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Farmer-feeders may be fading

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Abstract

Livestock Outlook: Fewer farmers are walking their corn to market through cattle.

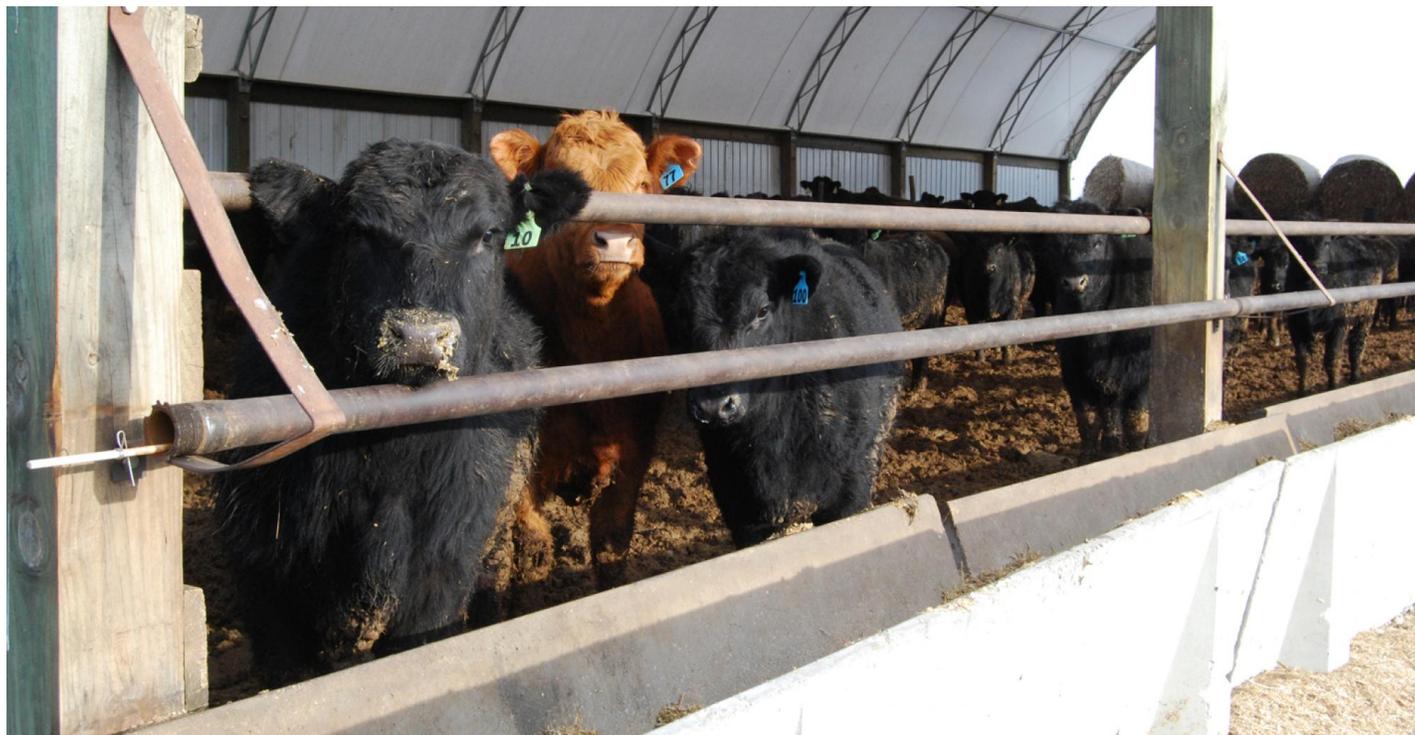
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CHANGING TIMES: Despite larger calf crops and low corn prices, the smaller feedlots in Iowa aren't feeding and marketing as many cattle.

Farmer-feeders may be fading

Livestock Outlook: Fewer farmers are walking their corn to market through cattle.

Lee Schulz | Nov 21, 2018

Evidence suggests the structure of the Iowa cattle feeding industry is changing. Analysts and beef producers are trying to figure out how that may impact pricing trends, especially during certain times of the year.

Historically, smaller feedlots have been associated with crop farms using cattle as an alternative way to market corn and diversify their operations. When corn prices were high, farmers sold crops for cash. When crop prices were low, they fed cattle if they could find reasonably priced feeder cattle.

This year is proving to be an anomaly and may signal a fundamental change in the cattle feeding industry. Calf crops have been expanding for three straight years, and corn prices have been supportive for feeding cattle in smaller feedlots. Yet 2018 is not featuring a similar gain in farmer-feeder cattle marketings.

Looking at the numbers

USDA's Cattle on Feed Report is a monthly publication reporting the number of cattle on feed, number of cattle being placed in feedlots and number being marketed for slaughter. USDA surveys feedlots that have at least 1,000 head of cattle in 16 major cattle feeding states. The 16 states account for about 98% of the cattle on feed in feedlots with capacity of 1,000 or more head. The Iowa Ag News – Cattle on Feed report is a combination of estimates from the USDA Cattle on Feed survey for Iowa feedlots with a capacity of 1,000 or more head and the Iowa Department of Agriculture and Land Stewardship-funded Cattle on Feed survey for Iowa feedlots with capacity of less than 1,000 head.

