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Agriculture & Natural Resources

Agricultural Economics and Rural Sociology, Auburn University, AL 36849-5639

DAERS 07-2

February 2007

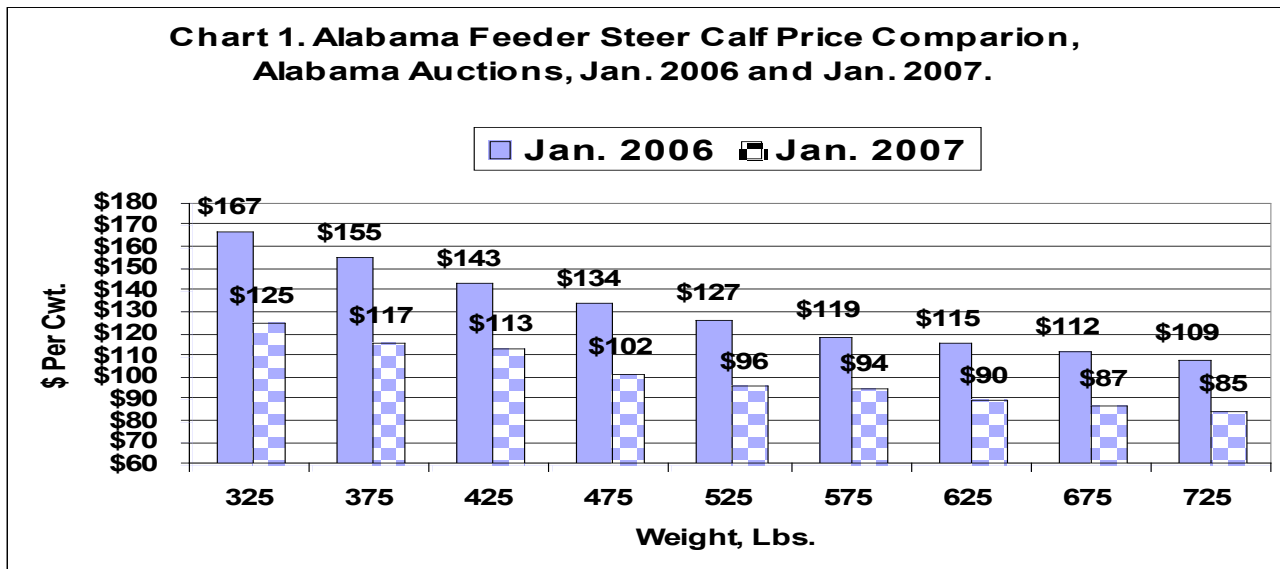
What Has Happened To Alabama Feeder Prices?

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Alabama feeder calf and feeder cattle prices have recently plummeted. The downfall began in early September 2006. The reason for the substantial decrease in feeder calf prices is primarily due to a rallying corn market. Omaha cash corn prices have increased from about \$2.15 per bushel in early September 2006 to approximately \$3.78 per bushel during January 2007. This is an increase of \$1.63 per bushel (+76%). This major increase in corn prices resulted from a stronger demand for corn from the ethanol industry, a smaller corn crop (10.5B bushels), and a stronger corn export market.

The January 2007 Alabama feeder prices compared with January 2006 will help illuminate how far feeder prices have fallen. Chart 1 describes the feeder calf and feeder cattle prices from Alabama Auction Markets based for various weights of feeders for January 2006 and January 2007.

As you can see in Chart 1, 325 lb. feeder steer prices have fallen from \$167/cwt. to \$125/cwt. between January 2006 and January 2007. This decrease of \$42/cwt. results in a decrease in value of approximately -\$135 per head. The 725 lb. feeder cattle fell from \$109/cwt. to \$85/cwt. during this time period. This was a \$24/cwt. decrease which amounts to a decrease in value of about -\$173 per head. Obviously, higher corn prices have had a major negative impact on Alabama feeder prices.



