Cattle Market Review – March 21, 2008 **Matthew Diersen***

Cash cattle prices were higher during February for stockers, feeders, and cull cows (figure 1). The price for live cattle was slightly lower. On the futures side, the nearby contracts for both live and feeder cattle are trading at sharply lower levels compared to a month ago. The deferred months are also lower. The weekly stocker cattle price in South Dakota has been fluctuating in a relatively wide range as corn has been volatile in recent weeks (figure 2). Seasonally the stocker price trend is for higher prices until summer. During summer the price tends to fluctuate widely with corn prices. Pricing or protecting calve prices before July would help lock in seasonally high levels and do so at a relatively low cost (for insurance premiums) compared to waiting until mid- or late-summer. Livestock Risk Protection (LRP) is currently only available with ending dates in late August, while put options are trading into November.

During workshops this past month producers asked about the impacts of recessions on beef prices and the overall health of the agricultural sector. Under a recession, consumer spending would fall and all sectors of the economy would be affected. People would have less income and would spend less on all goods and services. Looking at the short run, the impacts on specific commodities would be more pointed and affect a producer's profitability. Historically, beef was seen as the highest-end meat. If incomes were lowered, then beef prices would be negatively affected first and most. Recent literature confirms that beef (and pork) are normal goods. Consumers change how much beef and pork they purchase based on price and on their own incomes. On a per-capita basis beef is still the dominant meat from an expenditure standpoint. Per-capita expenditures on beef are about twice as high as that of pork and chicken (figure 3). Historically, chicken was viewed as an inferior good and thus as incomes rose consumers would not increase poultry consumption. Recent studies find more sensitivity between expenditures and consumption for poultry.

The more consumers treat chicken as a normal good, the more likely they are to adjust their general consumption patterns across type of meats. From a beef producer's standpoint, beef demand would not be as singularly affected by any recession. All meat would face a decrease in demand, but with less shifting from beef to pork and chicken. Beef would be further insulated from less demand in the short-run as production is estimated to decline in the next couple of years (figure 4). Pork and chicken production (and thus consumption) is expected to remain stable.

The March *Cattle on Feed* report showed that placements and marketings during February exceeded year-ago levels. Increased placements were observed across all the lighter weight categories. The total on feed exceeds last year's level. The latest WASDE report had few revisions to the price projections, which remain well below the futures prices during the second half of 2008 (figure 5). The ERS feeder cattle projections were adjusted slightly. Feeder cattle futures continue to trade at or slightly above the high end of the projection range (figure 6). The upside potential is thus limited, and neither indicator is factoring in the very high deferred live cattle futures price pattern.

