

March 2014 – Livestock Market Update
Public Policy Department
Budget & Economic Analysis Team



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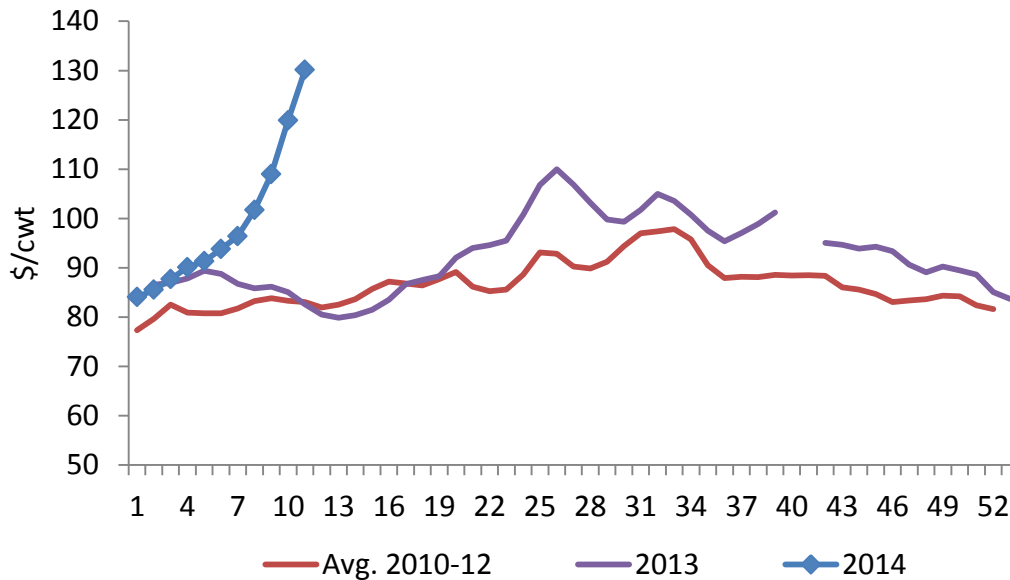
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Livestock Update

Wholesale Meat Prices on the Rise

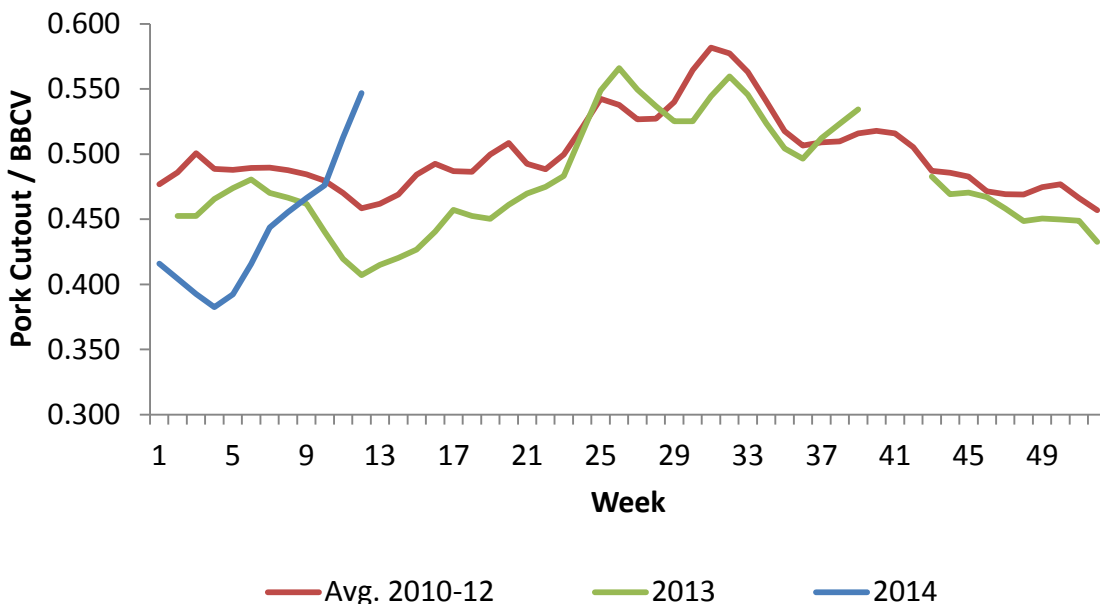
Wholesale meat prices are in the process of wrapping up a very strong first quarter performance. While beef wholesale values did slip just a touch last week, this does little to diminish the impressive run that both of these markets have been on for the last several weeks. This is particularly true for pork. The wholesale pork cutout value has increased by over 50 percent since the beginning of the year. For the week last week, the pork cutout averaged over \$130/cwt, an astonishing level. The recent history of the pork cutout is illustrated in Figure 1.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.
Figure 1. Weekly Average Pork Cutout Value

