

Beef Industry Margin Update

By Case Gabel



Since the turn of the new century margins throughout the different segments of the beef industry have had large swings. This is especially true during the last year, not only for the beef industry but for all agricultural commodities as price volatility has increased

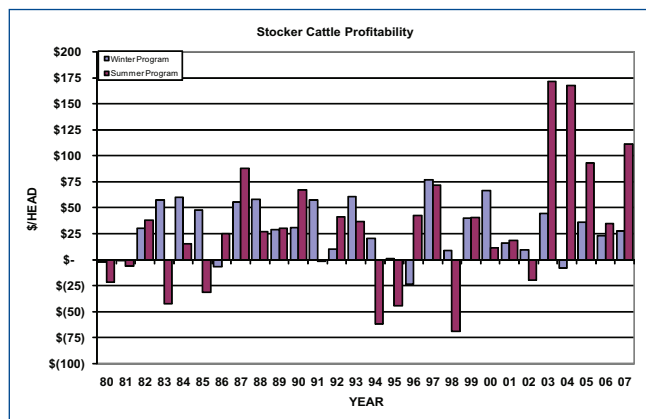
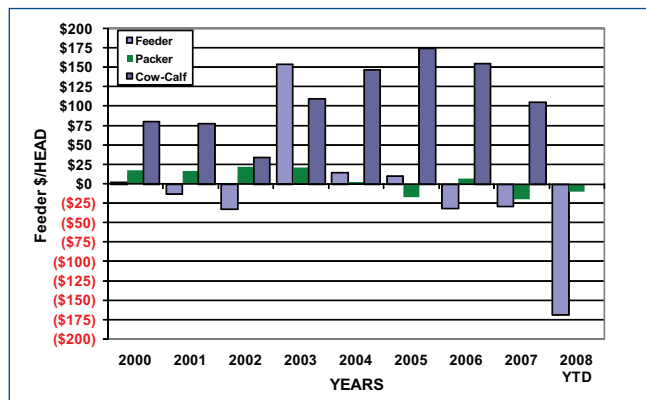
dramatically. Going forward, this will not change as commodity production has stolen the spotlight from the equity markets and the media frenzy surrounding food production is reaching epoch levels.

During the past eight years, margins in the packing and cattle feeding segments have gravitated around break-even levels, while the cow/calf and stocker operator have enjoyed tremendous profits. Based upon Cattle-Fax data since 2000, cow-calf operations have been profitable every year with an average margin of \$110/head. Summer stocker operators have had a positive margin of \$73/head, and winter stocker operations have netted about \$21/head. At the same time margins for the feeding industry, including the first quarter of 2008, have averaged negative \$12/head, and margins in the packing industry are positive by \$5/head. Based upon these different margin levels it becomes clear that there is an abundance of over capacity in both the packing and feeding segments of the industry.

Future margin levels will be important to monitor. Consolidation in both the packing and feeding segments should improve the leverage positions for both. Once the cattle feeders have depleted their equity position, they will buy feeder cattle and calves at a more reasonable break-even level. This will lead to lower calf and feeder prices shrinking the margins for both cow/calf and stocker operators. Furthermore, as competition tightens at the packing level, cattle feeders won't enjoy the leverage benefit they have had over the past year. The packing

industry should also gain leverage over the retailers, wholesalers and food service sectors, as the number of packers is reduced and international borders open to U.S. beef.

Margins within the cattle and beef industry will soon be changing again. Rising input costs at every stage of production and increasing global protein demand should lead to higher prices for both beef and cattle in the future.



Inventory Up, Placements Down

The April 1 inventory of cattle and calves on feed for slaughter market in the United States for feedlots with capacity of 1,000 or more head was the second highest since the series began in 1996. The 11.7 million head was slightly above last year but 1% below April 2006.

The inventory included 7.35 million steers and steer calves, down 1% from 2007. This group accounted for 63% of the total inventory. Heifers and heifer calves accounted for 4.28 million head, up 3% from 2007.

March placements in feedlots were the second lowest total for March since the series began. The 1.74 million was 11% below 2007 and 5% below 2006. Net placements were 1.67 million head.

Placements of cattle and calves weighing less than 600 pounds were 335,000, 600-699 pounds were 330,000, 700-799 pounds were 561,000 and 800 pounds and greater were 510,000.

March marketings of fed cattle during totaled 1.84 million, slightly below 2007 and 6% below 2006.