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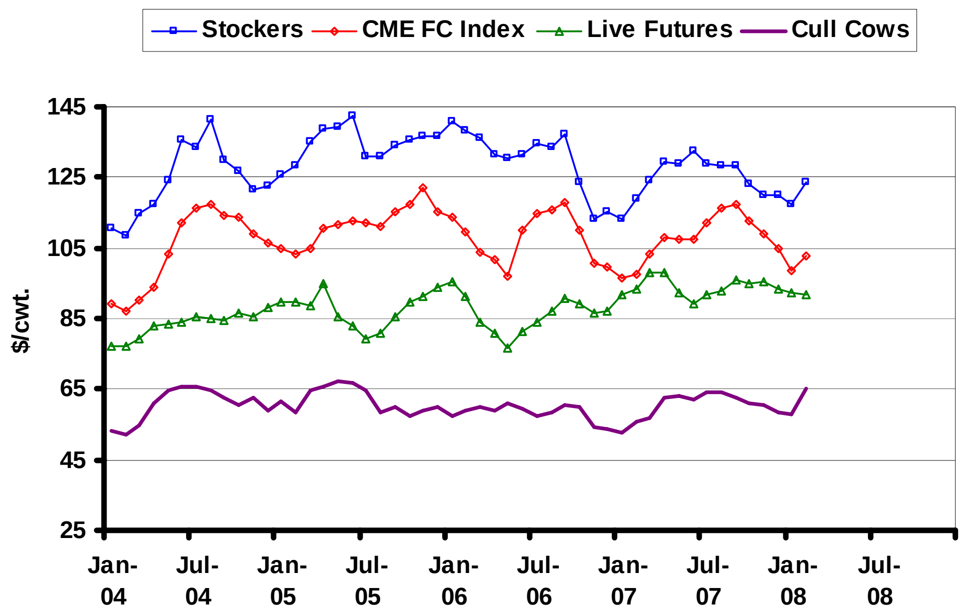
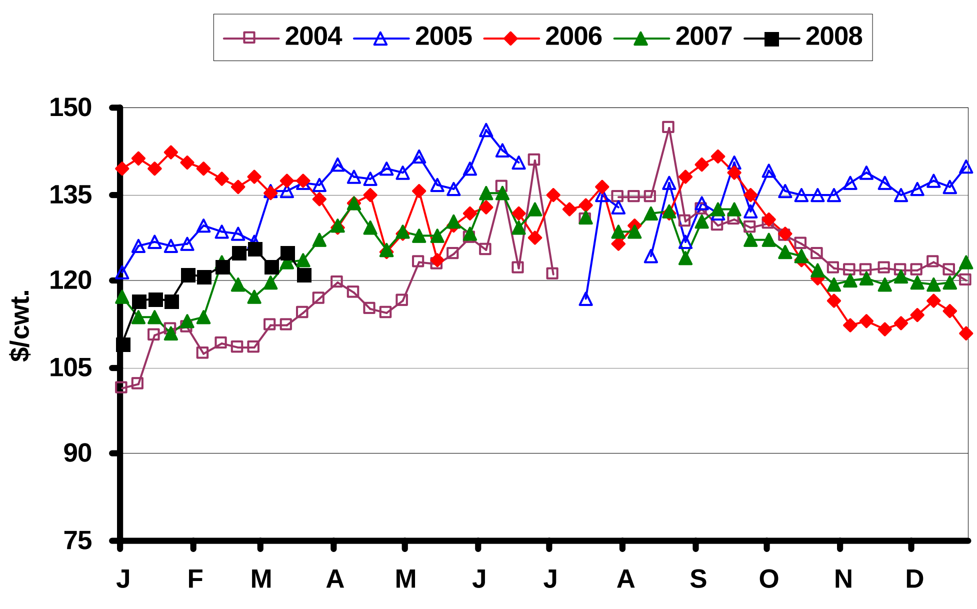
Fig. 1. Monthly South Dakota Cattle Prices



Sources: CME, USDA-AMS, & SDSU

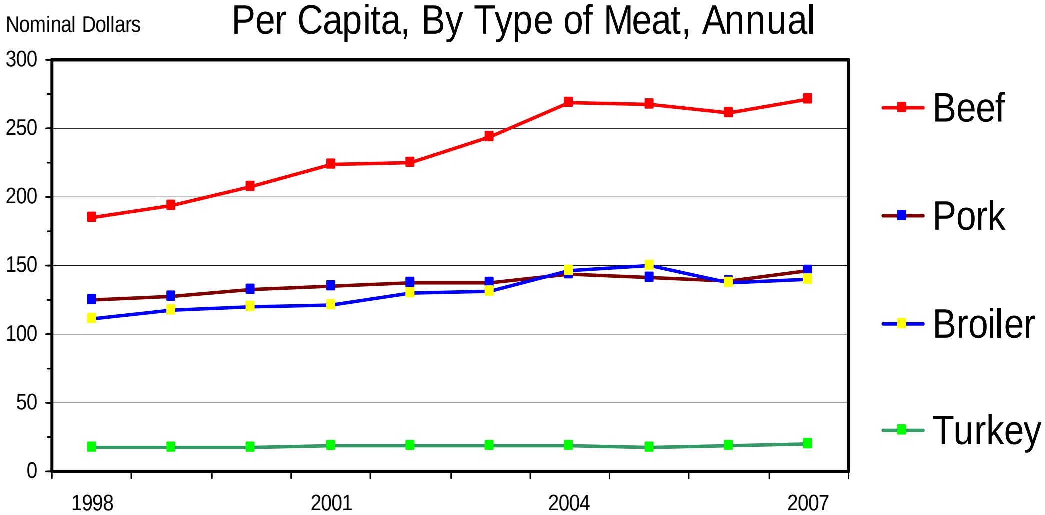
Fig. 2. Weekly South Dakota Stocker Cattle Prices