Presently, the September 07 corn futures price is trading around \$4.00/bu. Will corn prices go up or down between now and September 2007? Some analysts expect corn prices to decrease due to much larger plantings this spring. The current projection is that we would need to see an additional 6.5+ million acres planted this spring with an average yield of 150 bushels per acre to achieve an addition 1 billion bushels of corn for the ethanol industry

next year. These analysts feel that more than the 6.5+ million additional acres of corn will be planted this spring thus causing corn prices to decline into the low- to mid-\$3 per bushel. And of course, some folks expect corn prices to increase due to some combination of higher demands from the ethanol industry, less than adequate corn acreage planted this spring, a poorer corn growing season which adversely affects yield and/or harvested acreage, and additional export demand. If any of these situations develop, September 07 corn prices would be expected to increase to around the mid-\$4 to low-\$5 per bushel range. If more than one of these items happened, corn prices could approach \$6 per bushel.

Given that either one of the above scenarios could happen, let's estimate their impacts on Alabama feeder prices. Table 1 describes an estimate of Alabama feeder steer prices based on various corn prices for September 2007.

Table 1. Estimated Feeder Steer Prices Based On Various Corn Prices, Alabama Auctions, September 2007.

Weight (Lbs.)	Corn Price, \$/Bu.						
	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00	\$5.50	\$6.00
	————— \$/Cwt. —————						
350	\$162	\$147	\$132	\$117	\$101	\$86	\$71
450	\$142	\$130	\$118	\$107	\$95	\$83	\$71
550	\$124	\$115	\$106	\$97	\$89	\$80	\$71
650	\$113	\$106	\$99	\$92	\$85	\$78	\$71
750	\$107	\$101	\$95	\$89	\$83	\$77	\$71

Assumes each \$0.50/bu increase in corn prices will result in a corresponding feeder steer price decrease of \$15.25/cwt., \$11.75/cwt., \$8.75/cwt., \$7.00/cwt. and \$6.00/cwt. for 350 lb., 450 lb., 550 lb., 650 lb., and 750 lb. feeder steers, respectively.

The corn price range was set at \$3.00 to \$6.00 per bushel with \$0.50 per bushel increments. The weight of selected feeder steers range between 350-pounds to 750-pounds. The current futures price for September 2007 corn is \$4.00 per bushel. The current September 07 futures price of feeder cattle (650-849 lb.) of about \$103 per hundredweight, which results in an Alabama Auction price of about \$95 per hundredweight after adjusting for the local basis (-\$8 for this weight of feeder). Historical corn and feeder price data provides us with a benchmark to estimate the change in feeder prices for each \$0.50 per bushel move in corn prices. Using the 750-pound feeder steer and the adjusted local cash feeder price of \$95 per hundredweight (see shaded column with corn price of \$4 per bushel), a \$0.50 per bushel increase in corn price (from \$4.00 to \$4.50 per bushel) would reduce the price of the 750-pound feeder steer by \$6 per hundredweight to a price of \$89 per hundredweight. Alternatively, a \$0.50 per bushel decrease in corn price (from \$4.00 to \$3.50 per bushel) would increase the price of the 750-pound feeder steer by \$6 per hundredweight to a price of \$101 per hundredweight. Similar adjustments are made for the other weight categories of feeder steers. See the footnote at the bottom of Table 1 for more explanation about the estimated feeder steer market price adjustments.

So, what should I do? Cattle farmers will want to pay close attention to the corn market this year. Corn futures market prices may be viewed daily at www.futuresource.com (click on grains at the bottom of the webpage). The potential volatility in the corn prices could be large given the large number of factors affecting the corn market. Should corn prices move higher, cattle farmers should attempt to get some price protection on their feeders. Check out a futures hedge or futures option on feeder cattle or consider retaining ownership. For information on futures and options, see www.futuresource.com, click on meats at the bottom of the webpage, click on third button to the left of feeder cattle. However, if corn prices move lower, stay in the cash market and enjoy the rise in feeder prices.

When it comes to cattle marketing, everyone will make mistakes. I heard an old timer once say, "The markets are always right. It's the human beings who have formed the wrong opinions about the market." Those who learn from their mistakes will make fewer and smaller mistakes in the future. Those who make fewer and smaller marketing mistakes will generate higher net revenues. Good luck with your cattle marketing during 2007!