

Cattle Finishing Net Returns in 2017 – A Bit Different from a Year Ago

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With the exception of May 2016, monthly fed cattle net returns were negative from December 2014 through November 2016. As noted in Langemeier (2016), prospects for 2017 appear much brighter. This article discusses prospects for feeding cost of gain, the feeder to fed cattle price ratio, and cattle finishing net returns.

Several data sources were used to compute monthly 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. Net returns 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.

A recent *farmdoc* article discussed the importance of feeding cost of gain and the feeder to fed price ratio to cattle finishing net returns (Langemeier, 2017). 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 March 2017. Feeding cost of gain averaged \$85.16 per cwt. in 2015 and \$77.20 per cwt. in 2016. In the first three months of 2017, feeding cost of gain ranged from \$71.83 to \$73.05 per cwt. Given current corn and alfalfa price projections, feeding cost of gain is expected to range from \$70 to \$75 for the rest of 2017.

The ratio of feeder to fed cattle prices from January 2007 through March 2017 is illustrated in figure 2. During this period, this ratio averaged 1.19. The feeder to fed price ratio was one standard deviation below (above) this average for 10 (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 \$87 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. Of the 20 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 for the good news. In March 2017, the feeder to fed cattle ratio was below one standard deviation of the 1.19 average. Moreover, given current price projections, the feeder to fed price ratio is expected to remain at or below the ten-year average through August 2017. For April, May, June, and July, the feeder to fed price ratio is expected to remain below 1.10. These relatively low ratios, along with relatively low expected feeding cost of gain, translate into some excellent net return prospects for these months. Of course, an

unexpected drop in fed cattle prices would create a spike in the price ratio, dampening net return prospects.

Before discussing monthly cattle finishing net returns, let us briefly discuss why the feeder to fed cattle price is expected to be so low from March 2017 through July 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 improved from approximately \$120 per cwt. in January 2017 to approximately \$130 per cwt. in April 2017. At the same time, feeder cattle prices for January through April closeouts fell from \$145 per cwt. in January to \$130 in April. The price changes noted above resulted in a sharp decline in the feeder to fed cattle price ratio and a dramatic improvement in net return prospects.

Monthly steer finishing net returns from January 2007 to March 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, February, and March of 2017 were approximately \$56, \$149, and \$308, respectively. The net return in March represents the first time since November 2003 that monthly net return has been above \$300 per head.

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 April through August are expected to range from \$106 to \$110 per cwt. For the last four months of the year, breakeven prices are expected to range from \$113 to \$116 per cwt. Current fed cattle price projections suggest that the breakeven prices indicated above could result in strong net returns through August, with net returns being particularly strong through June (i.e., exceeding \$150 per head). At this time, at least modest net returns are expected for the last four months of 2017. However, if feeder cattle prices continue to strengthen, net return prospects for the last quarter of 2017 will weaken.

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 optimistic through August and cautiously optimistic through the rest of 2017. After a disastrous 2015 and 2016, this is certainly welcome news.

