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In The Cattle Markets

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The Value of Preconditioning Calves

Preconditioning is a generic term that means different things to different people and encompasses the different operating procedures that may be applied to a calf prior to shipping. Preconditioning activities may include weaning, vaccinations, dehorning, castration, and starting calves on a high energy diet. Several reasons exist for the cow/calf producer to precondition their calves, but the underlying goal is to increase the value of the calf being sold or the productivity of the calf being retained.

Preconditioning adds weight and health to the calf, which in turn enhances the cow/calf producer's reputation. Most preconditioning programs require 45 days where the calf is bunk broke and the manager follows specified animal health protocols and a nutritional program. Several studies show the decreased morbidity and mortality of preconditioned calves, a higher feedlot performance level, and a higher quality carcass. The economic justifications for preconditioning are harder to quantify though as the additional economic value is dependent on several factors.

One of the biggest economic justifications is the added weight. Total revenue for cow/calf producers is largely dependent on calf weight. The added calf weight from a preconditioning program typically adds additional dollars in the cow/calf producer's pocket. Obviously, the management challenge is to find a feed ration where the cost of gain is less than the value of additional pounds. Typically the preconditioned calf has approximately half the shrink experienced by the non-preconditioned calf. The decreased shrink will also help keep the value higher than the cost.¹ Nonetheless, the additional value will be somewhat dependent on the current market and whether the classic price slide is being experienced. Note also that preconditioning will typically delay the sale of the calf until November or December, which can have a slight seasonal price increase.

Another value to preconditioned calves is the increased ability to comingle your calves with another producer's calves through a marketing agent. Typically, the commission rates are lower in this scenario.

Although, keeping the calves an additional 45 days to precondition increases feed costs, labor costs, death loss, interest, etc., the premiums received for the preconditioned calves is a pretty convincing argument to precondition. This premium continued to increase through 2014. In the current environment preconditioning may become even more important, not necessarily due to the premium received for preconditioning, but because the cow/calf producer can avoid the discount received for calves with unknown health status of non-preconditioned calves. Buyer interest in preconditioned calves is expected to continue to grow as increases are

realized in calf prices and the cost to finish cattle. Yet many producers still do not precondition calves, and are essentially leaving money on the table.

¹ <http://www.cattlenetwork.com/cattle-resources/prevention-works/Is-preconditioning-feeder-calves-for-me-213873211.html>

The Markets

Cash cattle activity will likely remain slow as the week begins. Last week showed limited trade at mostly steady money. Beef movement was solid though, which may signal more activity as retailers secure fall orders. Unless cash activity increases, futures will likely see a dip in prices as futures are currently trading at a premium to cash. For the week of September 11-15, October live cattle futures ended up \$2.225, while December futures were steady. The futures premiums to cash and the strong packer margins should allow packers to pay more for cattle this week.

Cattle slaughter for the week ending September 16 was the largest since July 2013. Feeders need to keep marketings current. Since October and November typically experience high slaughter rates, the increased weights the market is experiencing will cause cash cattle and beef prices to slip slightly in the coming weeks.

<i>Data Source: USDA-AMS Market News</i>		Week of 9/15/17	Week of 9/8/17	Week of 9/16/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$105.88	\$104.92	\$109.36
	all grades, dressed weight, \$/cwt	\$166.48	\$166.13	\$169.89
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$191.03	\$192.35	\$186.48
	Choice-Select Spread, \$/cwt	\$2.53	\$2.03	\$6.47
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$162.39	\$158.00	\$133.80
	Nebraska 7-market, \$/cwt	\$161.47	\$161.24	\$145.81
	Oklahoma 8-market, \$/cwt	\$154.17	\$149.42	\$137.04
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$158.71	\$159.62	\$133.35
	Nebraska 7-market, \$/cwt	\$182.35	\$167.43	\$154.97
	Oklahoma 8-market, \$/cwt	\$163.95	\$157.69	\$136.21
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.19	\$3.20	\$2.97
	DDGS, Nebraska, \$/ton	\$108.00	\$108.00	\$120.50