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Net Return Prospects for Cattle Finishing in 2017

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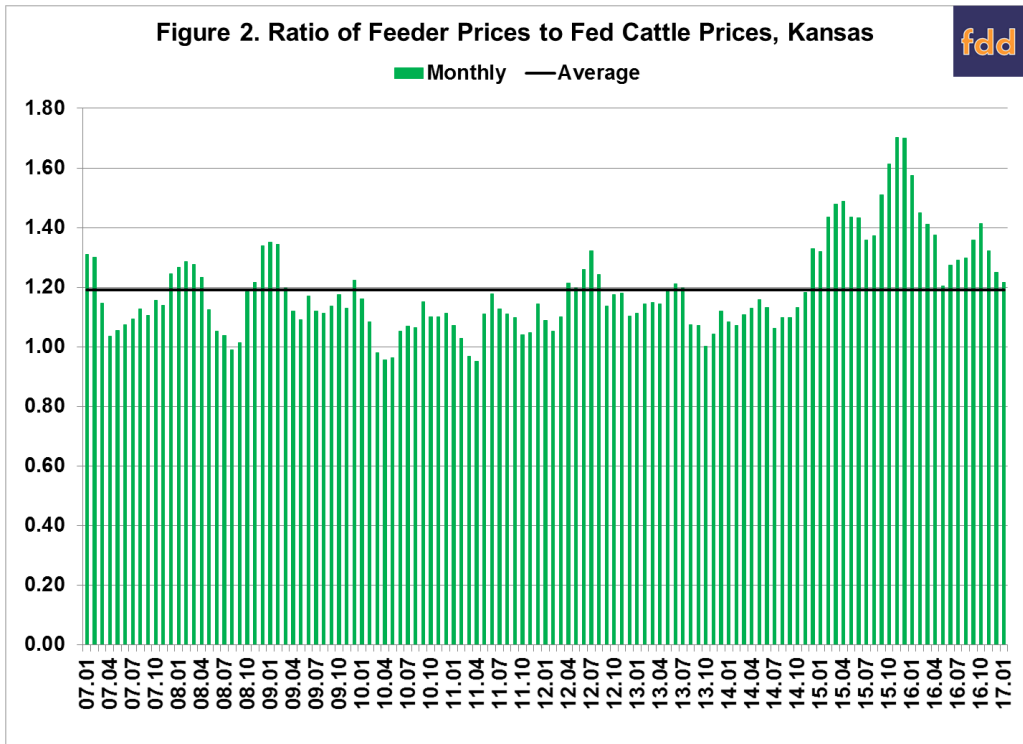
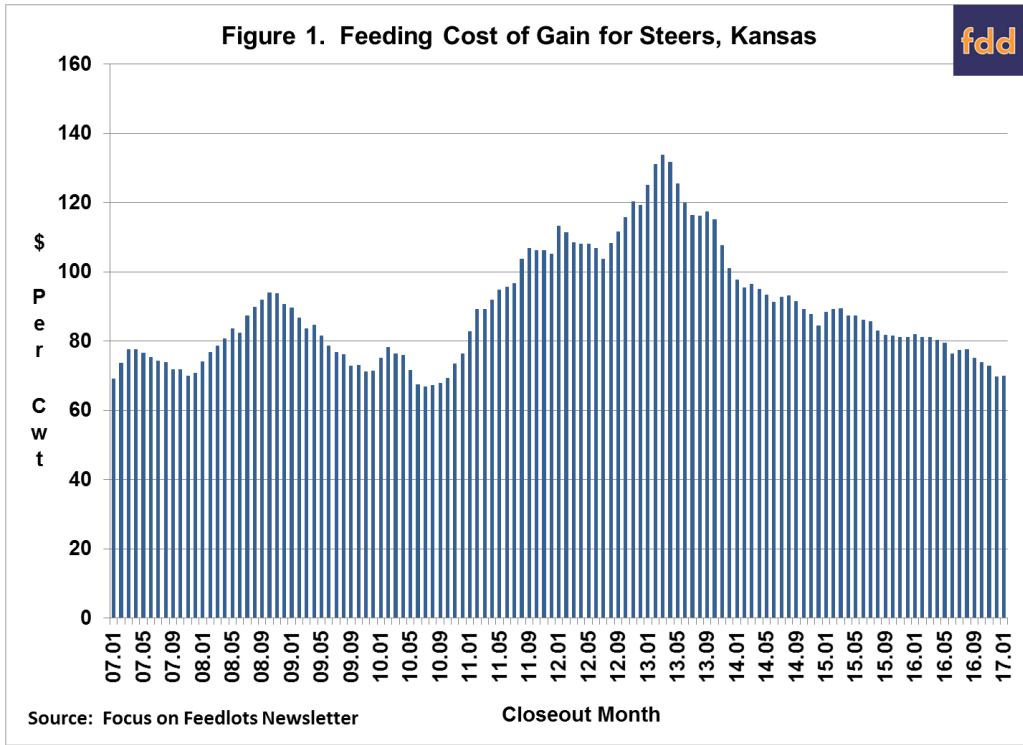
With the exception of May 2016, monthly fed cattle net returns were negative during 2015 and 2016. Current prospects for 2017 appear much brighter. In addition to discussing net return prospects for cattle finishing in 2017, this article discusses trends in feeding cost of gain and the feeder to fed price ratio.

