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Ethanol, Corn Price and Weather Shifting Cattle Feeding North

Darrell R. Mark

University of Nebraska-Lincoln

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CORNHUSKER ECONOMICS

March 28, 2007

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://www.agecon.unl.edu/Cornhuskereconomics.html>

Ethanol, Corn Price and Weather Shifting Cattle Feeding North

Market Report	Yr Ago	4 Wks Ago	3/23/07
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$86.29	\$89.75	\$97.67
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	*	116.54	124.72
Nebraska Feeder Steers, Calves Med. & Large Frame 750-800 lb	*	96.96	105.28
Choice Boxed Beef, 600-750 lb. Carcass	142.22	152.24	161.66
Western Corn Belt Base Hog Price Carcass, Negotiated	53.43	62.97	57.01
Feeder Pigs, National Direct 50 lbs, FOB	53.94	70.96	69.67
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	60.47	70.46	65.11
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct	70.00	86.38	85.87
National Carcass Lamb Cutout, FOB	215.54	245.11	247.14
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	3.58	4.57	4.42
Corn, No. 2, Yellow Omaha, bu	1.86	4.11	3.78
Soybeans, No. 1, Yellow Omaha, bu	5.33	7.32	7.29
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.59	6.66	6.21
Oats, No. 2, Heavy Minneapolis, MN, bu	1.94	2.78	2.97
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	130.00	*	*
Alfalfa, Large Rounds, Good Platte Valley, ton	65.00	*	*
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	55.00	*	*
* No market.			

Traditionally, Texas, Kansas and Nebraska have ranked as the top three cattle feeding states, in that order, amongst feedyards with 1,000+ head capacities (see Figure 1 on next page). A unique combination of severe winter weather, high corn prices and the rapidly increasing production of ethanol byproducts may have been shifting that pattern in recent months. Cattle on feed data show that Nebraska has had the second largest number of cattle on feed in lots with 1,000+ head capacities since February 1. This resulted from a 22 percent increase in feed numbers since September 2006 in Nebraska. Interestingly, other Northern Plains feedyards saw increases as well. Iowa and South Dakota on feed inventories increased 16 percent and 48 percent, respectively, during this time period. Texas inventory declined 6 percent since September 1, 2006 and Kansas and Oklahoma increased inventory by less than 2 percent (the U.S. average was a 5.6 percent increase during this six-month time period).

Figure 2 (on next page) shows cattle on feed placements expressed as a percent of the previous year for September 2006 through February 2007 for selected states. While conclusive trends are not evident from this data, in many cases placements in the Southern Plains states like Texas, Oklahoma and Kansas generally saw the largest decreases relative to last year or the smallest increases. Conversely, Northern Plains states like Nebraska, Iowa and South Dakota generally posted smaller placement declines or bigger increases during these past six months.

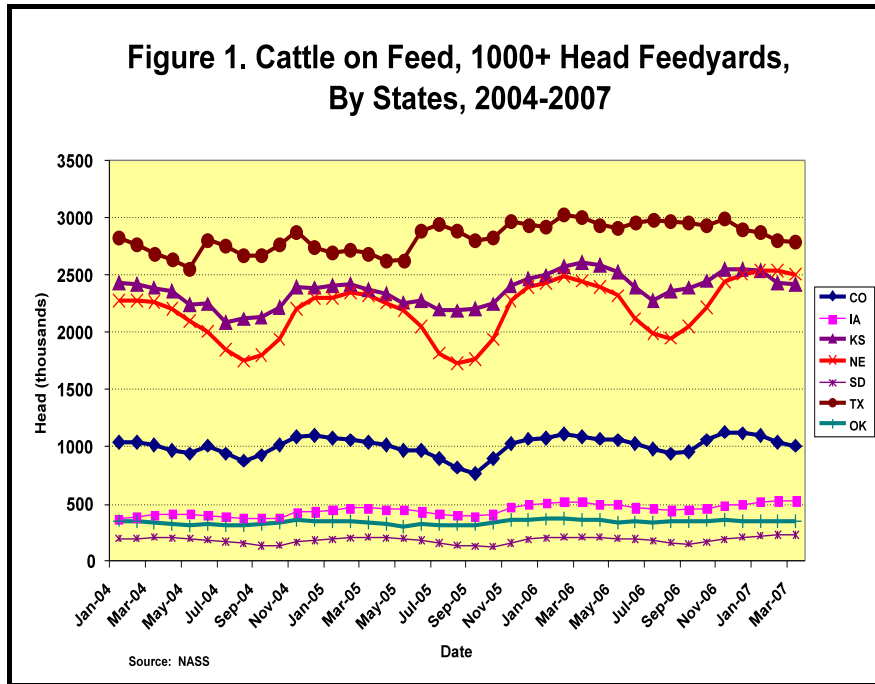
This data seems to indicate that cattle feeding may have been moving north during this past winter – at least temporarily. The competitive advantage for cattle feeding likely has shifted to the Northern Plains states recently for several reasons. First, successive winter storms from December through February hit Southern Plains states hard, causing tough pen conditions and substantially lowering feeding performance. As a result, southern feeders placed fewer cattle on feed. While storms did impact cattle feeders on the



Northern Plains too, it was later in the winter and likely only affected February placements.

