-800 pound steers up $2.80 averaging $140.44. Corn was unchanged on the week trading at $3.24/bu in Omaha on Thursday.

Data Source: USDA-AMS Market News		**Week of 3/17/17**	**Week of 3/10/17**	**Week of 3/18/16**
5-Area Fed Steer	all grades, live weight, $/cwt	$128.64	$125.23	$139.18
	all grades, dressed weight, $/cwt	$207.94	$201.56	$222.89
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$221.56	$214.12	$231.77
	Choice-Select Spread, $/cwt	$8.02	$6.86	$10.16
700-800 lb. Feeder Steer	Montana 3-market, $/cwt	$132.96	$128.72	$164.49
	Nebraska 7-market, $/cwt	$140.44	$137.65	$168.59
	Oklahoma 8-market, $/cwt	$134.19	$130.99	$163.04
500-600 lb. Feeder Steer	Montana 3-market, $/cwt	$163.57	$161.32	$204.63
	Nebraska 7-market, $/cwt	$167.91	$165.53	$204.18
	Oklahoma 8-market, $/cwt	$157.19	$157.99	$197.76
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$3.24	$3.23	$3.54
	DDGS, Nebraska, $/ton	$93.50	$97.00	$132.90