Several data sources were used to compute net returns. Average daily gain, feed conversion, days on feed, in weight, out weight, and feeding cost of gain were obtained from monthly issues of the *Focus on Feedlots* newsletter. Futures prices for corn and seasonal feed conversion rates were used to project feeding cost of gain for the next several months. Net returns were computed using feeding cost of gain from monthly issues of the *Focus on Feedlots* newsletter, fed cattle prices and feeder cattle prices reported by the [Livestock Marketing Information Center](#) (LMIC), and interest rates from the Federal Reserve Bank of Kansas City.

A recent *farmdoc daily* article discussed the importance of feeding cost of gain and the feeder to fed price ratio to cattle finishing net returns. Given this importance, we discuss trends in feeding cost of gain and the feeder to fed price ratio before elaborating on net return prospects. Figure 1 illustrates monthly feeding cost of gain from January 2007 to January 2017. Feeding cost of gain averaged \$85.16 per cwt. in 2015 and \$77.20 per cwt. in 2016. In December of 2016 and January 2017, feeding cost of gain was approximately \$70 per cwt. Given current corn and alfalfa price projections, feeding cost of gain is expected to range from \$65 to \$70 for the rest of 2017.

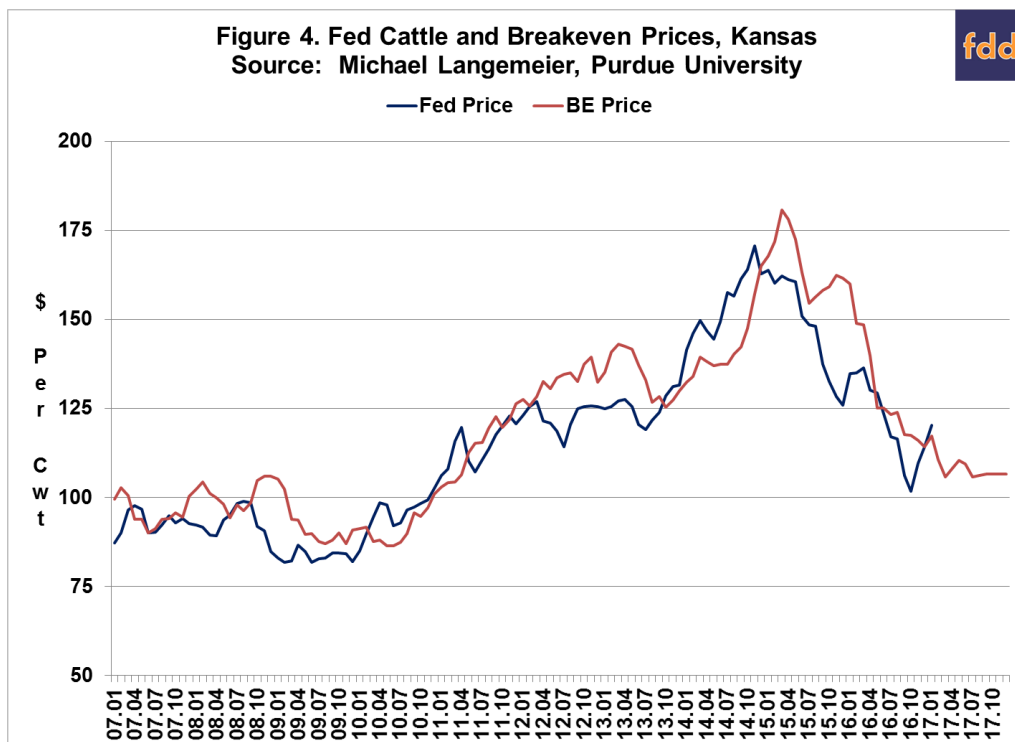
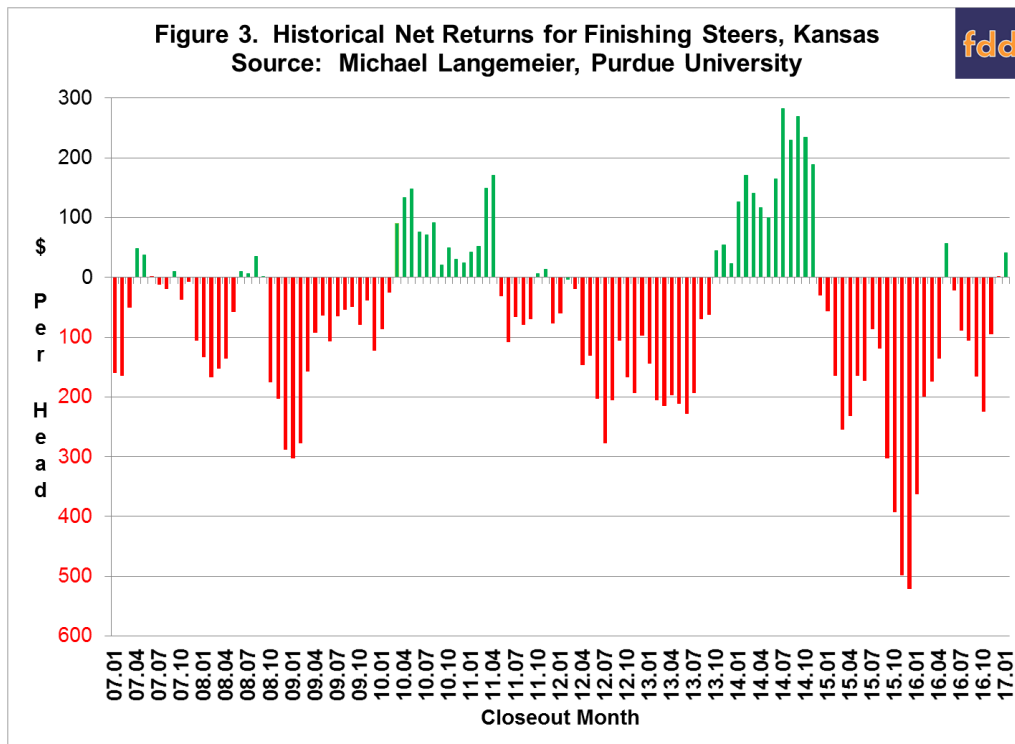
The ratio of feeder to fed cattle prices for the last ten years is illustrated in figure 2. During the ten-year period, this ratio averaged 1.19. The feeder to fed price ratio was one standard deviation below (above) this average for 11 (19) months during the ten-year period. The average net return for the months in which the ratio was below one standard deviation of the average was \$80 per head. In contrast, the average loss for the months in which the ratio was above one standard deviation was \$250 per head. Of the 19 months with a ratio above one standard deviation of the average feeder to fed price ratio, 17 of these months have occurred since January 2015. Now comes the good news. Given current