Marketing Corn Through Cattle *Still Works*

In 1998, the Iowa Beef Center published a study looking at the return to marketing corn through cattle (www.iowabeefcenter.org/Publications/IBC9904.pdf). Not a new concept, but one that is often over looked as a close-to-home, value-added enterprise. That study looked at ten crop years, October 1988 through September 1997, and compared corn sold at the elevator to corn marketed through cattle. That is, the profit or loss from feeding cattle is added back to the corn price on a per bushel basis, using the ISU monthly Estimated Livestock Returns Series as the measure of cattle feeding returns. For example, if the cattle made a profit over all cost of $30 per head and consumed 60 bushels of corn, the value of the corn was the market value plus $.50 per bushel ($30/60 bushel). During the 1988-1997 period, cattle feeding added $.31 per bushel to the October price of corn.

This publications extends the earlier analysis to include the October 1998 - September 2003 crop years. The findings of the first 10 years were consistent through the last five years. On average, marketing corn through cattle added value to the corn. It also adds volatility that must be managed.

Table 1 (on page 2) shows that the average corn price at north central Iowa elevators in October 1988-2002 was $2.17/bu. The average price from selling equal amount of corn each month was $2.26. Selling at the highest monthly average price for the year averaged $2.55 over the 15 years. Storage and trucking costs and government payments were ignored in the study.

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If the producer prices the corn into the cattle each month and sells cattle each month (Column D) the average value of corn through cattle was $2.58/bu and it was higher than the October price in 11 of 15 years and higher than the highest monthly price in 9 of the 15 years. Marketing cattle every month but pricing the corn into the cattle at October prices (Column E) provided similar results. Feeding two groups of cattle that are sold in April and October resulted in the highest value for corn at $2.74/bu. That is $.57/bu higher than the October price and $.48 higher than the selling corn every month strategy. This two-group system produced a corn value higher than October in 13 of 15 years, and higher than the highest month in 9 of 15 years.

IOWA STATE UNIVERSITY
University Extension

PM 1959 January 2004

Cattle feeding adds more volatility to corn values. When cattle feeding is unprofitable, the implied corn value declines and when this is profitable the corn value increases.

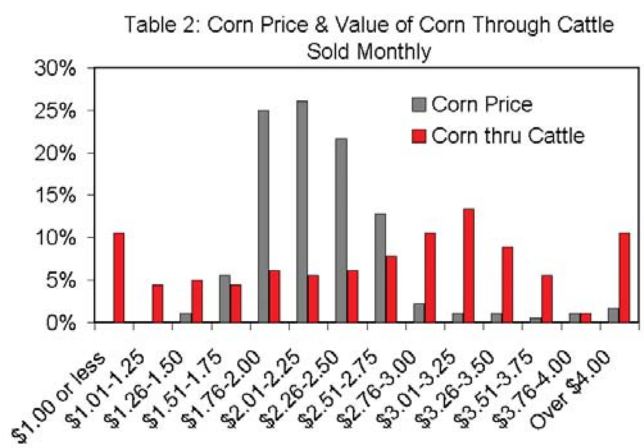
Table 1. North Central Iowa Corn Prices and Corn Value Fed Through Cattle
October 1988 – September 2003

Oct-Sep Crop Year	October Harvest Price	Monthly Average Price	Highest Monthly Price	Sell Cattle Each Month Corn Value v. Monthly	Sell Cattle Each Month Corn Value v. October	Sell Cattle Oct & April Corn Value v. October
	A	B	C	D	E	F
1988	2.52	2.41	2.54	2.49	2.53	2.89
1989	2.09	2.3	2.62	3.21	3.18	3.53
1990	2.03	2.21	2.4	2.44	2.47	2.13
1991	2.21	2.27	2.48	2.48	2.51	3.46
1992	2.04	2.01	2.13	3.48	3.5	3.13
1993	2.19	2.44	2.76	1.71	1.69	2.26
1994	1.87	2.25	2.6	2.39	2.31	2.9
1995	2.86	3.6	4.55	3.48	3.09	3.88
1996	3.04	2.55	3.04	3.49	3.9	3.44
1997	2.52	2.25	2.52	1.35	1.48	1.42
1998	1.86	1.86	1.98	2.25	2.3	3.07
1999	1.58	1.75	2.07	2.37	2.39	1.55
2000	1.66	1.8	1.89	2.59	2.55	2.01
2001	1.78	1.95	2.41	1.08	0.99	1.45
2002	2.24	2.18	2.31	3.9	3.92	4.31
Avg.	2.17	2.26	2.55	2.58	2.59	2.74
Years higher than Oct.		9	13	11	12	13
Years higher than monthly average			15	11	11	11
Years higher than highest month				9	9	9

Table 2 (below) shows the distribution of corn values and prices for the 15 years using monthly observations. Notice that corn prices were below $1.75 in only 7% of the months while the value of corn though cattle was below $1.75 in 24% of the months.

Corn prices spent 73% of the months between $1.75 and $2.50, and 20% over $2.50. Corn through cattle was between $1.75 and $2.50 in 18% of the months and over $2.50 59% of the months. Cattle feeding has more upside potential for corn prices, but cattle feeders need to manage cattle price risk.

The recent record high prices for fed cattle and feeder cattle has generated interest in cattle feeding, but has also increased the need for risk management. The large initial cost of the feeder animal may make it difficult to hedge a profit when the cattle are purchased. The opportunity for adding value to this year's record corn crop may still exist, but it may be more difficult this year than others.



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