The pork cutout value is currently higher than its highest level from last summer, when it peaked at just under \$110/cwt. This raises the question of where this summer's prices are likely to go. From last week's record price point, a normal seasonal increase would put the cutout at somewhere just north of \$150. Of course, this has not been a seasonally "normal" year to this point, so there is no good reason to expect normal from here forward. We might look to Lean Hog futures for some guidance. Through last Friday, the June Lean Hog contract was trading at around \$130. Last year for the month of June, the pork cutout was just about equal to the average producer sold base price for barrows and gilts. Assuming that relationship repeats this year, the June Lean Hog price would provide a direct estimate of the summer cutout. A more typical market hog/cutout spread would put current expectations for the summer cutout six or eight dollars over that. That is obviously a high price level. How realistic is it? Who knows? Six weeks ago, how realistic would a March 21 cutout of over \$130 have sounded? That's the thing about being in uncharted territory in a market – it's hard to know what numbers really make sense.

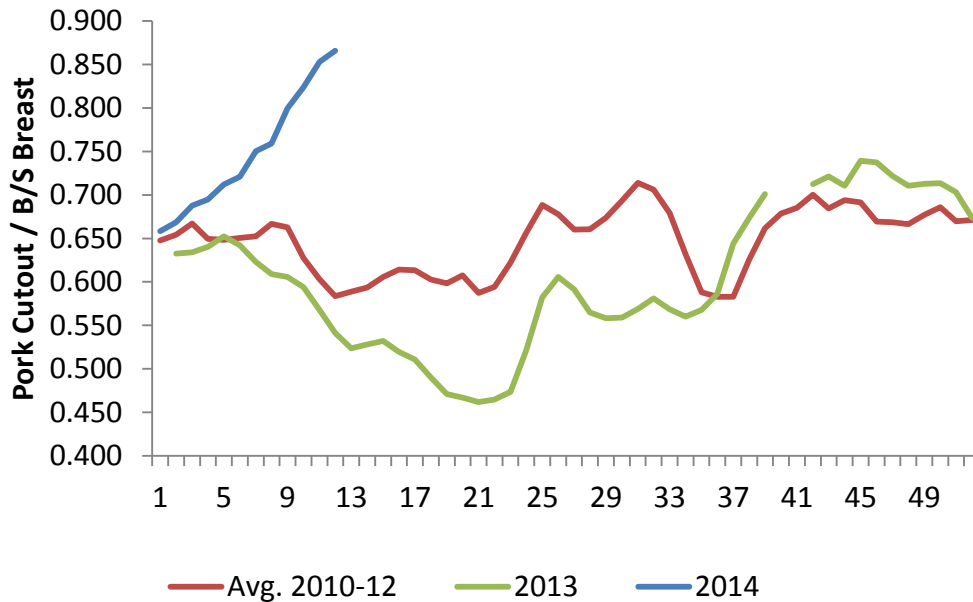
One feature in the market that would argue for some caution in regard to the pork cutout's path forward from here is the relative price of pork versus competing meats. It is true that wholesale beef prices have also fared well in recent weeks. For the week ending March 14, the weekly average Choice beef cutout exceeded the \$240/cwt mark for the first time ever. But in relative price terms, pork has gained a lot of ground on beef in the first quarter of this year. Figure 2 shows this relative price relationship, plotting the ratio of the pork cutout to the comprehensive beef cutout on a weekly basis. Note that with this construction of the price ratio, an increase in the number signifies that pork has become more expensive relative to beef.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

Figure 2. Relative Weekly Wholesale Prices for Pork and Beef: Weekly Pork Cutout / Weekly Comprehensive Beef Cutout

