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A Long-term View of N. C. Cattle Prices

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History can teach us some useful lessons, and that applies to cattle prices. Over the last ten years or so, we have experienced the ups and downs of the cattle cycle, seasonal fluctuations and the effects of extreme highs and lows in corn prices. These experiences can help guide producer decisions today.

The effects of the cattle cycle on North Carolina prices can be seen in the graph in Figure 1, which shows the average price per hundredweight for steers sold at NC auction markets since 1990. Last years prices for 4- and 5-weight cattle beat the previous highs back in 1991, but only by a small margin. Most producers won't need to be reminded of the slump in prices in 1996, when prices crashed under pressure from abundant meat supplies combined with extremely high corn prices. These past fluctuations remind us that high prices don't last long and we need a business plan that will allow us to ride out the times when prices are weak. Unfortunately, it seems those times may soon be upon us. It appears that we have passed the price peak for the current phase of the cycle, with 2001 prices that have been below those seen in 2000. The economy is heading into a recession, aggravated by the fallout from the September 11 tragedy, which will hurt sales of beef. If anything, feed costs may increase in 2002, putting further pressure on prices.

Seasonal price fluctuations in the feeder cattle market can have a substantial impact on beef producers' financial returns. We can attribute these seasonal price swings to changes in available supplies and demand for feeder cattle at different times of the year and to the availability of pasture to graze cattle. Almost three-fourths of all calves born in the United States are born in the first quarter of each year, leading to a relatively large supply of feeder cattle in the fall. Impending winter weather and reduced forage availability dampens buyer interest, resulting in lower feeder cattle prices for all weights of cattle. This pattern certainly holds true for North Carolina. The graph in Figure 2 shows average monthly prices for 4-, 5- and 6&7 weight cattle from 1990-2000. Prices for the lighter cattle were at their peak in February and bottomed out in October. Prices for heavier cattle held fairly steady from February through June, then declined.

The 11-year average differences between the annual price for a specific weight of cattle and monthly prices for the same weight category are shown in the graph in Figure 3. The pattern is similar but slightly different from Table 2 because of the way the differences were calculated. The seasonal price drop from peak to trough was greatest for 4-weight cattle at over \$10 per hundredweight. Cattle in the 500-599 lb. category dropped almost as much, \$9 per hundredweight. The heaviest

cattle showed the smallest drop at \$6 per hundredweight. These long-term price changes can help summer grazers and winter backgrounders judge the price movements they are likely to see over the long haul. However, in any given year, the futures market price for feeder cattle provide useful information on likely price movements. For cow-calf producers these seasonal price movements help form decisions about marketing the calf crop. The price drop between August and September is quite sharp for lighter cattle and, typically, feeder calves are adding little value per head at this time of year because the weight they put on is at least partly offset by falling prices.

Price differences exist between cattle of different weights, as the graphs in Figures 1 and 2 show. Typically, the differences are somewhat wider in the spring and narrower in the fall. More importantly, as cattle gain weight and move into the heavier categories the value per hundredweight falls. This is particularly true for stockers bought in the spring and sold in the fall, so it takes a low cost of gain if these cattle are to return a profit.

The price relationships shown in the graphs are long term averages and these relationships do not hold each and every year; the size of both the seasonal price spread and the weight spread can widen or narrow. Nevertheless, these long-term averages provide food for thought as producers make their production and marketing plans.

