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## **In The Cattle Markets**

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### **Beef Price Spreads**

Since 2010 average retail beef prices have increased from \$4.173 per pound in January 2010 to \$6.412 in May 2015, a 53.65% increase. Live Kansas cattle prices have increased from \$84.10 per cwt in January 2010 to a high of \$172.94 in November 2014, a 105.64% increase. Since their respective highs, retail beef prices have decline 8% to \$5.915 per pound, whereas live Kansas cattle prices have declined 38.2% to \$106.89 per cwt. The discrepancies in beef and cattle price changes is accounted for in the live to retail price spread and dissecting this spread can provide information on where profits and losses are occurring in the marketing chain.

The live to retail price spread was record large in June 2016. This live to retail price spread can be broken down into two other spreads: the live to cutout spread and the cutout to retail spread. The live to cutout price spread assumes a 63% dressing percentage and shows the difference in price paid for a steer and the wholesale value of beef plus the drop value. Assuming an average live weight of 1300 pound, the live to cutout spread was at a high of \$439.30 per head in June 2016 and has averaged \$270.80 per cwt so far this year, up from an average of \$173.60 over 2010-2014 and an average of \$198.70 in 2015. Note that this is not processor profit. This spread represents a gross processing margin and does not account for the processor's fixed and variable costs, including labor, energy, etc. If one assumes a rough industry average of \$165 per head costs (they vary significantly from plant to plant), then one can see that although processors are doing quite well this year, in 2014 they would have averaged profits of only \$1 per head.

The difference between the wholesale value of the beef sold by packers and the retail value is the cutout to retail spread and covers the retail industry's costs to market beef to consumers. In June 2016, this cutout to retail price spread was \$1960 per head, compared to the average of \$1303 over 2010-2014, \$1607 in 2015 and \$1737 in 2016 to date. Again, one cannot assume these are profits as fixed and variable costs such as trucking and energy have not been accounted for. Note though that only 50% of the cost of retail beef actually comes from the cost of the wholesale beef, indicating considerable amount of marketing services are added between wholesale and retail levels. Another way to look at this level between retail and wholesale is if wholesale beef prices decreased 50%, retail prices could only hypothetically decrease 25% keeping all else equal.

By looking at the percentage changes between 2016 and the 5-year average of 2010-2014 in the different spreads, one can see that there has been a much larger percentage increase in the

live to cutout spread than the cutout to retail spread, indicating that a majority of the profits available from beef marketing are currently being held at the processor level.

With the recent decline in boxed beef cutout, processor margins will likely decline faster than retail margins as retail prices tend to be stickier due to the consumers' general dislike of price variability. Decreasing processor margins does not necessarily mean increased cattle feeder profits as the profits and losses may be distributed among retailers.

## The Markets

After last week's lower prices, Tuesday saw live cattle futures prices sharply higher to near limit up. Most trading was due to short-coverings. Even with the recent gains futures remain below last week's cash cattle trade.

Fed cattle prices were lower last week on heavy sales volume. The 5-area average price for slaughter steers sold on a live weight basis was \$102.65, down \$3.24 from last week and \$15.06 lower than last year. This week will likely see steady to weaker prices.

Beef cutout values were mixed last week. Choice cutout value was \$187.35/cwt, up 54 cents from the previous Friday, but down \$18.54 from this week last year. Select carcass cutout Friday morning was \$177.87/cwt, down 94 cents from last week and down \$23.50 from a year ago. While wholesale beef prices were firmer on Tuesday, packers moved only 70 loads of product. That's not a bad performance, but it doesn't signal improved demand either. Wholesale beef prices and movement must strengthen before cattle futures can put in a solid low, and with higher levels of beef in cold storage this may not be possible for a while.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of</b>	<b>Week of</b>	<b>Week of</b>
		<b>9/30/16</b>	<b>9/23/16</b>	<b>10/2/15</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$102.65	\$105.89	\$117.71
	all grades, dressed weight, \$/cwt	\$161.54	\$167.09	\$187.48
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$188.63	\$186.48	\$208.44
	Choice-Select Spread, \$/cwt	\$9.43	\$7.01	\$3.26
<b>700-800 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$126.51	\$140.82	\$188.38
	Nebraska 7-market average, \$/cwt	\$141.79	\$143.36	\$194.48
	Oklahoma 8-market average, \$/cwt	\$132.20	\$139.53	\$184.34
<b>500-600 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$130.46	\$135.39	\$201.20
	Nebraska 7-market average, \$/cwt	\$144.83	\$155.63	\$217.55
	Oklahoma 8-market average, \$/cwt	\$132.82	\$142.04	\$200.49
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$2.94	\$3.06	\$3.62
	DDGS Price, Nebraska, \$/ton	\$114.70	\$118.25	\$125.40