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Red Ink Reappears in the Cattle Finishing Sector

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Cattle finishing net returns were positive from December 2016 through August 2017. Moreover, net returns were above \$300 per head during March, April, and May. During the period from December 2016 through August 2017, fed cattle prices ranged from approximately \$111 per cwt. in August 2017 to approximately \$138 per cwt. in May 2017. Recently, fed cattle prices have declined below \$110 per cwt. How does this price decline impact net return prospects? This article addresses this question and also discusses trends in feeding cost of gain and the feeder to fed cattle price ratio.

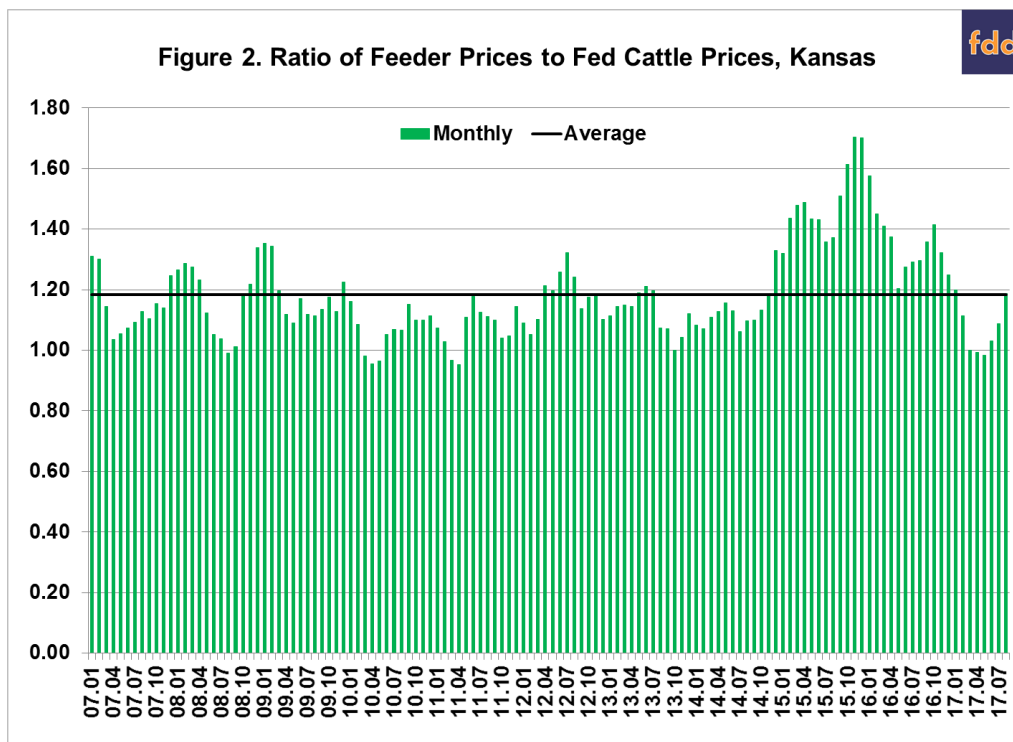
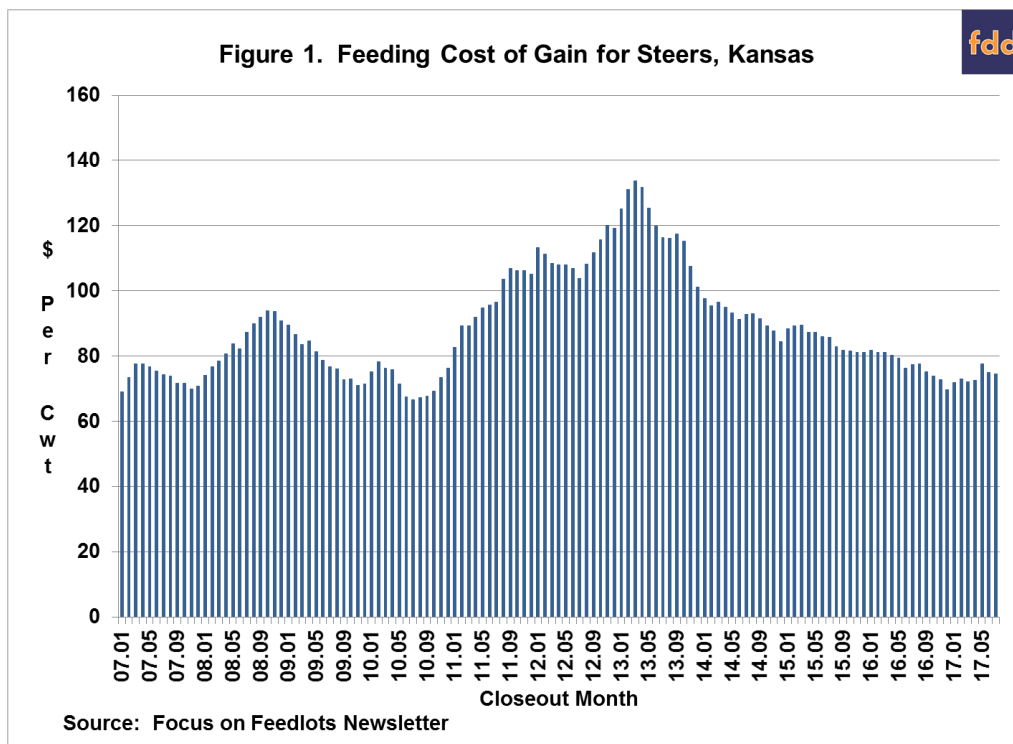
Several data sources were used to compute monthly net returns and losses. Average daily gain, feed conversion, days on feed, in weight, out weight, and feeding cost of gain were obtained from monthly issues of the *Focus on Feedlots* newsletter. Futures prices for corn and seasonal feed conversion rates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

