

Cattle Business in Mississippi – August 2005 **“Stocker Cents” article**

Cattle Market Seasonality

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The cattle market is known for its ups and downs. To say the least, it can be a very challenging market within which to operate. That has never been more true than over the last couple of years, with the effects of animal disease events like BSE and Avian Influenza, trade disputes and disruptions, and longer-term shifts in demand all coming into play to affect prices.

A stocker cattle operation is subject to price risk, just like any other livestock operation; but the nature of that risk is a little different in the stocker cattle operation because profits depend on what happens on the margin. In other words, the stocker operation will make or lose money based not so much on the general level of cattle prices but on how much cattle prices change from the time calves are bought (or retained) for the stocker program and the time those calves are sold (or sent on for finishing) as feeders. The stocker cattle operation does not get hurt so much by low prices as by volatile prices. This is clearly different from the perspective of the cow-calf operation, where lower prices pretty much directly translate into lower profits. The stocker operation can make money at low prices or at high prices. It all depends on how well cattle perform and how prices change between the time stockers are purchased and feeders are sold.

In many respects, periods of high prices present the most challenging environment for stocker operations. Again, this contrasts sharply with cow-calf operations, where high calf prices really tend to make life more enjoyable. When calf prices are at historically high levels, the stocker producer must place much more capital at risk due to the higher cost of purchased calves (or the greater foregone value of retained calves). Alternatively, lack of available capital may force some stocker producers to cut back their production when calf prices are high. Of course, another challenge for stocker producers when prices are high is dealing with the risk that prices will break before calves are ready to sell. This is the situation that can lead to really significant losses for the stocker operation.

Since we are now in the midst of some the highest calf prices on record, this is a good time to take a look at the historic behavior of stocker and feeder prices to see what that might reveal about the level of risk currently facing stocker operators.

One aspect of calf price behavior that is familiar to cattle producers is the seasonal fluctuations in price that occur with considerable regularity in calf markets. Knowledge of seasonal price patterns provides useful background when making calf purchase and marketing decisions. Stocker calf prices tend to peak in the spring, declining through the summer and fall before rising again late in the year. Feeder calf prices are typically highest in the January/February time period and again around mid-summer, with lows

generally coming in late-spring/early-summer and again in the fall. Figures 1 and 2 below show seasonal price indices for stocker and feeder steers based on monthly average auction prices in Mississippi for 400-450 pound steers (Figure 1) and 700-750 pound steers (Figure 2) over the 10 years from 1995 through 2004. These graphs also show prices so far in 2005. Note that the price index represents the monthly average price as a percentage of the annual average price, thus showing how much above or below the annual average the price tends to be in any given month.