**Figure 1. Average Annual Prices for M1 Steers,
Three North Carolina Markets, 1990-2000**

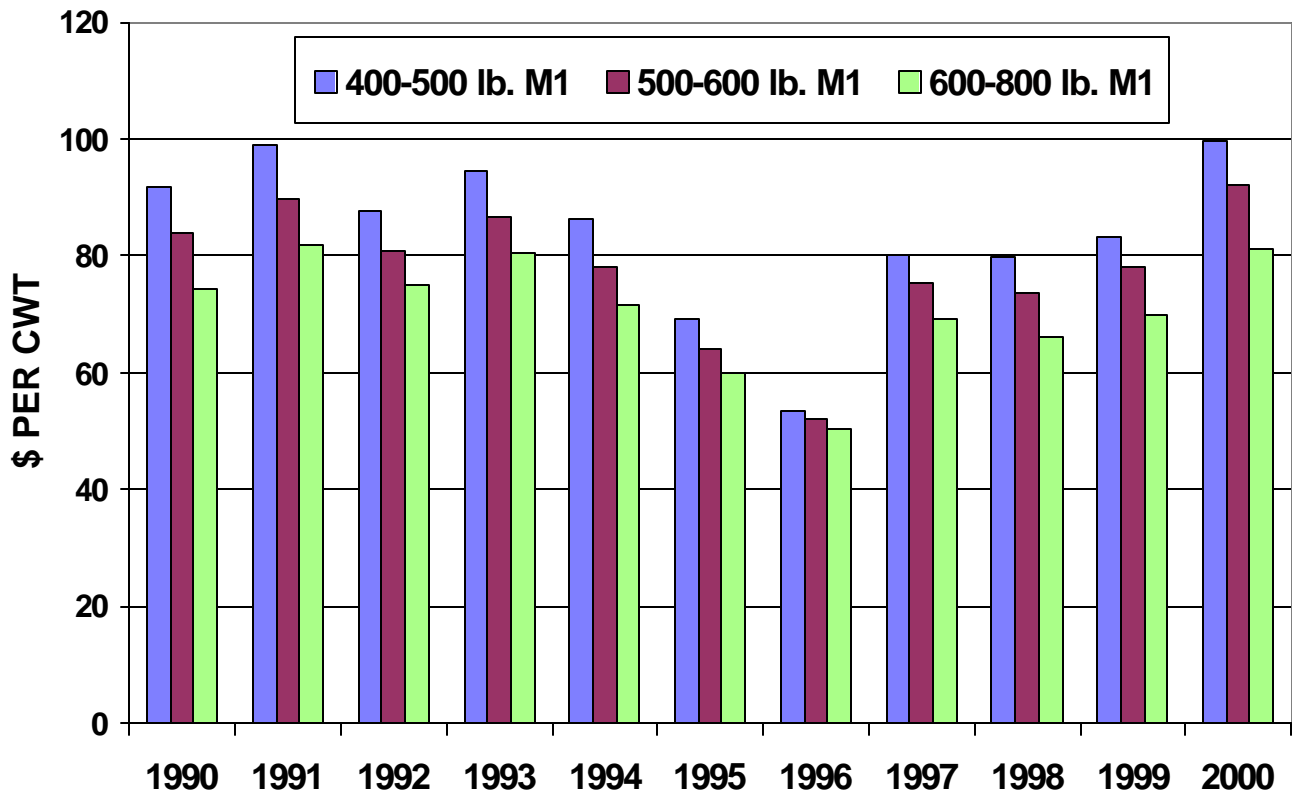


Figure 2. 11-Year Average Monthly Price for 3 North Carolina Markets, \$/100 lb., 1990-2000

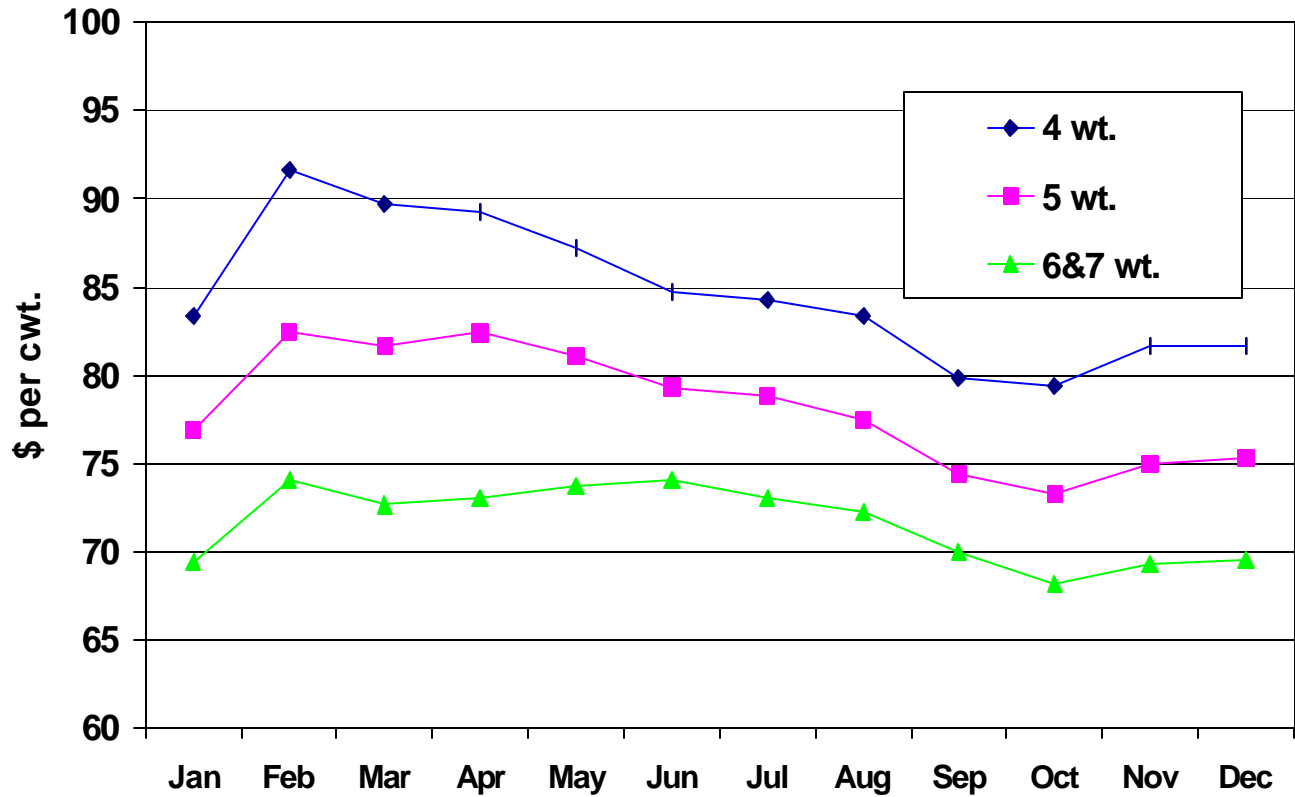


Figure 3. 11-Year Average Monthly Premiums or Discounts for M1 Steers Relative to the Annual Average Price for Same Weight Category, 3 North Carolina Markets, 1990-2000