Sources: USDA-AMS & SDSU

Fig. 3. U S EXPENDITURES FOR MEAT & POULTRY

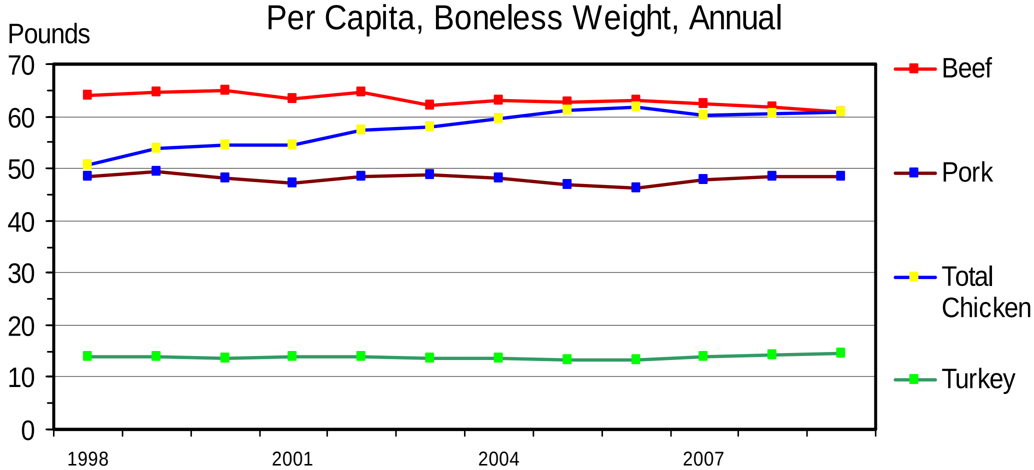
Per Capita, By Type of Meat, Annual



Source: LMIC

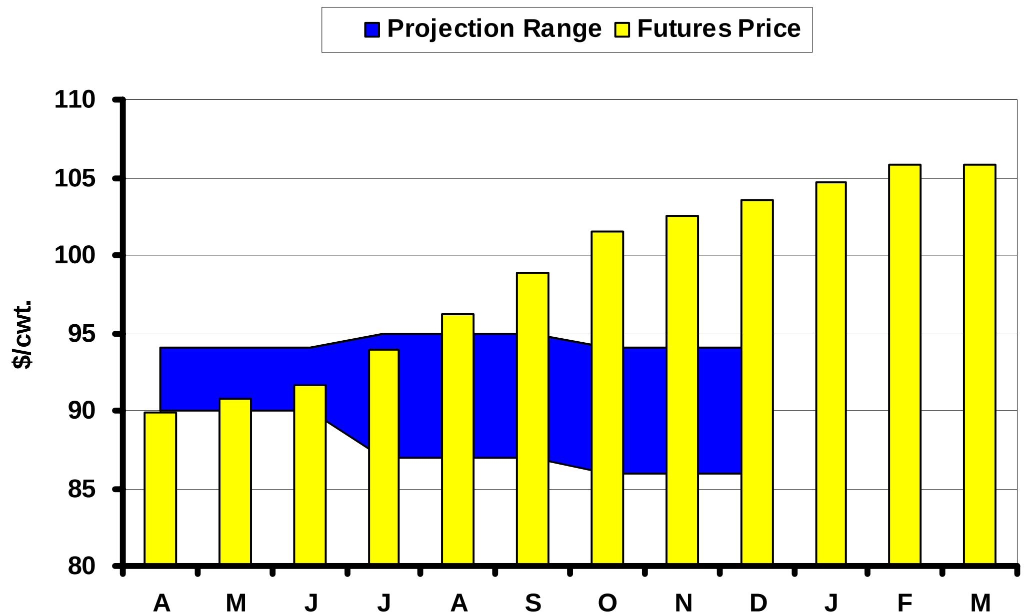
Fig. 4. U S RED MEAT & POULTRY CONSUMPTION

