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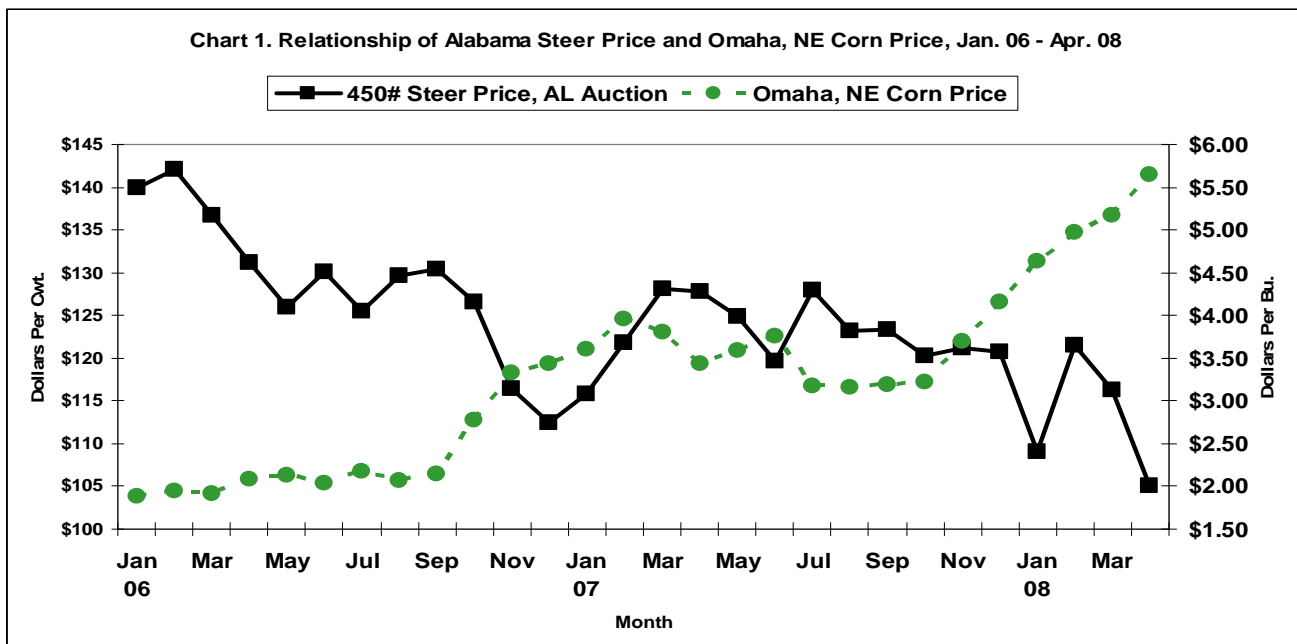
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What Impact Does Corn Price Have On Feeder Calf Price?

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Corn and feeder calf prices have been extremely volatile during the last 24-28 months. Corn prices have sky rocketed since September 2006. This unprecedented increase in corn prices has been primarily due to major increases in demand for corn by animal agriculture (beef, pork, and poultry), an expanding ethanol industry, and strong export markets (due to reduced world grain supplies and a weak U.S. dollar). Conversely, feeder calf prices have plummeted since January 2006. The substantial decline in feeder calf prices was due to large levels of competing meats (pork and poultry), higher energy costs, consumer demand weakness, and substantially higher corn prices.

As you can see in Chart 1, 450# steer prices in Alabama Auctions decreased from approximately \$140 per cwt. to \$105 per cwt. (solid line) between January 2006 and April 2008. This decrease of approximately -\$35 per cwt. (-25 percent) resulted in a decrease in calf value of approximately -\$157 per head. In contrast, Omaha corn prices increased from \$1.88 per bushel to \$5.65 per bushel (dashed line) during this same time period. This was an increase of \$3.77 per bushel (+201 percent). If there were no other factors affecting the demand and supply of Alabama feeder calves during this time period, each \$1 per bushel increase in Omaha corn price would result in a decrease of -\$9.26 per cwt. in Alabama feeder calf prices (-\$35 per cwt. / \$3.77 per bushel). However, as you would expect, there were other factors affecting feeder calf prices during this time period and this estimate of corn's impact on feeder calf price is not exact.