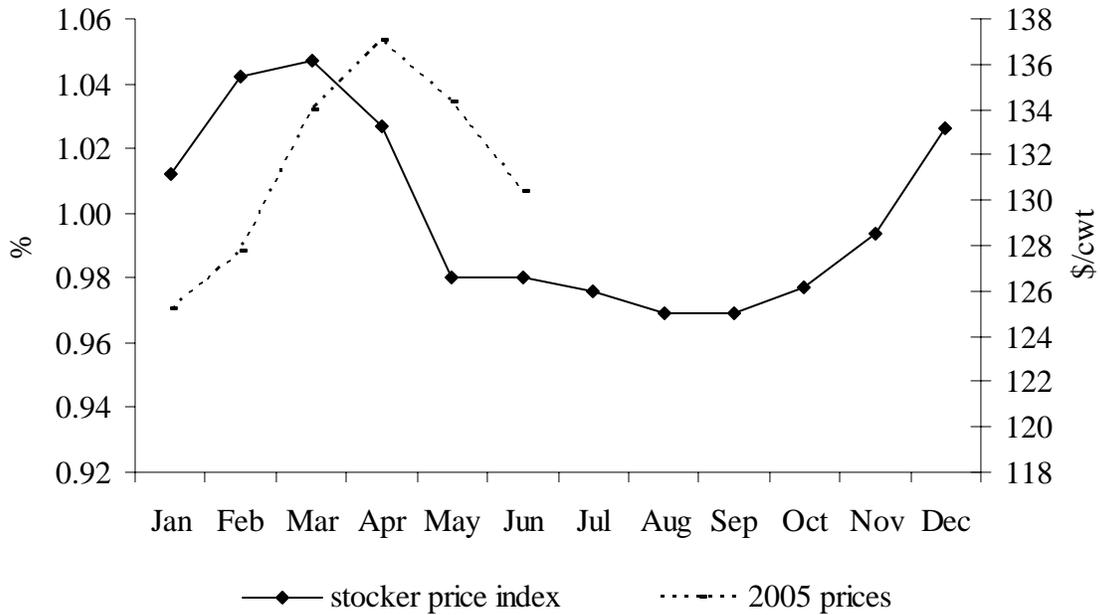


Figure 1. Seasonal index of stocker calf prices and 2005 stocker calf prices

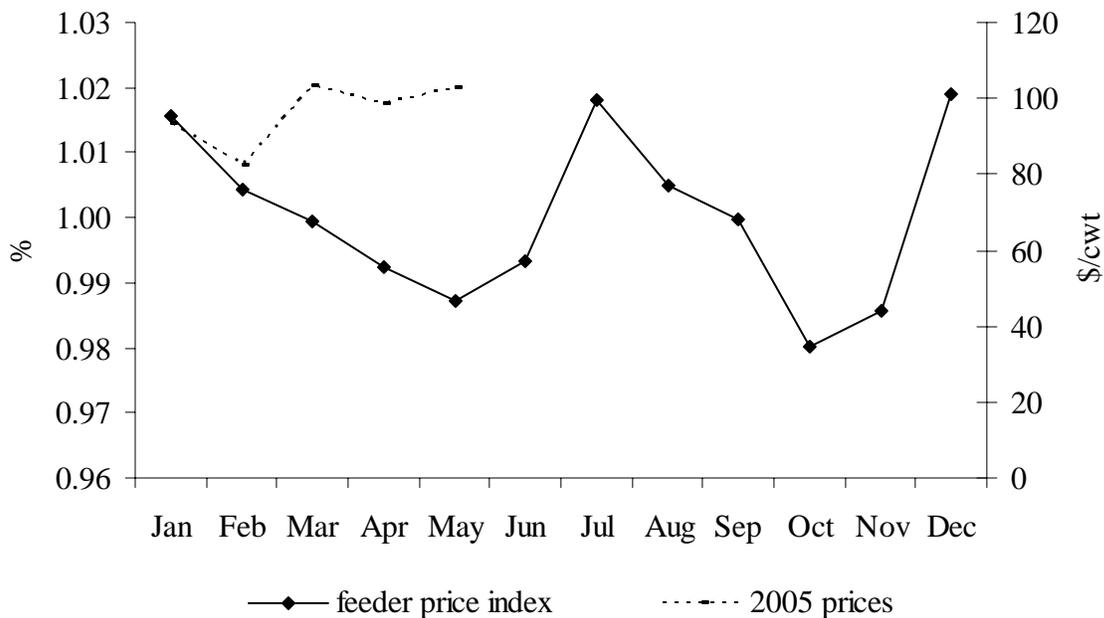


Figure 2. Seasonal index of feeder calf prices and 2005 feeder calf prices

So far in 2005, stocker calf prices have followed a fairly typical seasonal pattern, peaking a bit later than on average but not displaying any really unusual behavior. Feeder calf prices, on the other hand, do not seem to be conforming to the usual seasonal pattern. The normal seasonal break in feeder calf prices early in the year did not last through the spring. This behavior of prices would seem to leave little room for further price improvement in the mid-to-late-summer period, as might typically be expected.

In addition to seasonal price patterns, it can also be instructive to consider the spread between stocker and feeder calf prices at different times of the year because, as noted above, changes in price levels between the time stockers are purchased and feeders are sold has a tremendous influence on the profitability of stocker operations. This difference between stocker purchase and feeder sale price is often referred to as the buy/sell margin, and it reflects not only seasonal price differences but also the prevailing price/weight slide as well as the impact of fundamental supply/demand changes occurring over the course of the stockering phase. Over the past 10 years, the buy/sell margin on calves purchased in the fall for winter grazing has averaged around -\$15 per hundredweight, meaning that the price per hundredweight of feeder calves in the spring averages around \$15 less than the price per hundredweight of stocker calves in the fall. The narrower this buy/sell margin becomes (meaning that feeder prices are relatively high in comparison to stocker prices) the more profitable a stocker operation could be expected to be. Of course, on the other hand, a wider buy/sell margin means that stocker calves are relatively more expensive – a situation that puts a squeeze on profits from stocker operations.

Historically, when stocker calf prices are high, buy/sell margins widen. In 2000 and 2001, fall calf prices were pretty good. Buy sell margins in those years were between - \$25 and -\$30, a pretty challenging market environment for stocker producers. In 2003 and 2004, calf prices were also quite high, but strong spring prices on feeders kept buy/sell margins at about average levels. This year, the fall calf market is shaping up to be quite strong. Good demand for beef and tight supplies of cattle are combining to set up a pretty strong market. A normal seasonal decline in calf prices would translate into stocker steer prices of around \$118/cwt - \$125/cwt this fall. Even if feeder calf prices next spring are comparable to this year, stocker margins will probably be pretty tight. In this kind of environment, producers need to be thinking ahead for ways to keep costs down and to identify favorable feeder cattle marketing opportunities.

For more information on stocker cattle economics or related topics, contact your local Extension office. Next month Stocker Cents will tackle the topic of feed additives for stocker calves.