Marketings of fed cattle from Iowa feedlots with a capacity of 1,000 or more head during 2017 represented 59% of total cattle marketed from all feedlots in Iowa. This compares to 87% in the U.S. Thus, the survey for Iowa feedlots with a capacity of less than 1,000 head is very important; it provides a more complete picture of Iowa's cattle feeding situation.

Cattle on feed in Iowa feedlots with a capacity of 1,000 or more head on Oct. 1 were up 6% from Oct. 1, 2017. Iowa feedlots with a capacity of less than 1,000 head had 10% fewer cattle on feed than the previous year. Looking only at the large feedlot number would suggest Iowa will have substantial market-ready cattle available late this year and early next year. However, total cattle on feed inventory in all Iowa

feedlots on Oct. 1 was down 0.5% from last year and up only 0.6% from the 2012 through 2016 Oct. 1 average.

The 12-month moving average of cattle on feed removes the seasonality of feedlot inventories. For Iowa, it's at the highest level for feedlots with a capacity of 1,000 or more head and lowest for those with less than 1,000 head in the history of the data back to 1996.

Corn holding below \$3.25 per bushel for the last five months has brought no recovery in the share of cattle on feed in small operations. On the other hand, large operators have seemingly expanded. Larger feedlots could be growing market share because of their ability to capitalize on economies of size.

Pricey feeder cattle create drag

September feedlot placements and marketings were both below year-ago levels, partly due to one less business day in September 2018 compared to 2017. This was the case for both the large and small feedlot categories in Iowa. While placements into large feedlots were 16% below a year ago, placements into small feedlots were down 61%. Similarly, fed cattle marketings were down 21% and 32%, respectively.

This could be a sign of feedlots' unwillingness to purchase relatively expensive feeder-weight animals. The spread between feeder cattle and live cattle pricing has been a headwind for placing animals on feed. The larger year-over-year decreases in placements and marketings of small feedlots could be a sign they are even more price sensitive in their placement decisions.

In most years, August marks the start of a ramp-up in cattle entering feedlots, with October being the peak month. Placements for Iowa feedlots with a capacity of 1,000 or more head seem to be generally following the typical seasonal tendency.

In August and September, placements into large feedlots were 24% and 9% over the previous month, respectively. For Iowa feedlots with a capacity of less than 1,000

head, August and September placements were 36% and 10% below the previous month, respectively.

The cattle feeding part of a farmer-feeder operation is usually worked around the farming, such as feeding cattle before or after crops are planted or harvested. This year, because of wet conditions that delayed harvest, placements into small feedlots could peak a month or so later than normal. The November Cattle on Feed report, providing information about placements during October, will have important insight on changes of small feedlots.

Beware of packing on pounds

Delaying fed cattle marketings always adds pounds to cattle in feedlots. The latest USDA report that breaks down Iowa-Minnesota steer and heifer weights (report LM_CT167 published each Monday) showed live steer weights for the week ending Nov. 11 at 1,519 pounds, 15 pounds higher than the previous year. Heifer weights were 5 pounds higher. Analysts will closely scrutinize weight data for any sign that feedlots are falling further behind in their marketings and potentially losing bargaining power.

This year cattle on feed over 120 days on Oct. 1 in all Iowa feedlots decreased by 23,000 head from one month earlier. This compares to an 80,000-head decrease in 2017 and an average drop of 77,400 between these same months during the 2012-16 interval.

The bulk of the drop-in cattle on feed in Iowa for more than 120 days has been in small feedlots. They trimmed inventories by 25,000 head from September to October. Large feedlots increased these inventories 2,000 head in October. Small feedlots holding fewer market-ready supplies certainly helps keep Iowa feedlot marketings current.

Holiday price pressure possible

With the books for October slaughter cattle markets closed, demand for 120-day feedlot inventories was impressive. Iowa-Minnesota negotiated fed cattle prices

stayed near \$110 per cwt (live weight) from mid-September until early November, when prices perked up another \$2 to \$3.

Oct. 1 inventories on hand for 90 to 120 days for all Iowa feedlots were up 15,000 from a year ago. Inventories on hand for 90 to 120 days in large Iowa feedlots were up 5,000 head compared to last year, while these inventories in small feedlots were up 10,000. These cattle should be mostly ready for slaughter in December and January. Last year, the Choice boxed beef cutout slipped \$6 per cwt from beginning of November to the mid-December based on market-ready cattle supplies that were much bigger than prior years.

Iowa-Minnesota cattle prices fell \$1 to \$2 per cwt. A supply-driven perspective on this market would suggest that the increase in 90- to 120-day feedlot inventories on Oct. 1 would provide a bit more bearish cattle market action locally this December as a year ago. Last year cash prices traded near \$120 per cwt in December.

Projecting demand for the rest of 2018 and into 2019 is more difficult. Cattle-beef market bulls note that the comprehensive boxed beef cutout has sustained an elevated level over last year primarily from the strength of the middle meats and the strong export value for briskets and rib plates. Beef export forecasts for 2018 and 2019 have been revised higher based on demand from Asia.

The buildup for holiday business starts earlier each year, and retailers long ago planned holiday specials and made those forward purchases, helping spur beef demand. However, bears fear a bountiful supply of other protein sources provides increased competition at the meat case during the holiday season. Still, general prosperity in the economy will continue to support demand for beef.

Schulz is the ISU livestock economist.

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