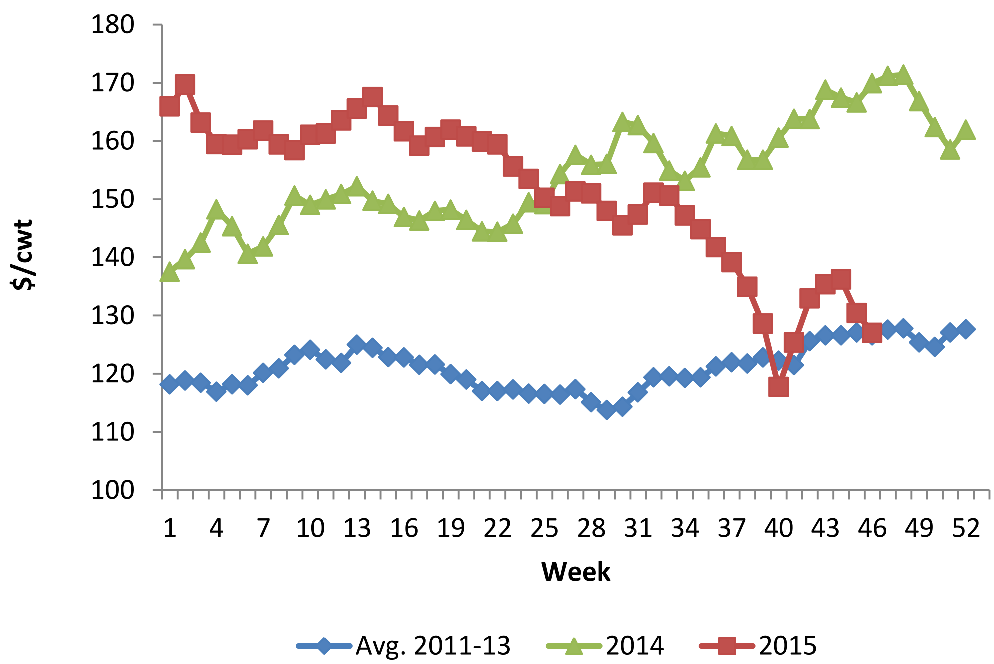
November 2015 – Livestock Market Update
Public Policy Department
Budget & Economic Analysis Team

Recent Cattle Feeding Losses are Staggering

Given the time constraints of the Thanksgiving week, I had considered trying to get by without putting out a livestock market update this month, but I didn't want to let the current situation in the cattle market pass without any comment at all. So we'll do a short newsletter this month and hope that the content of it doesn't ruin everyone's Thanksgiving.

The cattle market is in the middle of a historic wreck. That's about all there is to it. We've talked about big front-end cattle supplies for the last couple of months, and that seems to be the dominant feature of the market right now. But rather than try to dig further into causes right now, I want to spend some time here talking about effects. We can start with a reminder of what fed cattle prices have done recently. Figure 1 shows the weekly 5-Area weighted average fed steer price.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.
Figure 1. Weekly 5-Area Weighted Average Fed Steer Price

The last price in this figure is $127.04 for the week ending 11/15. The weekly 5-Area price from last week is not available as I write this, but the daily price summary through mid-day Friday suggests that last week's price will be down another two or three dollars on pretty light volume. This would put the fed cattle price back down below the 2011-13 average after the brief rally that began around week 40.

The cattle market has not gotten much support from wholesale beef prices. Last week, the Choice cutout moved steadily lower all week long, finishing the week on Friday at $203.14—just a few cents higher than the low price for the year of $203.00. The wholesale market has not been able to sustain its value as beef production has increased above year-ago levels. So far this fall, the wholesale market seems to be choking any time weekly commercial slaughter approaches the 570 thousand head level. In historic terms, that's pretty light.

But to get back to the effects of this price wreck, let's consider what current cattle prices mean for returns in the feeding sector. Stories of feedlot close-out sheets showing $500 to even $700 per head losses have become commonplace over the past month or so. A quick spin through a simple feeding budget illustrates the potential magnitude of the problem facing the feeding sector right now.

For the first week of June this year, the weighted average price on 750-800 pound medium/large frame number one feeder steers was just a touch over $227 per hundredweight (cwt). Let's say we placed a 775 pound steer on feed at that time for that price. Let's also say that we put 575 pounds on that steer at a total cost of gain of $0.82 cents per pound. At 3.4 pound daily rate of gain, that steer would have closed out last week. Table 1 shows what the costs and returns on that steer look like.

Table 1. Example Cattle Feeding Costs/Returns: 11/23/2015

Costs		
Feeder Calf Cost	775 lbs x $2.27 / lb =	$1,759.25
Total Cost of Gain	575 lbs x $0.82 / lb =	$471.50
Calf + Feed Costs	$1,759.25 + $471.50 =	$2,230.75
Returns		
Fed Steer Value	1,350 pounds x $125 / lb =	$1,687.50
Profit/Loss	$1,687.50 - $2,230.75 =	**($543.25)**

Now, this is obviously a grossly simplified budget; and anybody who wants is welcome to quibble with these figures. I could pretty easily be convinced that a total cost of gain of $0.82 cents is probably not high enough to cover transportation, death loss and interest on the calf (much less part or all of the feed) or that the end weight or average daily gain could be fudged around a little. This is a pretty reasonable ballpark budget for a hypothetical set of cattle closing out last week and it clearly looks pretty ugly. The equity losses in the feeding sector at the present time are staggering. These losses will likely continue for a while. Consider the fact that feeder steer prices held above $220 until about mid-August. Break-evens on those cattle are probably somewhere in the vicinity of $160 (optimistically, I would say); that kind of fed cattle price is nowhere on the horizon. So there is still a lot of money yet to be lost in the feeding sector over the next couple of months. That will keep feeder and stocker cattle markets on the defensive for some time to come, as well.

The cattle sector is not necessarily suffering alone this month. The hog market has also fully entered a significant fourth quarter slump. Wholesale pork prices had held up surprisingly well through the end of October, given the large year-over-year increase in pork production. But since the end of October, wholesale pork prices have faded pretty fast, falling about 17 percent over the last four weeks. Barrow and gilt prices have also declined rather sharply over the past month. Last week, the weekly average barrow and gilt price worked out to just under $56/cwt (dressed)—the lowest price of the year so far. The profitability picture in the hog sector has been far better than in the cattle feeding sector. Estimates from Iowa State suggest that Midwest farrow-to-finish operations were running black ink through October. A roughly seven-month stretch of decent profitability probably ended with October, though. November returns appear likely be negative based on the deterioration in hog prices, and prospects through about the first quarter of 2016 don't look all that stellar based on current futures prices.

To end on a positive note—or at least a less negative one— there is some light at the end of the tunnel in the red meat sector. The rapid growth in pork production that kept that market defensive for all of this year is slowing down substantially. Year-over-year growth in pork production in 2016 looks to be well under two percent. That level of growth will be much more manageable than this year's six percent or so. On the cattle side of things, placements have slowed substantially in the last few months. October placements were down four percent year-over-year, following even larger year-over-year declines in August and September. The process of working through front end supplies is slow, but it won't last forever. With more manageable numbers next year and with growth in the total meat supply slowing down some, there is hope for things to improve next year—certainly in comparison with where they are now.

I hope everyone has a safe and blessed Thanksgiving holiday.

Contact: John Anderson, 202-406-3623, johna@fb.org