COW/CALF CORNER

The Newsletter

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Cattle Markets: Correcting the Correction?

Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

There are encouraging signs that fed and feeder cattle markets have turned the corner on the massive slide in prices in recent weeks. Notice that I didn't say "correcting the overcorrection". What has happened, especially for fed cattle markets, was a necessary correction to provide the market signals to fix a problem that developed over several months due to a lack of proper market signals. Feedlots have been pushing carcass weights for months, abetted by packers, since both had individual as well as market incentives to offset lack of cattle numbers with additional carcass weight. However, there are both biological and market limits to how far weights can be pushed before hitting a relatively abrupt wall. Signals such as discounts for heavy carcasses and yield grade 4 and 5 carcasses did not adjust quickly enough to slow the weight train and avoid hitting the wall. Reported heavy carcass discounts have not increased at all and Yield grade 4 and 5 discounts did not increase until September and then only modestly. Even the Choice-Select Spread followed a normal seasonal increase until mid-September before adjusting sharply lower in the face of very high Choice grading percentages that accompanied the overweight carcasses. It has taken sharply lower average fed cattle prices, combined with these quality factors, to emphasize that these heavy cattle must be marketed now.

Is the problem fixed? There are several encouraging signs: cash fed and feeder cattle prices rallied late last week and Live and Feeder futures contract prices also rallied sharply last week. More importantly, two weeks of higher slaughter, especially steer slaughter, and a slight decrease in steer and heifer carcass weights in the latest data may be signs that the worst is behind us. However, the next two weeks are likely to be the most critical in determining the cattle market situation for the remainder of the year. If the heavy cattle are thoroughly cleaned up, there is good potential for a significant rally and fundamentally stronger cattle markets for the rest of the year. However, the quickest way to make sure a rally never materializes is to start waiting for it too soon. Certainly it will take some time for the additional beef tonnage to work through wholesale and retail markets but it is encouraging that beef movement appears to be good.

The recent situation also highlights another point that may be very important in the coming months and years. The dramatic increase in fed carcass weights this year is testament to cattle genetics and production technologies that allow cattle to grow to weights unimaginable just a short time ago. This, combined with relatively low feed cost, increasingly suggest that we have the ability push both total production and product size beyond market limits. It is pretty clear that we can continue to make steaks bigger but it is not at all clear that we can sell them profitably. At the very least there will have to be changes in the way products are marketed. Perhaps Ribeye steaks which are too big for the plate will have to be marketed as Ribeye nuggets. I expect that these questions will become ever more important going forward. There may be a Jurassic Park lesson for the beef industry in all of this: just because you can, doesn't mean you should. It is critical that we recognize and focus on what we must produce to meet market demand and not just on what we can produce…no matter how efficiently.

The impact of dressing percent on cull cow marketing

Glenn Selk, Oklahoma State University Emeritus Extension Animal Scientist

Last week's Cow-Calf Corner newsletter discussed cull cow grades. Remember cull cows that are destined to go to the packing house are graded by their fleshiness. The fattest cows are called "Breakers". Moderately fleshed cows are "Boners". Thin cows are called "Leans" or "Lights", depending upon the weight of the cow. There will be price differences among these four grades.

However, within each grade, large variation in prices per hundredweight will exist because of differences in dressing percentage. Cow buyers are particularly aware of the proportion of the purchased live weight that eventually becomes saleable product hanging on the rail. Dressing percentage is (mathematically) the carcass weight divided by the live weight multiplied by 100.

Key factors that affect dressing percentage include gut fill, udder size, mud and manure on the hide, excess leather on the body, and anything else that contributes to the live weight but will not add to the carcass weight. Most USDA Market News reports for cull cows will give price ranges for High, Average, and Low Dressing Percents for each of the previous mentioned grades. As you study these price reports, note that the differences between High and Low Dressing cows and bulls will generally be greater than differences between grades. Many reports will indicate that Low Dressing cows will be discounted up to $8 to $10 per hundredweight compared to High Dressing cows and will be discounted $5 to $7 per hundredweight compared to Average Dressing cows. These price differences are usually widest for the thinner cow grades (Leans and Lights). See examples from last week's sale in Oklahoma City National Stockyards:

http://www.ams.usda.gov/mnreports/ko_ls151.txt

As producers market cull cows and bulls, they should be cautious about selling cattle with excess fill. The large discounts due to low dressing percent often will more than offset any advantage from the added weight.