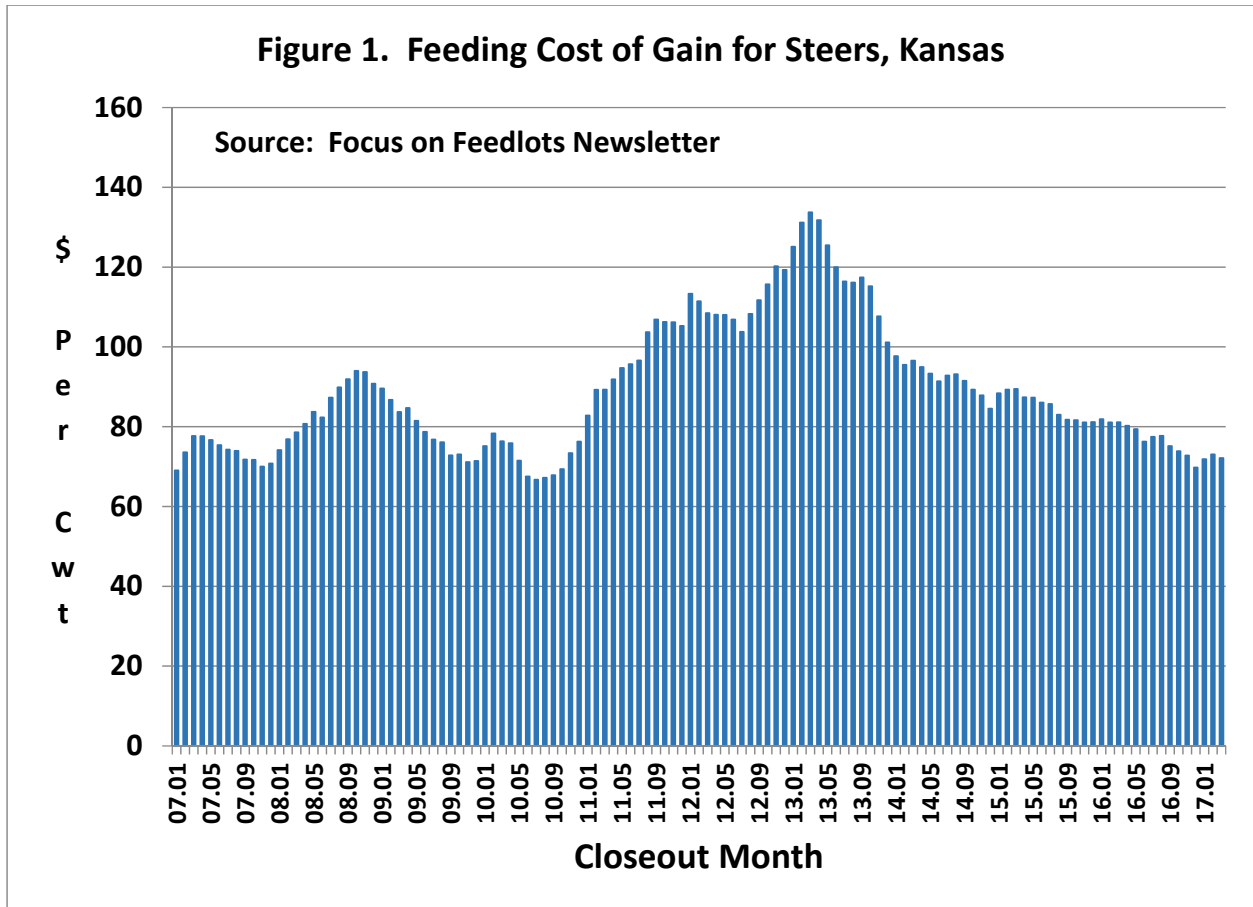
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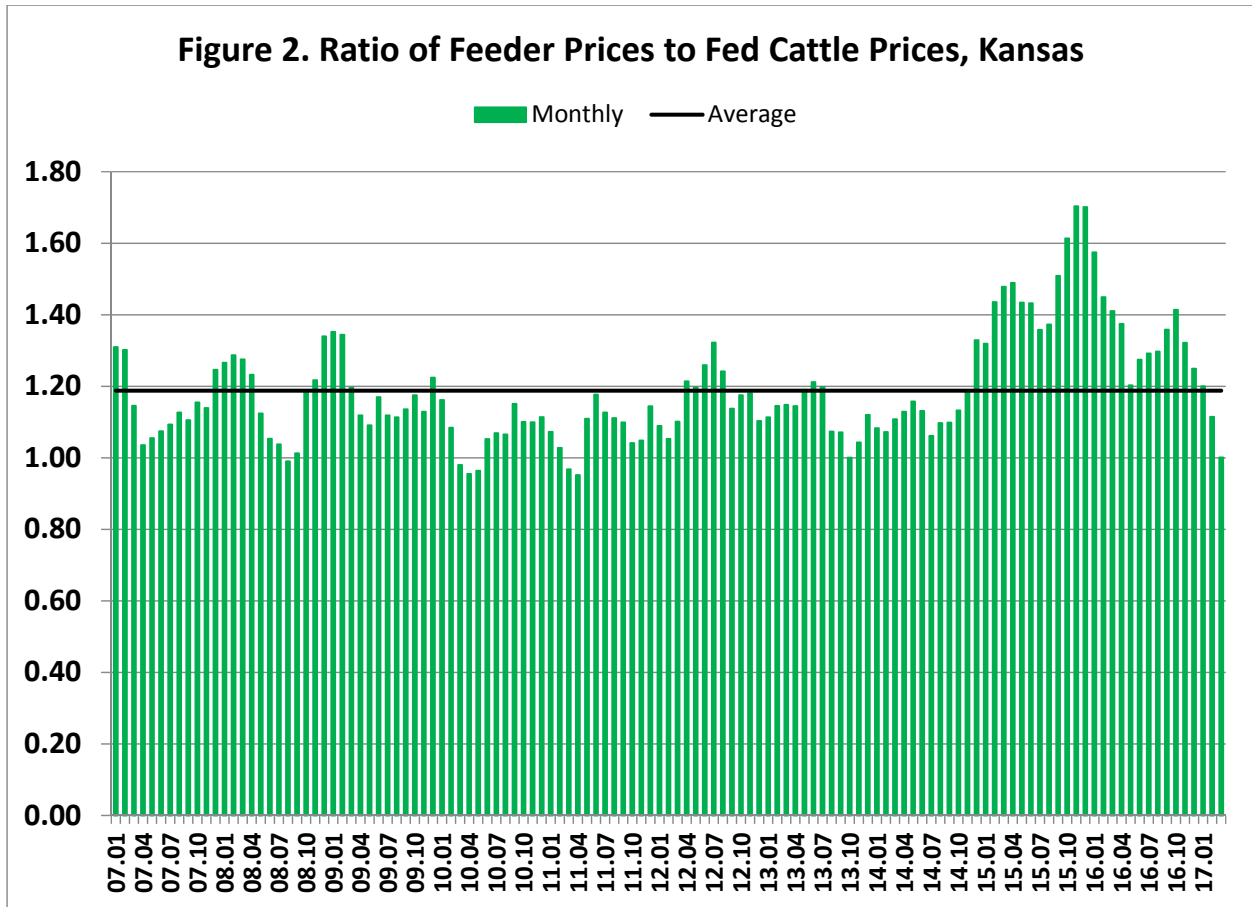
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