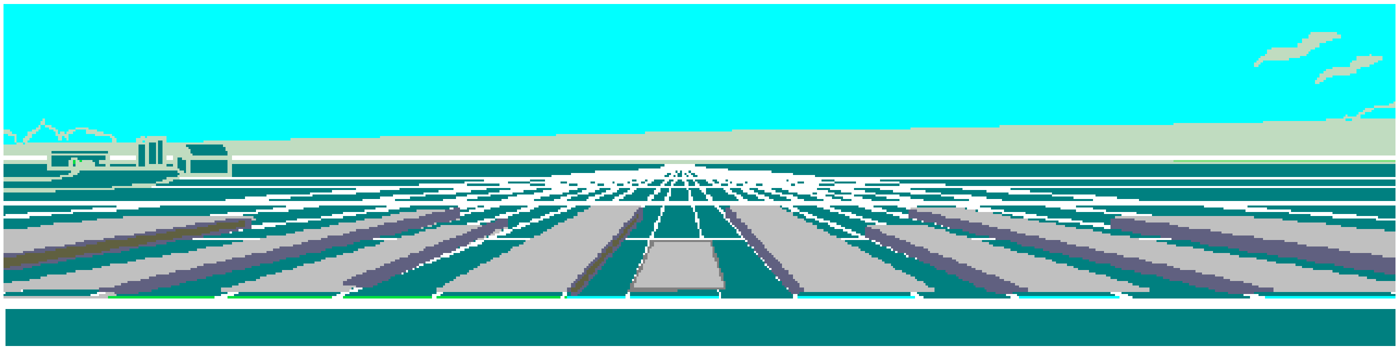


June 19, 2000 Ames, Iowa Econ. Info. 1791

FEEDLOT LOSSES LIKELY

Cattle feedlots have been profitable since January 1999, but that may be coming to a temporary halt as summer prices are forecast to drop below breakevens for most feeders. Large feedlot inventories and weights comparable to or above last year's record will pressure prices through summer and into fall. Live prices in the mid-$60s are likely before Labor Day unless demand is exceptionally strong.

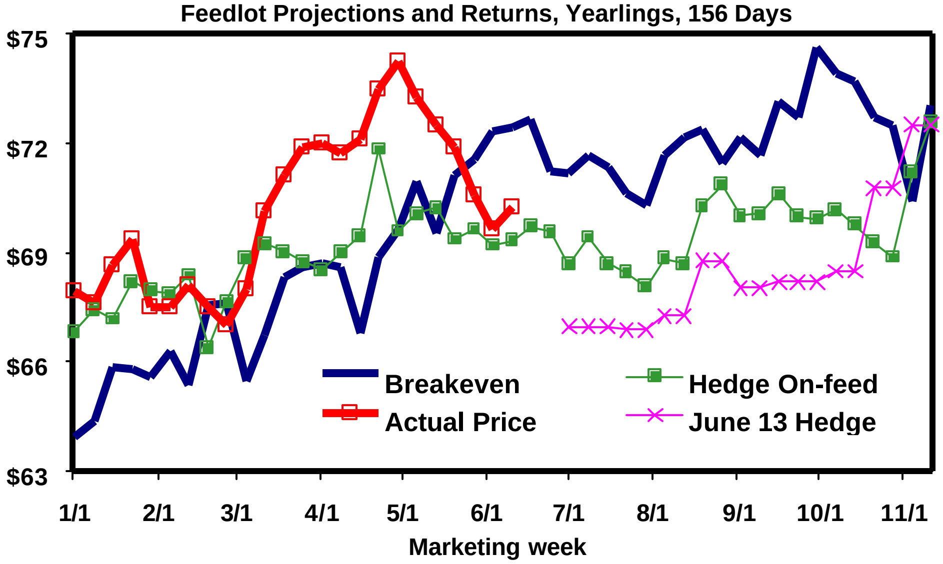
Returns to yearlings were positive until late May when prices declined as breakeven prices increased. Calf feeders have lower breakevens for a few more weeks but may experience losses later in the summer. Actual closeouts for cattle may have remained positive, as cattle have generally performed better than projected due to mild winter conditions.