price projections, the feeder to fed price ratio is expected to remain at or below the ten-year average for the rest of 2017. For February, March, and April, the feeder to fed price ratio is expected to remain below 1.15. These relatively low ratios, along with relatively low expected feeding cost of gain, improve net return prospects for these months. Of course, an unexpected drop in fed cattle prices, as occurred from August to December of 2015, and from August to October of 2016 would create a spike in the price ratio.

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Monthly steer finishing net returns from January 2007 to January 2017 are presented in Figure 3. It is important to note that net returns were computed using closeout months rather than placement months. Average losses in 2016 were \$126 per head, and ranged from a loss \$362 per head in January to a net return of \$57 per head in May. Net return per head for January 2017 was approximately \$40. Historical and breakeven prices for the last ten years, as well as projected breakeven prices for the rest of 2017, are illustrated in figure 4. Breakeven prices for February through June are expected to range from \$106 to \$110 per cwt. For the last six months of the year, breakeven prices are expected to range from \$105 to \$108 per cwt. Current fed cattle price projections suggest that the breakeven prices indicated above could result in at least modest net returns for most of 2017. Consistent with the relatively low expected

feeder to fed price ratios noted above, the highest net returns are expected for March, April, and May closeouts.



This article discussed recent trends in feeding cost of gain, the feeder to fed price ratio, and cattle finishing net returns. Current breakeven and fed cattle price projections create an environment that is at a minimum cautiously optimistic. After a disastrous 2015 and 2016, this is certainly welcome news. The strongest prospects for positive net returns in 2017 are associated with March through May closeouts.

References

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