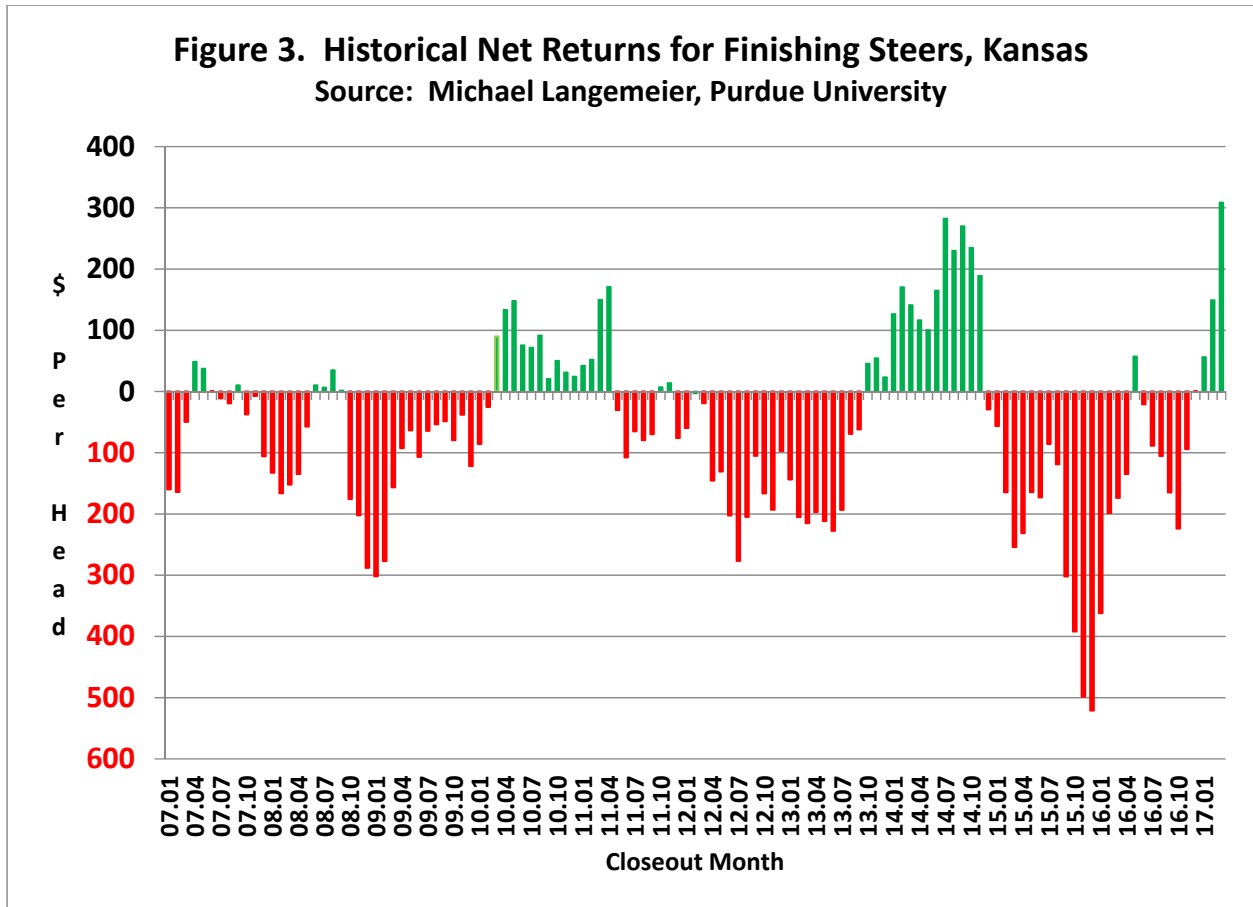


Figure 4. Fed Cattle and Breakeven Prices, Kansas
 Source: Michael Langemeier, Purdue University