The USDA June Cattle on Feed report confirms that there are large supplies of cattle to be marketed this summer and beyond. The seven major cattle feeding states reported 10 percent more cattle on feed than in June of 1999. This inventory is nearly 2 percent larger than the pre-report trade expectations and will be negative to the market. May marketings were also larger than expected reflecting efforts by feedlots to keep current. However, May placements were 15 percent (260,000 head) higher than the same month a year ago. The increase in placements comes from all weight classes and will continue to pressure prices into early fall.

Figure 1 shows projected breakevens for feedlots placing a 750 pound yearling steer sold 156 days later at 1250 pounds based on steer and corn prices at placement. Breakevens have increased from $64/cwt for cattle sold in early January to near $75 for cattle to be sold in October. They are projected to be near $72 for most of the summer.

Actual selling prices were above breakeven and the expected hedge price most weeks until late May. Prices peaked at $74.25 the last week of April and have declined to near $70, but are expected to weaken further during the summer months.

Feedlot Projections and Returns, Yearlings, 156 Days



The futures at placement time, adjusted for a 5-year average basis, is the expected hedge price going on feed. Feedlots could have hedged a profit for marketings most weeks up until mid-May, then the expected price from hedging at the time they bought the feeder cattle was less than their projected breakeven. Feedlots were obviously expecting better performance from the cattle or were expecting higher cash prices than the futures were predicting. Cattle placed in June for November marketings have breakevens closer to the expected hedge price.

The cattle market has generally weakened in recent weeks. Futures prices on June 13, adjusted for the 5-year basis, results in forecast prices below what could have been hedged at placement time, until the last month when prices have improved.

Looking Ahead

In spite of the pending losses for feedlots this summer, there is still optimism about feeding cattle. While red ink and uncertainty about corn prices may reduce the demand for feeder cattle somewhat this fall, calf prices should remain at profitable levels for most cowherds. Table 1 provides the estimated price feedlots could afford to pay for steer calves given the assumptions stated and combination of fed cattle and corn prices. The lower part of the table reflects the expected change in bid price due to changes in the assumptions.

Table 1. Estimated Feeder Cattle Break-even Purchase Price for a Steer Calf.

Assumptions		Corn Price	Fed Cattle Selling Price $70.00	$72.00	$74.00	$76.00	$78.00
In weight (#)	550	$1.50	97.30	101.28	105.25	109.23	113.20
Out weight **(#)**	1150	$1.70	95.07	99.04	103.02	106.99	110.97
Target ADG (#)	2.85	$1.90	92.83	96.81	100.78	104.76	108.74
Death loss (%)	1.50	$2.10	90.60	94.57	98.55	102.53	106.50
Corn (bu)	63.0	$2.30	88.36	92.34	96.32	100.29	104.27
Hay (ton)	0.5	$2.50	86.13	90.11	94.08	98.06	102.03
Hay Price ($/t)	$50.00	$2.70	83.90	87.87	91.85	95.82	99.80
Supplement ($/hd)	$23.50	$2.90	81.66	85.64	89.61	93.59	97.56
Interest (%)	9.00	$3.10	79.43	83.40	87.38	91.35	95.33
Yardage	$0.30	$3.30	77.19	81.17	85.14	89.12	93.09
Vet-Med	$10.00	$3.50	74.96	78.93	82.91	86.88	90.86
Trucking	$9.00	$3.70	72.72	76.70	80.68	84.65	88.63
Other	$5.00	$3.90	70.49	74.47	78.44	82.42	86.39
Profit target	$0.00	$4.10	68.26	72.23	76.21	80.18	84.16

Change in Feeder Cattle Bid Prices for a Given Change in Selected Variables

Variable	Change	Bid ($/cwt)
Profit/head	$10	1.77
Avg Daily Gain	10%	1.38
Feed efficiency	10%	3.43
Death Loss	10%	0.10
Yardage	$0.10	3.73

With these assumptions, feedlots would essentially breakeven with $76 fed cattle and $2.30/bu corn if they paid $100.29/cwt for the calf. At $1.90 corn and $76 fed cattle, the breakeven purchase price is pushed to almost $105.

John Lawrence

NOTE: Dr. Robert Wisner *is on annual leave. His column will resume in July.*