

In The Cattle Markets

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Cattle and Beef Price Dynamics

Last Friday, USDA released their monthly retail beef prices and their farm-to-retail price spreads, with the latter indicating a decline in the “farm” share of the retail dollar. The farm share, which is a retail adjusted fed steer value, registered 51.7% of the retail value for the month of June. This was a 3.2 percentage point decline from the previous month, which was the largest monthly move in either direction since a 3.67 point increase from December 2013 to January 2014 and the largest month-over-month decline since July 2013.

Beyond the spread from feedlot to retail, a look at price dynamics along the beef marketing chain is impressive. The charts below provide price changes for the past 18 months, incorporating nearly all of the record setting prices seen in the industry of late.

Figure 1 depicts prices at various stages relative to their own price in January 2014. Not surprisingly, all prices remain above their January 2014 price through the month of June. Feeder steer prices continue to mark the highest gainers relative to their price levels 18 months ago – in spite of the significant declines in their price following November 2014. Prices of cattle leaving the feedlot and packing facilities have experienced the lowest overall gains, but are still roughly 10% higher than January 2014. Retail prices have leveled out over the past 10 months (excluding a recent jump in steak prices) and continue to be about 20% higher than January 2014.

Figure 2 shows the prices of “upstream” cattle/beef prices relative to the composite beef retail price for the past 18 months. Once again, feeder steers have experienced the most dramatic price levels relative to retail beef, while fed steers and wholesale beef have been steadier when compared to retail.

A few takeaways:

- The supply glut of available feeder supplies continues to be noticeable in the market.
- The glut appears to be easing given the mild decline in light-weight feeders compared to the recent strength in heavy feeders.
- The sharp increase in feeder prices this past winter was not met with the same gusto for prices further down the supply chain and this has created some heartburn for feedlots as they market these cattle, which will likely continue.
- The composite retail beef price has declined month-over-month only three times over the time frame discussed here, with the most recent being this past June’s 0.60 cent per pound decline.
- High valued, middle cuts appear to be providing support to beef prices, which aligns with data on overall strength in beef demand.

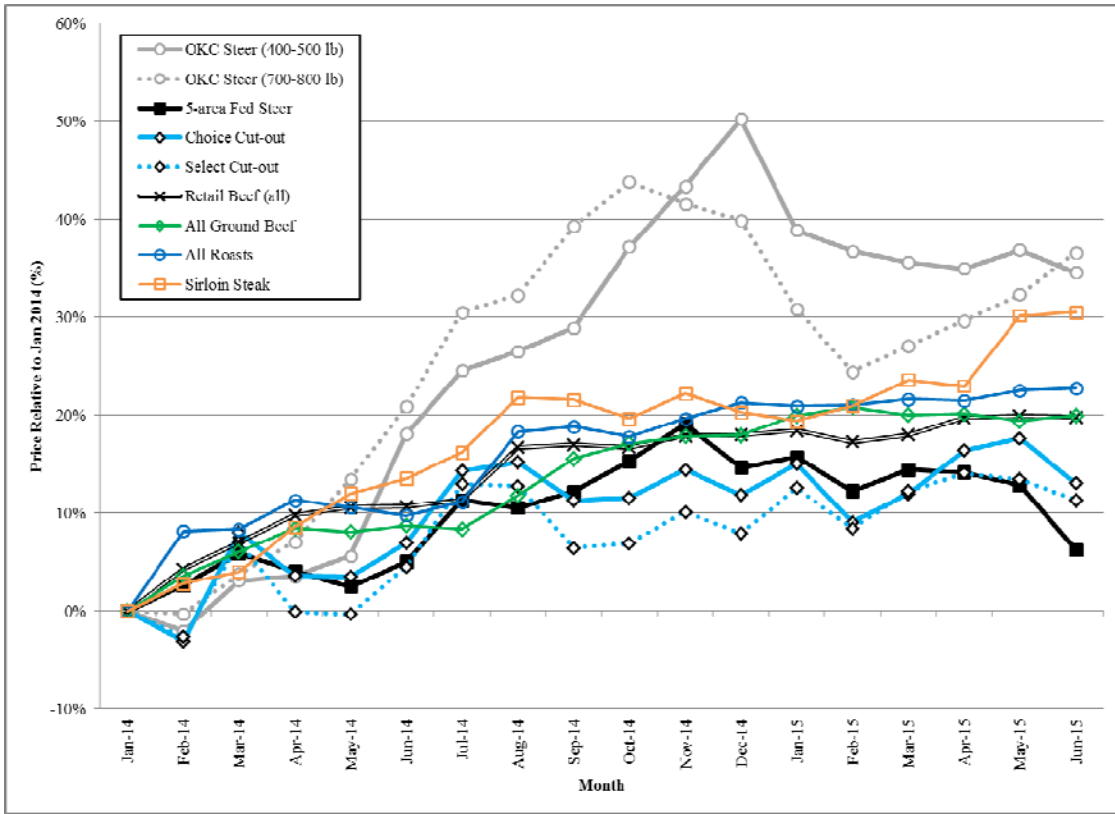


Figure 1. Market prices for cattle and beef relative to individual prices in January 2014