Clearly, pork has gained on beef since early this year in terms of relative price. Seasonally, pork is quite a bit more expensive relative to beef than normal; however, it is still less expensive relative to beef than it is in a typical summer (when beef demand tends to be strong). So the increase in pork price relative to beef may be something of a limiting factor moving forward, but it is obviously not a major issue at this point. On the other hand, the relationship of pork to chicken prices really has become rather unusual. Figure 3 shows the relative wholesale price of pork and chicken, with the price ratio constructed as described above except with the boneless/skinless (B/S) chicken breast price in place of the comprehensive beef cutout.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

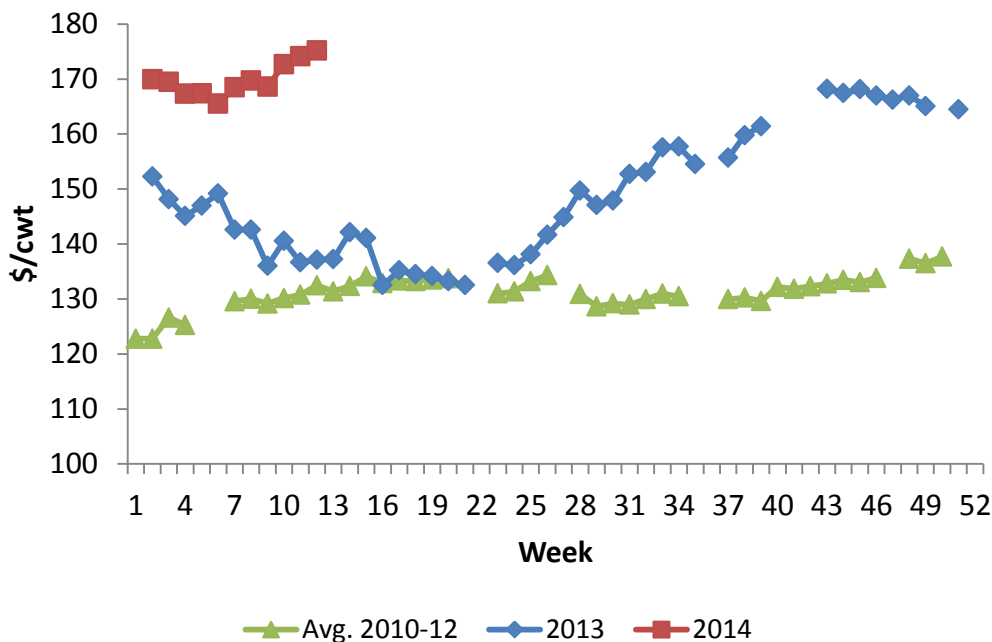
Figure 3. Relative Weekly Wholesale Prices for Pork and Chicken: Weekly Pork Cutout / Weekly Wholesale Boneless/Skinless Chicken Breast Price

Pork has been this expensive relative to chicken before (in late-summer 2011), but these relative prices between pork and chicken are very close to their historic extreme. Clearly it is not necessary for pork prices to fall in order to restore a more typical relationship between pork and chicken prices at this point; it may be that chicken prices increase. In fact, chicken prices have increased markedly over the past month, just not as fast as pork prices. The bottom line here is that pork has quickly become a good bit more expensive than its competition so far this year. Any substantial further price gains in pork will most likely have to be matched (or exceeded) by gains in competing meat prices.

Feeder Calf Price Update

Stocker and feeder calf prices finished very strong in 2013 and, through the first quarter this year, there has not been much let-up in those markets. Last week, 750-800 pound feeder steers (Med. & Large, #1) at Oklahoma City sold for an average price of over \$172/cwt. That was the highest price on that class of cattle for the year. There are a number of factors at work in last week's strong price performance. First, as the previous section suggests, prices are high all along the supply chain for beef as well as for other meats. As a rising tide lifts all boats, the

factors that are supporting high wholesale meat prices are working on upstream markets too. Second, some seasonal strength in the market is to be expected. While heavier feeder classes aren't directly influenced too much by grazing demand, the increased competition on lighter cattle and medium weight cattle with some turn-out potential left in them necessarily also increases the competition on feeders as well. Finally, there may have still been some buyers in the market trying to play catch-up from some the recent weather difficulties over much of the country that have made trading cattle difficult. Figure 4 shows OKC feeder steer prices (700-800 pounds, M&L, #1) for this year compared with last year and the 2010-12 three-year average.



Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

Figure 4. Weekly Oklahoma City Feeder Steer Prices: Medium & Large, Number 1, 700 – 800 Pounds

Cattle on Feed Leans Bearish for Second Straight Month

Last Friday, USDA released the latest *Cattle on Feed* report. Headline numbers from the report are summarized below:

Table 1. March *Cattle on Feed* Summary: Actual Figures vs. Pre-Report Estimates

	1,000 head	% of Previous Year	Pre-Report Estimates* Average	Pre-Report Estimates* Range
February Placements	1,650	114.7	109.1	102.2 – 118.2
February Marketings	1,549	96.6	97.1	96.0 – 100.1
March 1 On-Feed	10,790	99.5	98.8	96.6 – 100.1

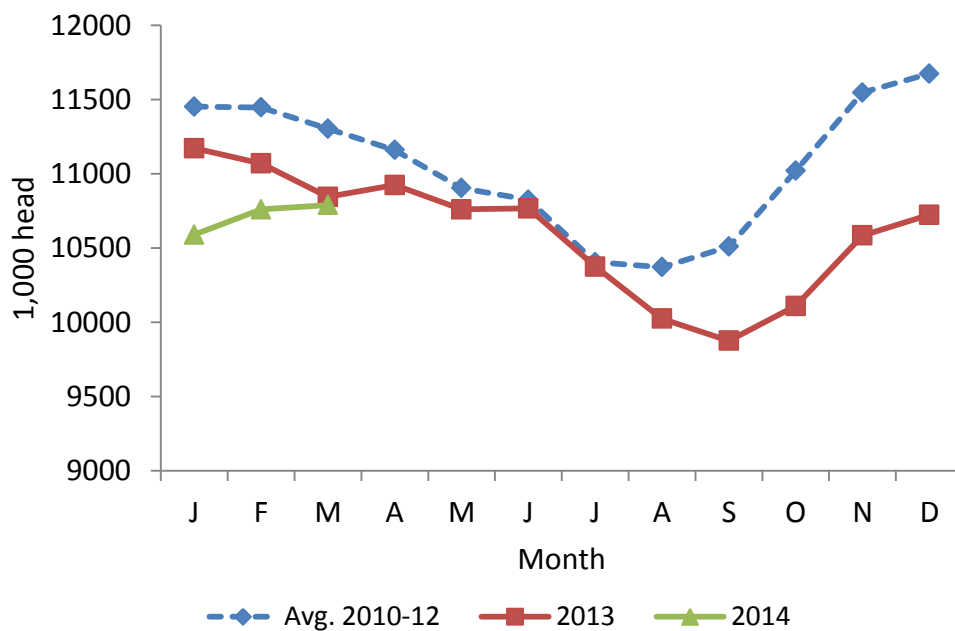
*Source: Uner-Barry through the Livestock Marketing Information Center.

Similar to last month's report, this month's on-feed report was on the bearish side pretty much across the board. Placements and the on-feed inventory were well to the high side of

expectations while marketings were well to the low side. Now, it is certainly worth noting that last year's placements were very small. February 2013 placements were, coincidentally, 14 percent below 2012's figure and were the smallest for that month since this *COF* series began in 1996. With that context, then, the placement number doesn't seem too bad. It is essentially right in line with average placements in the 2010-12 period, though that was a period of time in which we had more calves to draw from. In short, the placement figure is not as big as it might seem at first blush, but it is still pretty big.

With respect to marketings, the February figure is probably a bit better than it looks. While marketings were off by about 3.5 percent from the prior year – considered as a percent of the beginning on-feed inventory – they were essentially even with a year ago. Going a bit further, if you look at marketings as a percent of the calculated inventory of cattle with over 120 days on feed, marketings last month (and in January) were not only above the prior year's pace but also above the 2010-12 average pace. In that context, the pace of fed cattle marketing appears more than sufficient to keep inventories current, as should be expected when buyers are paying record prices for available supplies.

The last couple of months of relatively large placements has pulled the on-feed inventory back up to just about even with a year ago, though still well below the 2010-12 average, as illustrated in Figure 5 below:



Data Source: USDA National Agricultural Statistics Service.

Figure 5. Monthly Inventory of Cattle on Feed: 1,000+ Head Capacity Lots

Placements were up in every weight category, with large increases (>10 percent) in all but the 700-799 pound weight category. Placements of cattle over 800 pounds were up by 17 percent from a year ago. Given record prices, it would not be surprising if this number does not include a good many heifers for which the option to sell rather than retain is being exercised.