Feeding cost of gain and the feeder to fed cattle price ratio have a large impact on cattle finishing net returns (*farmdoc daily*, October 13, 2016). 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 July 2017. Feeding cost of gain has ranged from \$71.83 to \$77.60 per cwt. so far in 2017. Given current corn and alfalfa price projections, feeding cost of gain is expected to range from \$70 to \$75 for the rest of 2017 and first quarter of 2018.

The ratio of feeder to fed cattle prices from January 2007 through August 2017 is illustrated in figure 2. Feeder and fed cattle prices were obtained from the [Livestock Market Information Center](#). During this period, this ratio averaged 1.183. The feeder to fed price ratio was one standard deviation below (above) this average for 13 (20) months during this period. The average net return for the months in which the ratio was below one standard deviation of the average was \$157 per head. In contrast, the average loss for the months in which the ratio was above one standard deviation of the average was \$251 per head. Four of the thirteen months with a relatively low feeder to fed price ratio have occurred in 2017 (March, April, May, and June). In 2017, the feeder to fed cattle was above the ten-year average in January and August, and below the ten-year average from February to July. Unfortunately, the projected feeder to fed cattle ratios for the rest of 2017 are above 1.30. Historically, when the ratio reaches these levels, net

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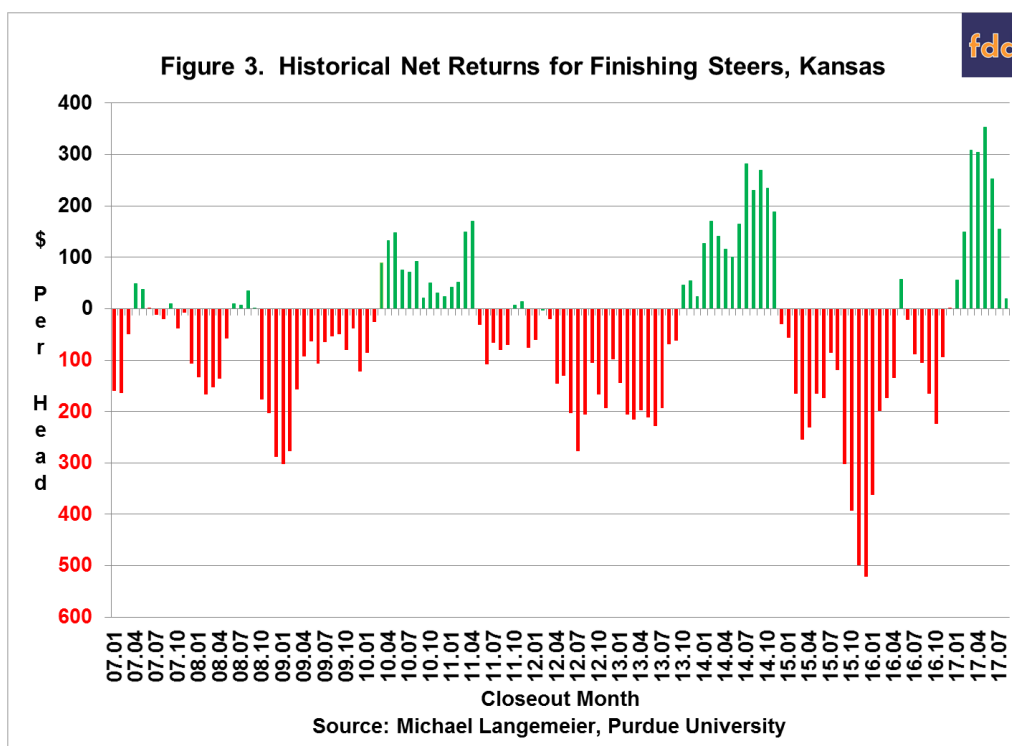
losses occur. The feeder to fed cattle ratio is expected to range from 1.25 to 1.30 in January and February of 2018, and from 1.15 to 1.20 in March.



