

Cattle Business in Mississippi – June/July 2010 **“Stocker Cents” article**

Cattle Market Prices – A Look Back On the Start of 2010

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I doubt many can argue that the prices they have seen or realized are a vast improvement compared to those in 2009 (although, I do know some cattlemen who are eternally pessimistic that might dispute this point!). Still, it is no secret that prices in 2010 have been on the rise.

For example, since the start of 2010 wholesale Choice beef prices have risen about \$1.75 per hundredweight (cwt) per week. There have been 18 weeks reported by USDA as of this writing (May 13, 2010) and over that span this equates to a \$31.65/cwt total increase, from \$139.06/cwt the first week of January to \$170.71/cwt the second week of May. The total number of weeks that wholesale beef prices have been in the positive (week-over-week) is 14 of those 18 weeks, or 78% of the weeks. Cash fed steer prices mimic this phenomenon, for the most part, with a \$15.40/cwt rise since the first week of January – from \$84.12/cwt to \$99.52. Prices in Mississippi over the previous 17 weeks (these data do not include the first week of January since auction markets were closed) show that 500 to 550 and 650 to 700 pound medium and large #1&2 steers have increased about \$1.53 and \$1.37 per cwt per week, respectively. That equates to \$26 and \$23.25/cwt price gain over that time frame collectively. This price rise is not uncommon as I mentioned last month when seasonal price patterns are taken in to account, but to put the current rise in perspective from 2007 to 2009 the average increase was \$7.50/cwt and \$12.27/cwt for 500 to 550 and 650 to 700 pound steers, respectively.

Despite comments I hear to the contrary – comments that criticize speculation – the rise in cattle prices can be attributed to positive market fundamentals. First, the supply of cattle in the U.S. is shrinking at all points along the supply chain. Beef cow and beef replacement heifers have been on the decline since 2007 – the only herd expansion since 1995 was in 2005 and 2006. There has been a year-over-year reduction in the number of cattle placed into feedlots by about 6,000 head per month since January 2009. As a result, the number of cattle on feed to be marketed has been lower and the weight that cattle are finishing at is well below average. Also, with the declining number of cattle coming off feed beef in storage is at low levels. All of this combined has positioned the cattle industry for higher prices. I, along with many other livestock economist, was preaching this gospel for a number of months.

The caveat to the sermon was demand. Everything hinged on a return of the almighty consumer and since the start of 2010 we have seen that take place, or at least to some degree. Since January the Dow Jones Industrial Average has gained 3%. Over this same time frame consumer spending and sentiment have been on the rise which

indicates looser wallets even with unemployment at extremely high levels. Two components of beef demand that are shining beacons in this tick are away from home eating and exports. The most recent survey of the National Restaurant Association shows that restaurant owners are optimistic about the future. Further, exports in 2010 are off to a good start despite a rising U.S. dollar – which makes our beef more expensive to other countries.

Keep in mind that the U.S. economy, as well as the Global economy, is not out of the woods just yet. Recent events in Greece and even here in the U.S. still point to market uncertainty and this will continue to plague our beef markets.

So what does all this have to do with your stocker operation? In last month's *Cattle Business* I discussed the seasonal tendencies of Mississippi stocker and feeder calf markets. In that I showed that 650-700 pound cattle prices typically rise from the start of the year and throughout the summer months into August. For the most part, we have experienced that thus far in 2010. As a word of caution though, feeder cattle markets remain heavily tied to both fed cattle and corn markets. In turn these are intertwined with crude oil, for corn, and the general economy, for both, with the stock market being a good gauge of the health of the general economy. So, even though history shows that prices like to move higher from January to August, there is no guarantee that this will continue take place. If for some reason events push down any of the markets mentioned above look for the markets you operate in to suffer as well. I am not attempting to be a Chicken Little and declare that the sky is falling. However, it is prudent to keep in mind that the markets we operate in today are much more volatile than they once were. With this you should always make sure that you have some level of protection or exit strategy in place in the event that prices do begin slip.

For more information about stocker cattle production, contact an office of the Mississippi State University Extension Service.