

A simple measure of beef packer margins so far this year shows profitability to be down from a year ago but better than the average of the last five years. The price spread calculation is based on the average value of a Choice beef carcass less the cost of Choice cattle out of Kansas feedlots with an adjustment for by-products such as hides, tallow, etc. The calculation does not include costs for plant labor, depreciation of plant and equipment, and administrative or finished goods marketing activities.

There is a seasonality for profitability over the course of the year, and that pattern is intact this year. From the first week of the year through the third week of January, profit margins shrank by almost 50% as the Choice beef cutout declined from \$2.02 to \$1.92 per pound. Choice cattle prices went up steadily during the same interval, from \$1.18 to \$1.22. For sake of comparison, the weekly trend of beef packer margins in January 2016 jumped dramatically from the first week of the year through the following two weeks and then collapsed.

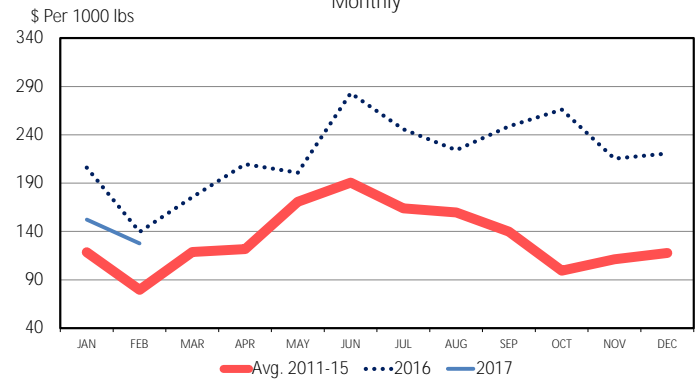
Packer margins in February rebounded to start the month and then pushed lower as the value of the Choice beef carcass moved to the lowest value for the year-to-date in the third week in February, at \$1.89. Cattle prices traded within a tight range of \$1.19-\$1.20 during that time period.

The volume of finished cattle direct sales reported to the USDA during February paralleled January activity, up until the last week of the month. The last week of February saw the Choice beef cutout jump 6 cents per pound, the biggest weekly increase for the year, up until then. Direct sales of finished cattle, which moved to the highest volume for the year so far in the third week in February, increased by another 10% in the last week in February as packers increased their bids for cattle by 5 cents per pound. Meanwhile, the value of the Choice beef carcass went up 11 cents and packer margins went from the low of the year to the highest since the first week in January. This compares with packer margins in the last week in February 2016 the registered their low of the year that was not undercut until the third week of February this year.

The volume of direct cattle sales in the first week in March was the second highest weekly volume since the start of 2016. The largest sales volume was the week of November 20, 2016. In the weeks that followed that peak in trade volume, cattle prices went up 3 cents per pound for a couple weeks and then moved sideways through the following month.

Packer margins in March have continued to trend higher, in line

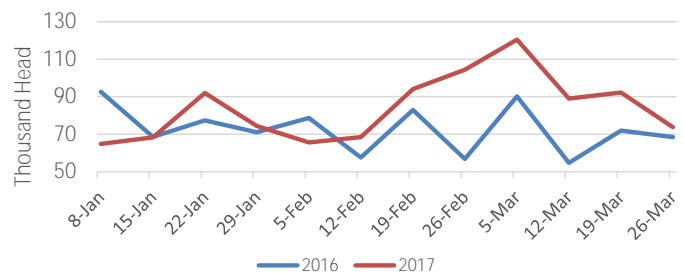
LIVE TO CUTOUT BEEF PRICE SPREAD
Monthly



Data Source: USDA-AMS & USDA-ERS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

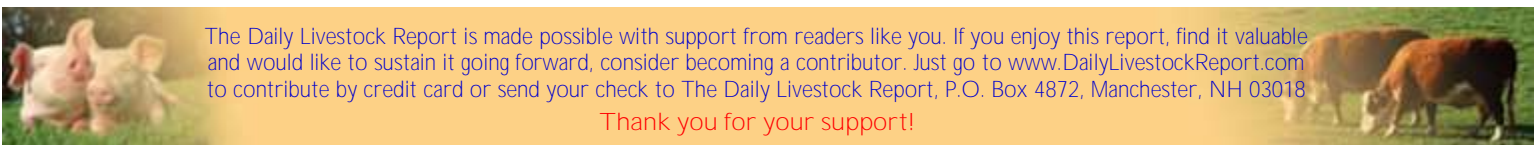
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Weekly Finished Cattle Sales Volume
TX/OK, KS, NE, CO, IA/MN



Data source: USDA-AMS Mandatory Price Reporting

with the appreciation in the Choice beef carcass value. Since the first week in March, the Choice beef carcass value has moved up 17 cents per pound. Choice cattle prices have also sustained an impressive rally, advancing 5 cents per pound. Calculated packer margins over the course of March have more than doubled from the lows of late February, but in the last week the trend has started to move lower. For the month of March, calculated packer margins should be higher than a year earlier for the first time since December.



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