

In The Cattle Markets

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Pace of Expansion

A common question of late is, “How long will the high cattle prices continue?” The November WASDE report gives an overview of how the current and expected production of beef relates to prices. From a supply perspective beef production for 2014 is expected to be less than in 2013. The expectation for 2015 is for even less beef production than for 2014. Prices in 2015 are also expected to be higher than during 2014. The demand side is clouded by other meats. Broiler production for 2014 is expected to be higher than during 2013. Looking at 2015, production is expected to be higher for broilers again and for pork and turkey. Thus there will be slightly less beef, but more competing meats. The upside price potential for beef is limited. That does not say when the impact on other prices, such as for feeder cattle or calves, will occur.

The lower production levels and duration hinge on the pace of expansion. Several indicators are suggesting that cattle herd expansion is occurring. In the July 1 *Cattle* report there were 29.7 million beef cows and 4.1 million replacements in the U.S. Expansion could come from either less culling or from more replacements. Since July 1, the various *Livestock Slaughter* reports show sharply lower cow slaughter volumes, especially of beef cows. Overall heifer slaughter is lower too, giving at least the potential for expansion and a bigger 2015 calf crop. When a larger calve crop is combined with steady beef prices, the expectation would be for lower 2015 calf prices, especially in second half of the year.

The heifers have not moved to feedlots. While the total number of cattle on feed is down slightly from a year ago, the mix of heifers is down sharply. The rest of the feedlot situation explains the recent high prices and high demand for calves. Despite a slightly higher projected calf crop for the second half of 2014, the number of feeder cattle outside of feedlots is down sharply from last year. The feeder cattle futures market is inverted at present – the market is demanding feeder cattle today. From the supply side, the low available volume of cattle to feed will be supportive of prices for the first half of 2015. Ultimately it will take more calves to allow for some expansion and some increase in feedlot volumes.

Expansion would also imply at least some producers are holding back heifers. Consider recent sales data from the National Feeder and Stocker Cattle Summary report from the Agricultural Marketing Service. The mix of heifers the past few weeks has been at 37% of the trade, down from 39% in 2013. Heifers can also be sold as replacements, but this gives some indication that some are being held back. This particular trend has to continue too in order to give expansion, but it is a necessary first step. Calves (5-600 lbs.) in South Dakota last week averaged \$290 per cwt. for steers. Heifers at the same weight sold at a 7% discount, at \$270 per cwt. Heifers sold as replacements were \$306 per cwt. or at a 6% premium to steers.

The Markets

The cattle markets were mixed for the week. Live cattle and feeder cattle were slightly lower while calf prices were higher. Prices continue to be sharply higher than a year ago. Corn has been trending higher and was further supported by slight adjustments in production levels in the WASDE. Thank you veterans!

<i>Data Source: USDA-AMS Market News</i>		Week of 11/7/14	Week of 10/31/14	Week of 11/8/13
5-Area Fed Steer	all grades, live weight, \$/cwt	\$166.61	\$167.46	\$130.93
	all grades, dressed weight, \$/cwt	\$261.86	\$263.23	\$206.44
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$250.35	\$251.79	\$204.47
	Choice-Select Spread, \$/cwt	\$12.08	\$13.21	\$14.48
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$227.26	\$245.95	\$158.97
	Nebraska 7-market average, \$/cwt	\$244.18	\$248.01	\$171.73
	Oklahoma 8-market average, \$/cwt	\$238.12	\$237.37	\$167.42
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$280.68	\$281.42	\$182.92
	Nebraska 7-market average, \$/cwt	\$293.77	\$293.72	\$193.52
	Oklahoma 8-market average, \$/cwt	\$286.56	\$281.65	\$184.53
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.34	\$3.31	\$4.15
	DDGS Price, Nebraska, \$/ton	\$113.30	\$111.80	\$202.80