

Cattle Prices in 2014: Satisfaction Guaranteed, Right?

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It probably goes without saying that cattle prices in 2014 have set records for all classes of cattle from 300 pound steers and heifers to finished cattle to bred heifers to commercial cows destined for slaughter. That means satisfaction guaranteed, right? The classic economist answer of “it depends” comes into play when answering this question. To fully evaluate the question, a number of different viewpoints must be considered including the cow-calf producer, the stocker producer, the feedlot manager, and the packing facility.

The Cow-Calf Producer: Market prices for calves, feeder cattle and slaughter cows steadily increased the first ten months of 2014. Since January, 500 to 600 pound steer prices increased 41.9 percent from about \$171 per hundredweight (cwt) to \$243/cwt while 700 to 800 pound steer prices increased 45.6 percent from \$150/cwt to \$218/cwt. Similarly, prices for heifers weighing 400 to 500 pounds increased 49.7 percent since January from \$158/cwt to \$236/cwt while heifers weighing 600 to 700 pounds increased 49.9 percent from \$140/cwt to \$209/cwt. Not to be outdone, slaughter cow prices have increased 24.5 percent over the same time period and have hovered around \$105/cwt.

The aforementioned prices have meant record profits for cow-calf producers and there should be a few more years where cow-calf producers capitalize on high prices. However, it is not all good. Producers who are purchasing bred heifers or are retaining and developing heifers to enter the breeding herd are experiencing the most expensive replacement cattle prices. It could be difficult to profit from these animals because of the large upfront cost.

The Stocker Producer: Stocker producers are generally some of the first to capitalize on an increasing cattle market. Many stocker producers have been able to profit between \$300 and \$400 per head, because they have been able to sell 700 to 900 pound feeder cattle for the same price they paid for 400 to 500 pound calves. An increasing market is only beneficial to stocker producers until prices stagnate or start declining, because as soon as prices stagnate then margins become thin again. Additionally, not everything is beneficial when market prices increase. As market prices increase so does the cost of owning stocker cattle which makes death loss more expensive. This means it takes more profit from other animals to make up for the investment cost lost due to cattle mortality.

The Feedlot Manager: The feedlot manager or owner is in a similar situation to a stocker producer because they are also margin operators who continue to pay record high prices for feeder cattle. However, they have also been fortunate to market fed cattle at record prices most of the year. Margins have been very strong for more than a year, but many challenges lie ahead as most know that prices cannot continue on the current path forever which could lead to major losses on the cattle purchased when prices were at their peak. One more aspect that has benefited cattle feeders has been the lower corn and feed prices. This has allowed cattle feeders to pay more for feeder cattle and/or increase margins to a small degree.

The Packing Facility: The packing facility has continued to pay record prices for fed cattle while trying to push higher boxed beef prices to restaurants and retailers. Packers may be in the worst position of all in the industry at this time, because the price for which they can market beef is highly dependent on the consumer. The entire cattle and beef market is dependent on the consumer, but packing facilities are generally the first to take a hit due to being positioned

closest to the consumer. If consumers start overlooking the beef counter due to high prices then packers will likely take a hard hit which will then trickle down the line to everyone else.

So, is satisfaction guaranteed given 2014 cattle prices? It depends where one resides in the cattle business. Some producers may participate in more than one of the aforementioned positions which could obscure the answer a little more. For the most part, folks in the cattle business have been satisfied with the market progression the past year or so. However, I am the type of person that is never content with positive results, and I am flustered by negative results. Thus, I encourage each producer to continue evaluating management and marketing decisions to improve the overall quality and success of the business, because market conditions will not always be this favorable. There is nothing wrong with being proud of what has been accomplished, but if it causes one to stop striving to improve then it becomes an impediment to the objective.