Before discussing monthly cattle finishing net returns and losses, let us briefly discuss why the feeder to fed cattle price is expected to be relatively high for the rest of 2017. Months in which the ratio is close to average translate into net returns that are around the breakeven level. Months in which the ratio is relatively low or relatively high translate into large losses or large positive net returns. In general, ratios that are relatively low or relatively high result from unexpected changes in fed cattle prices. Large negative shocks in fed cattle prices, as occurred from August to December 2015 and from August to

October of 2016, create spikes in the price ratio. Conversely, large positive shocks, such as those experienced in early 2011 and the first few months of 2017, create sharp declines in the price ratio. Fed cattle prices dropped from \$130 per cwt. in June 2017 to \$119 per cwt. in July 2017 and \$111 per cwt. in August 2017. So far in September, fed cattle prices have been below \$110 per cwt. For the last quarter of 2017, the Livestock Marketing Information Center (LMIC) projects fed cattle prices to range from \$115 to \$116 per cwt. Due to relatively high feeder cattle prices for cattle finished in the last quarter of this year, the projected increase in fed cattle price from September levels is not expected to result in a drop in the feeder to fed cattle price ratio.

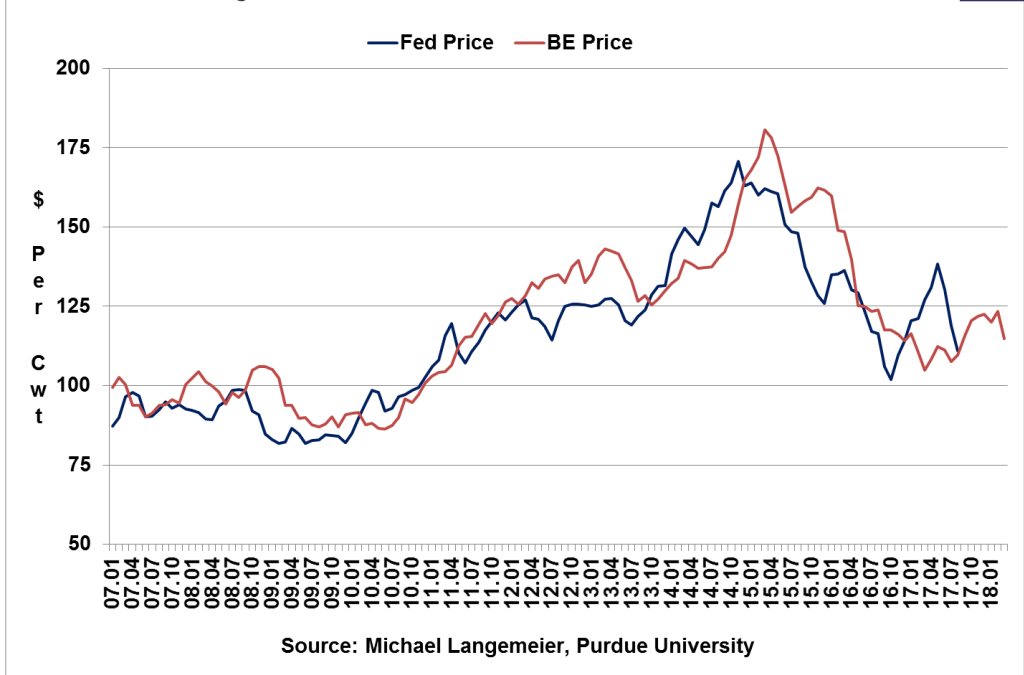
Monthly steer finishing net returns and losses from January 2007 to August 2017 are presented in Figure 3. It is important to note that net returns and losses were computed using closeout months rather than placement months. Average losses in 2016 were \$126 per head, and ranged from a loss \$362 per head in January to a net return of \$57 per head in May. Net return per head for the first eight months of 2017 have ranged from \$19 per head in August to \$353 per head in May.



Historical and breakeven prices for the last ten years, as well as projected breakeven prices through the first quarter of 2018, are illustrated in figure 4. Breakeven prices for September are expected to range from \$114 to \$117 per cwt. For the last quarter of the year, breakeven prices are expected to range from \$120 to \$123 per cwt. For the first quarter of next year, breakeven prices are expected to range from \$120 to \$124 per cwt. in January and February, and from \$113 to \$116 per cwt. in March. Current fed cattle price projections suggest that breakeven prices for the last four months of this year will be above fed cattle prices. Losses per head in September are expected to range from \$120 to \$150 per head. For the fourth quarter of 2017, losses per head are expected to range from \$60 to \$100 per head. At this time, it appears that net returns for the first quarter of 2018 will be closer to breakeven.

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 pessimistic. After strong net returns during the first half of this year, this is disappointing news.

Figure 4. Fed Cattle and Breakeven Prices, Kansas



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