Per Capita, Boneless Weight, Annual



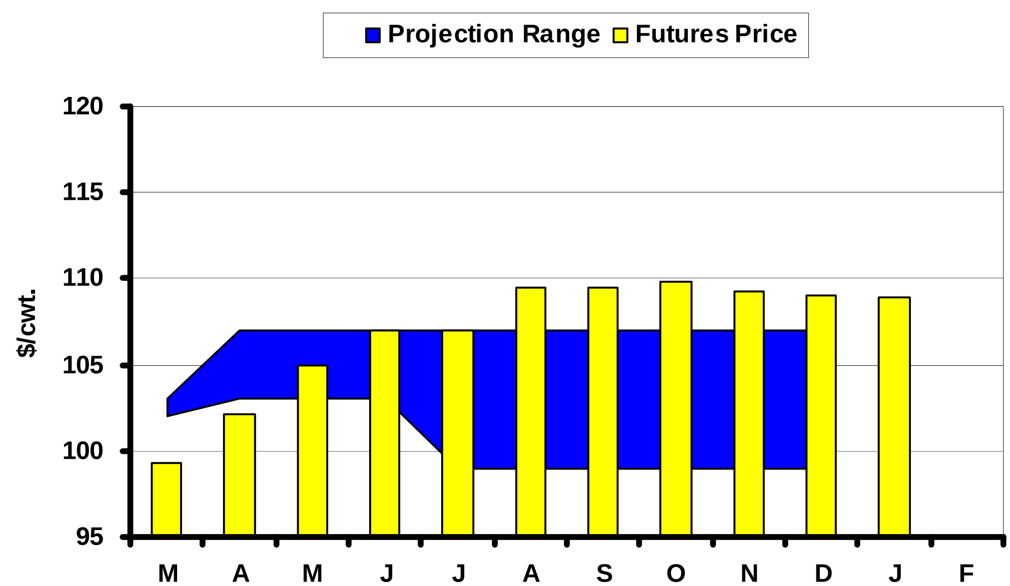
Source: LMIC

Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, March 11, 2008

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, March 19, 2008

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March 31: *Prospective Plantings* (NASS)
April 9: Live Cattle Projections (WASDE)
April 18: *Cattle on Feed* (NASS)

Live Cattle Futures, Monthly Average of Nearby Contract ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
2003	80.56	80.61	74.68	77.60	73.71	73.80	73.37	79.80	86.14	97.25	95.47	92.09
2004	77.18	77.20	79.39	83.14	83.52	83.88	85.44	84.92	84.50	86.71	85.68	88.32
2005	89.88	89.92	88.89	94.79	85.62	83.00	79.37	80.78	85.70	89.49	91.46	94.07
2006	95.43	91.34	83.85	80.65	76.87	81.56	84.08	87.14	90.72	89.40	86.60	86.88
2007	91.55	93.34	98.30	98.07	92.35	89.06	91.93	92.65	96.21	94.92	95.39	93.28
2008	92.09	92.00										

Source: CME. Note: The data reflect the average of the daily closes.

Sioux Falls Price - Slaughter Steers, Choice 2-3, 1300-1500# ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
2003	75.60	76.13	76.44	79.75	79.38	76.44	76.25	81.13	90.69	101.85	105.00	91.94
2004	82.38	77.88	86.70	88.44	89.75	88.00	83.69	83.50	81.70	82.44	81.75	85.95
2005	88.50	86.25	90.65	92.31	88.88	84.00	79.44	78.30	84.65	86.44	89.58	91.25
2006	93.81	89.31	85.85	81.31	81.33	81.75	80.89	84.00	87.00	85.88	83.81	84.13
2007	86.42	89.44	95.31	95.75	95.10	86.25	87.75	89.30	91.00	89.08	90.75	89.50
2008	88.50	88.75										

Source: USDA-AMS.

Sioux Falls Live Cattle Basis ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
2003	-4.96	-4.48	1.76	2.15	5.67	2.64	2.88	1.33	4.55	4.60	9.53	-0.15
2004	5.20	0.68	7.31	5.30	6.23	4.12	-1.75	-1.42	-2.80	-4.27	-3.93	-2.37
2005	-1.38	-3.67	1.76	-2.48	3.26	1.00	0.07	-2.48	-1.05	-3.05	-1.88	-2.82
2006	-1.62	-2.03	2.00	0.66	4.46	0.19	-3.19	-3.14	-3.72	-3.52	-2.79	-2.75
2007	-5.13	-3.90	-2.99	-2.32	2.75	-2.81	-4.18	-3.35	-5.21	-5.84	-4.64	-3.78
2008	-3.59	-3.25										

Note: The data reflect the difference between the monthly Sioux Falls' slaughter cattle price and the monthly average of the nearby live cattle futures prices.