A second reason for the shift in placements and on feed numbers is cost of gain differences between the Northern and Southern Plains. While part of the higher cost of gain in the south is due to lower than normal feeding performance due to Southern Plains winter weather this year, the impact of high corn prices affects southern feeders the most. For example, the average corn price in the Texas Triangle area was \$3.81/bu. from September through March, \$0.52/bu. higher than the average Omaha, NE price during that time. Typically, Southern Plains feeders can afford to feed higher priced corn (reflecting transportation costs from the Corn Belt) because cattle feeding performance in the winter months exceeds that in the Northern Plains. However, that better performance didn't materialize this winter.

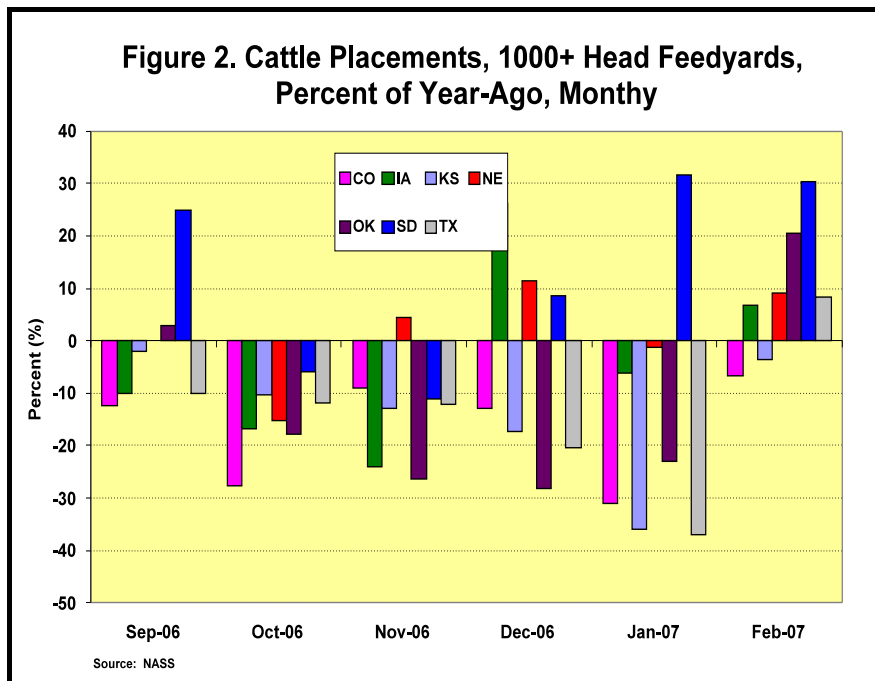
Another advantage cattle feeders in Nebraska, Iowa and South Dakota have is their proximity to ethanol plants that supply wet and dry distillers grains which are used for feed. While these feed byproducts can be shipped to the Southern Plains, bulk and moisture content lead to cost disadvantages for feedyards located farther from ethanol plants. Also important is that feeding ethanol byproducts, particularly wet distillers grains, typically results in significant improvements in cattle feeding performance. This helps in lowering cost of gain, and can improve cattle feeding profits by as much as \$30 per head according to UNL research.



The extent to which these geographic shifts in cattle numbers will continue or become permanent isn't yet known. Certainly, long-term weather conditions will eventually return, or construction of ethanol plants in the Southern Plains could enable those feeders to reap some of the benefits of feeding ethanol byproducts. Interestingly, early planting reports the Southern Plains to have performance advantages for winter

feeding. And, improvements in transportation logistics suggest that additional corn acreage is currently being planted in the Southern and Southeastern U.S. If this acreage switch becomes

permanent, it could make ethanol production more feasible on the Southern Plains, and simultaneously benefit cattle feeders in the area. For now, though, the competitive advantage, or "Golden Triangle" of Cattle/Corn/ Ethanol production, seems to favor the Northern Plains.



Darrell R. Mark, (402) 472-1796
 Asst. Professor & Extension Livestock Marketing Specialist
 Dept. of Ag Economics
 University of Nebraska-Lincoln
dmark2@unl.edu