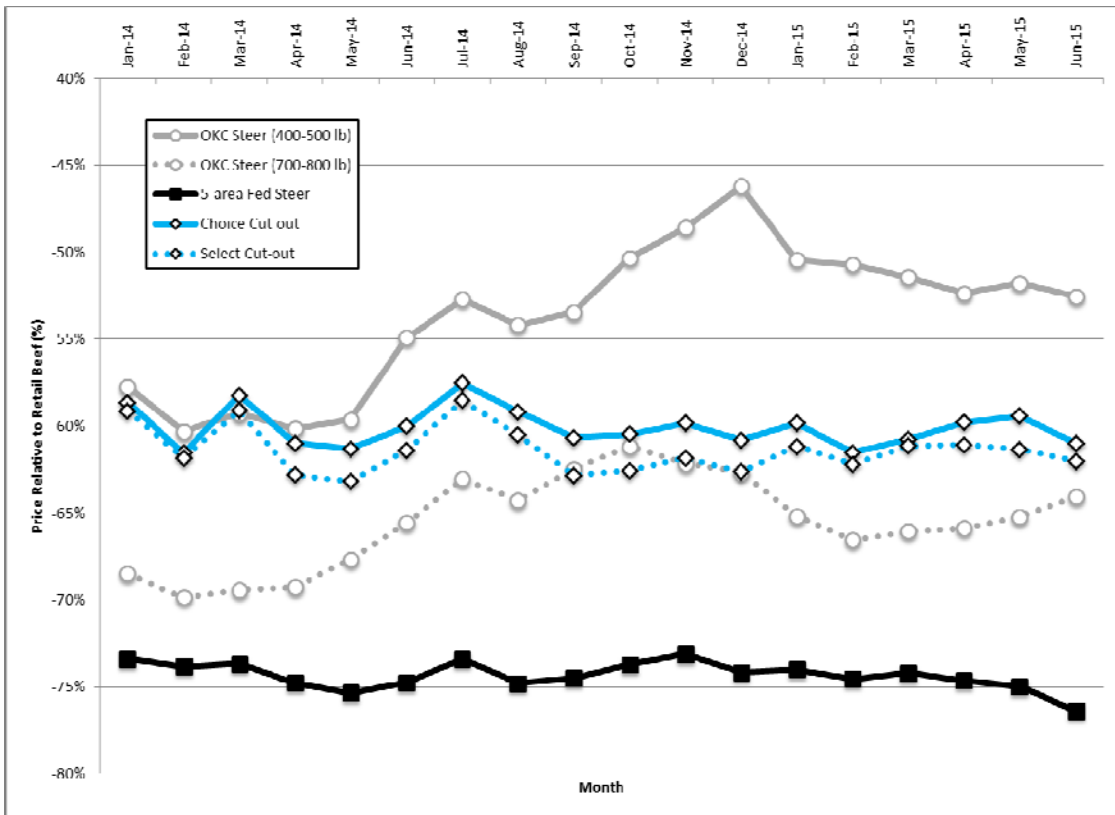


Figure 2. Market prices for cattle and beef relative to retail beef, monthly

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Feeder steers were lower last week with lightweight feeder steers showing the most weakness while heavy cattle were only mildly lower. Fed cattle were also lower last week, which is not uncommon during the middle of the summer. Similarly, wholesale beef was lower. Feedstuffs were mostly unchanged.

<i>Data Source: USDA-AMS Market News</i>		Week of	Week of	Week of
		7/17/15	7/10/15	7/18/14
5-Area Fed Steer	all grades, live weight, \$/cwt	\$147.96	\$151.00	\$156.05
	all grades, dressed weight, \$/cwt	\$235.20	\$240.22	\$246.57
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$234.85	\$242.21	\$250.15
	Choice-Select Spread, \$/cwt	\$2.73	\$3.25	\$6.62
700-800 lb. Feeder Steer	Montana 3-market average, \$/cwt	--	\$244.77	--
	Nebraska 7-market average, \$/cwt	\$240.48	\$238.73	\$231.32
	Oklahoma 8-market average, \$/cwt	\$226.59	\$225.99	\$214.83
500-600 lb. Feeder Steer	Montana 3-market average, \$/cwt	--	\$265.00	--
	Nebraska 7-market average, \$/cwt	\$266.86	\$283.88	--
	Oklahoma 8-market average, \$/cwt	\$261.94	\$267.54	\$244.31
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$4.04	\$4.05	\$3.65
	DDGS Price, Nebraska, \$/ton	\$129.55	\$127.15	\$120.25

Data Notes:

1. OKC Steer Prices are from USDA, AMS report KO_LS795 with monthly average by LMIC
2. Fed steer price is a five-area live price from USDA, AMS report LM_CT180
3. Choice and Select Cut-out values are from USDA, AMS report LM_XB403, with monthly average by LMIC
4. Retail prices are from USDA, ERS calculations based on Bureau of Labor Statistics data