Sioux Falls Price - Slaughter Cows, Commercial 2-4 ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
2003	42.20	45.50	46.75	51.00	54.17	54.50	54.90	57.50	60.44	60.75	58.33	60.50
2004	53.25	52.13	54.60	60.75	64.88	65.60	65.81	64.63	62.80	60.50	62.75	58.75
2005	61.67	58.47	64.40	65.50	67.38	66.75	64.56	58.50	60.17	57.38	58.95	59.88
2006	57.13	59.13	59.94	58.75	60.75	59.63	57.50	58.56	60.67	60.19	54.13	53.70
2007	52.50	55.58	56.83	62.75	62.88	62.25	64.00	64.30	62.50	60.83	60.50	58.25
2008	57.83	65.08										

Source: USDA-AMS. Note: December 2006 was estimated using the average spread over heavy breakers.

South Dakota Stocker Cattle Prices, Monthly Averages ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
2003	94.20	93.36	96.84	99.02	103.41	105.61	101.47	107.21	112.13	112.71	111.38	111.63
2004	110.80	108.25	114.59	117.22	123.88	135.57	133.68	141.20	129.81	126.50	121.59	122.32
2005	125.77	128.34	135.10	138.99	139.13	142.62	130.68	130.80	134.00	135.36	136.85	136.84
2006	140.59	138.06	136.10	131.46	130.54	131.67	134.42	133.57	137.13	123.49	113.16	115.15
2007	113.22	118.92	124.38	129.14	128.80	132.43	128.78	128.55	128.16	122.93	120.00	120.19
2008	117.32	123.80										

Source: USDA-AMS. Note: The data reflect a weighted average of 5-600# No. 1 medium and medium and large steers.

CME Feeder Cattle Index ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
2003	81.90	77.80	76.27	78.73	80.62	85.01	88.70	94.10	100.21	105.25	104.13	100.82
2004	89.40	86.96	90.10	93.70	103.21	112.00	116.15	117.54	114.15	113.82	108.89	106.22
2005	104.89	103.19	104.97	110.70	111.47	112.61	112.37	111.09	115.04	117.27	122.10	115.38
2006	113.60	109.60	103.69	101.67	97.13	110.16	114.62	115.70	117.94	110.26	100.71	99.85
2007	96.67	97.57	103.39	107.91	107.68	107.59	112.03	116.31	117.22	112.58	108.78	105.00
2008	98.79	102.79										

Source: CME. Note: The data reflect the average of the daily CME Feeder Cattle Index.

South Dakota Stocker Cattle Basis Relative to the CME Feeder Cattle Index ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
2003	12.30	15.56	20.57	20.29	22.79	20.60	12.77	13.11	11.92	7.46	7.25	10.81
2004	21.40	21.29	24.49	23.52	20.67	23.57	17.53	23.66	15.66	12.68	12.70	16.10
2005	20.88	25.15	30.13	28.29	27.66	30.01	18.31	19.71	18.96	18.09	14.75	21.46
2006	26.99	28.46	32.41	29.79	33.41	21.51	19.80	17.87	19.19	13.23	12.45	15.30
2007	16.55	21.35	20.99	21.23	21.12	24.84	16.75	12.24	10.94	10.35	11.22	15.19
2008	18.53	21.01										

Futures Markets

Live	2/22/2008	2/22/2008	Change	Feeder	2/22/2008	2/22/2008	Change
APR 08	90.67	93.98	-3.30	MAR 08	99.12	103.93	-4.80
JUN 08	90.97	94.40	-3.43	APR 08	104.02	107.30	-3.28
AUG 08	94.40	96.90	-2.50	MAY 08	107.35	110.65	-3.30
OCT 08	98.97	102.03	-3.06	AUG 08	110.80	112.00	-1.20
DEC 08	101.25	103.00	-1.75	SEP 08	111.40	112.13	-0.72
FEB 09	103.05	104.40	-1.35	OCT 08	111.00	112.25	-1.25
APR 09	103.07	103.75	-0.68	NOV 08	110.30	112.10	-1.80
JUN 09	100.25	101.45	-1.20	JAN 09	109.75	110.00	-0.25

Source: CME.