



Market Advisor

► by **Tim Petry**, livestock marketing economist, North Dakota State University

Will price volatility continue in 2008?

The short answer to the headline question is yes. However, each market class of cattle has unique fundamental factors that will affect the price level and the degree of volatility.

Volatile corn prices

A major factor that will continue to affect calf and yearling prices is the price of corn. Cash corn prices in the Northern Plains averaged about \$1.20 per bushel (bu.) higher in 2007 (\$3.50) than in 2006 (\$2.30). A rule of thumb is that a 10¢-per-bu. change in corn prices causes a \$1-per-hundredweight (cwt.) change in the opposite direction in feeder-calf prices.

Corn prices experienced much volatility in 2007 and may be even more volatile in 2008.

Increasing corn demand for ethanol production and the competition for planted acres from soybeans, wheat and other crops is fueling prices.

2007 corn prices started the year about \$3.35 per bu., increased 75¢ to \$4.10 by the end of February, decreased 75¢ back to \$3.35 by mid-May, and then went back up to \$4.10 by mid-July. A decline of \$1.10 per bu. occurred by mid-September, taking the price to \$3.00, but prices went up to \$3.45 by the end of September, and back down to \$3.00 early in October. From the harvest lows in October to the end of December prices rallied \$1.25 per bu. to close the year sharply higher at \$4.25.

Planted acres of corn increased from 78.3 million acres in 2006 to 93.6 million in 2007. However, with the relatively high current prices for wheat and soybeans, corn acreage is expected to decline in 2008. As reports about expected plantings and weather conditions in the Corn Belt, as well as other countries, are released, the grain and oilseed markets will be volatile. The U.S. Department of Agriculture (USDA) Prospective Plantings report will be released March 31, but several private forecasts will come out before that.

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Calf prices

Prices for 550-600-pound (lb.) steer calves in the Northern Plains averaged about \$5 per cwt. lower in 2007 than in 2006 due to higher corn prices. However, during the fall marketing season (October-December), prices averaged \$2.50 higher than in 2006, with stronger fed-cattle prices offering support.

Volatility was evident with prices starting the year at \$110 per cwt. in January, moving higher to average \$125 in the second quarter (April-September), but falling back to \$112 by year's end.

Prices for 750-800-lb. feeder steers averaged about \$2 per cwt. lower in 2007 than in 2006, but were \$2 higher during the fourth quarter (October-December).

Prices in 2007 reached lows at \$95 per cwt. in February and March when corn was more than \$4 per bu., but increased nicely to \$116 in early October when corn hit the \$3 harvest low and fed-cattle prices reached \$95 per cwt. Prices fell throughout the fall to \$100 in late December as corn increased to more than \$4, fed cattle fell back to the low \$90s, and adverse winter weather in Colorado, Kansas, and Nebraska reduced feedlot demand in late December.

Prices for both classes of feeder cattle would have been lower due to the higher corn prices if fed cattle had not been record-high in 2007. Fed-cattle prices in 2007 averaged about \$6.50 per cwt. higher than the previous year.

Price volatility in fed-cattle prices was caused by struggles with Korean and Japanese markets, issues with the U.S. economy, prices of competing meats, and the aggressiveness of a new packer, JBS-Friboi, which purchased Swift and Co.

After lows in late January at \$86 per cwt., prices steadily increased to the \$100

level in early April with increasing export demand and high broiler prices. Fed-cattle prices retreated back to \$86 in late June with increasing harvest levels and problems with meeting beef export specifications in Korea and Japan. Prices climbed back to \$95 by the end of September, but averaged \$92.50 in the fourth quarter (October-December) as supplies of chicken and pork increased and the economy struggled.

Beef production in 2008 will be close to 2007 levels, so price volatility will come from the demand side. General weakness in the U.S. economy, high pork and chicken production, and uncertainty in the beef export market will affect prices.

Cow prices

Cow prices also were record-high, but they provided a roller-coaster ride in 2007. Prices started the year in the mid-\$40s, climbed to the mid-\$50s during the summer, and plummeted during September and October back to the mid-\$40s as competing chicken prices fell, hamburger was recalled in the retail market, and cow harvest increased both seasonally and due to the drought in the southeastern U.S.

Prices further declined to the low \$40s the week before Nov. 19 because U.S. producers marketed many cows ahead of the Canadian border opening to cattle more than 30 months of age. Prices recovered back to the mid-\$40s in December.

Cow prices should be relatively high again in 2008 as long as widespread drought does not materialize but could again experience large seasonal swings.

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Editor's Note: Addressing marketing issues affecting the livestock industry, "Market Advisor" is a monthly column distributed by the NDSU Agricultural Communication office. Petry is a livestock economist with the NDSU Extension Service. In that role, he provides assistance to all livestock segments in the state, focusing on adding value to the livestock industry in the region. An archive of columns can be found at www.ag.ndsu.nodak.edu/aginfor/lsmkt/news/archive.htm.