The most notable decrease in feeder calf prices occurred between January 2006 and January 2007. Feeder calf prices declined -\$24.13/cwt. (-17.2 percent or -\$109 per head). In contrast, corn prices increased \$1.73 per bushel (+92 percent). Again, if we assume all other factors affecting demand and supply of feeder calves were held constant during this time period, the impact of each \$1/bushel increase in corn prices resulted in a decline of -\$13.95 per hundredweight in feeder calf prices (-\$24.13 per cwt. / \$1.73 per bu.). As before, not all of the demand and supply factors affecting feeder calves were constant during this time period. This value provides us with a ballpark estimate of the impact of rising corn prices on Alabama feeder calf prices. The measured impact of rising Omaha corn prices on Alabama 450# feeder calf prices generally ranges between -\$12 to -\$24 per cwt. for each \$1 per bushel increase. More commonly, we usually express the impact of a \$0.50 per bushel increase (decrease) in corn prices on Alabama feeder calf prices as -\$6 to -\$12 per cwt. (+\$6 to +\$12 per cwt.) since prior to 2006 we seldom saw a \$1 move in corn prices during a year.

Presently, the September 2008 corn futures price is trading around \$6 per bushel. Will corn prices move higher or lower between now and September 2008? Some analysts expect corn prices to decrease due to larger than expected plantings this spring. The current projection is that we need about 87 million acres planted with an average yield of 153 bushels per acre to stabilize corn prices at \$6 per bushel. Many analysts feel that the \$6 per bushel September corn futures price will bring additional acres into production this year. If the total acreage exceeds 90 million acres, then we would see corn prices decrease to around the \$5 per bushel level. And of course, some analysts expect corn prices to increase due to some combination of less than adequate acreage planted this spring, poorer corn growing conditions which adversely affects yield and/or harvested acreage, increased demand by the ethanol industry, or an increase in export demand. If any single situation above occurs, September 2008 corn prices would be expected to increase to around the \$7 per bushel level. If more than one of the items mentioned occur, corn prices could approach \$8 per bushel.

Given that either one of the above scenarios could happen, let's estimate their impacts on Alabama feeder calf prices. Table 1 describes the estimated Alabama feeder steer prices based on various corn prices for September 2008.

Table 1. Estimated Feeder Steer Prices Based On Various Corn Prices, Alabama Auctions, September 2008.								
Calf Weight		----- Corn Price, \$/Bu. -----						
(Lbs.)		\$5.00	\$5.50	\$6.00	\$6.50	\$7.00	\$7.50	\$8.00
		----- Feeder Steer Price, \$/Cwt. -----						
350		\$144	\$133	\$121	\$110	\$99	\$88	\$76
450		\$135	\$126	\$117	\$107	\$98	\$89	\$80
550		\$128	\$120	\$112	\$104	\$97	\$89	\$81
650		\$119	\$112	\$105	\$98	\$92	\$85	\$78
750		\$115	\$109	\$103	\$97	\$91	\$85	\$79
Assumes each \$0.50/bu increase in corn prices will result in a corresponding feeder steer price decrease of \$11.25/cwt., \$9.25/cwt., \$7.75/cwt., \$6.75/cwt. and \$6.00/cwt. for 350 lb., 450 lb., 550 lb., 650 lb., and 750 lb. feeder steers, respectively.								

Corn price was set to range between \$5.00 and \$8.00 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 of September 2008 corn is approximately \$6.00 per bushel. The current September 2008 futures price of feeder cattle (650-849 pounds) is about \$114 per cwt., which results in an Alabama Auction cash price of about \$103 per cwt. after adjusting for the local basis (-\$11 for this weight of feeder). Historical corn and feeder price data provide us with a benchmark to estimate the change in feeder prices for each \$0.50 per bushel change in corn prices. Using the 750-pound feeder steer and the adjusted Alabama Auction cash feeder price of \$103 per cwt. (see shaded column with corn price of \$6.00 per bushel and row for 750-pound feeder steer), a \$0.50 increase in corn price (from \$6.00 to \$6.50 per bushel) would reduce the price of the 750-pound feeder steer by -\$6 per cwt. to a price of \$97 per cwt. Alternatively, a \$0.50 per bushel decrease in corn price (from \$6.00 to \$5.50 per bushel) would increase the price of the 750-pound feeder steer by \$6 per cwt. to a price of \$109 per cwt. 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. Feeder calves that are not medium and large frame, #1 and #2 muscle scores, will likely incur larger adjustments than those used in Table 1.

So, what should you do? First, you want to manage your inputs as efficiently as possible and be a low-cost producer. Secondly, 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, then click on corn to view the various contract months – third button from the left). The potential volatility in corn prices could be large given the large number of factors affecting the corn market. Should corn prices begin to move higher, cattle farmers should get some price protection on their feeder calves (short hedge, put option, fence, LRP insurance, etc.). For information on feeder cattle futures and options, see www.futuresource.com (click on meats at the bottom of the webpage, then click on feeder cattle – third button from the left). If you have questions about the futures markets you may contact the author or your local futures market broker for more information.

Alternatively, if corn prices move lower, stay in the cash market and enjoy the rise in feeder calf prices. Good luck with your feeder calf marketing during 2008.