

Market Fever

Carcass weights near record high: How does the industry respond?

by *Corinne Patterson*

Cow-calf producers don't often talk in terms of pounds of carcass yielded from a calf crop. Perhaps weaning weights, yearling weights or finished weights are more common topics of measurement, but regardless of how cattle weights are considered, they have trended heavier and heavier.

"The animals are just getting bigger," says cattle feeder Jerry Bohn. "Between genetics and feeding programs we continue to see bigger cattle, and the economics drive that." With corn prices cheap and feeder cattle high, mixed with today's marketing dynamics, cattle are reaching heavier weights and nearing the industry's record-high average dressed steer carcass weight trend set in 2002.

Daniel Bluntzer, director of research for Frontier Risk Management, a company based in Chicago, Ill., says during the middle of May 2002 (the year that saw record weights) the U.S. Department of Agriculture (USDA) reported average steer dressed weights at 797 pounds (lb.). At the same time this year, average dressed steer weights were reported at 793 lb.

If you evaluate data from May 2005, it shows that for every fed animal harvested,

1.7% more beef is added into the pipeline than a year ago, Bluntzer says.

Is the increase in dressed steer weights an industry concern? In his more than 10 years of experience in researching the beef markets, Bluntzer compares this type of signal to taking your temperature.

"The fever is not your problem. You've got something else going on, but the fever is definitely a sign that you need to do something or a sign that you might have something wrong with you. So, you get checked out," Bluntzer says. "It's the same thing with these weights."

He points out that a trend of increasing weights is normal. Cattle weights have, on average, gone up each year approximately 1% for more than 20 years. In 2005, however, Bluntzer says weights turned two weeks ahead of the seasonal trend. Carcass weights are 1.7% above a year ago and are continuing to rise at a good clip. "The market's got fever," he says. "That's a sign that there's something happening underneath here that shouldn't be happening. Or, at least because it's happening, it says that the market is at risk."

An industry take

Outside of market conditions, heavy carcass weights pose different concerns for those involved. From the feeder to the packer to the foodservice distributor, it's a topic that

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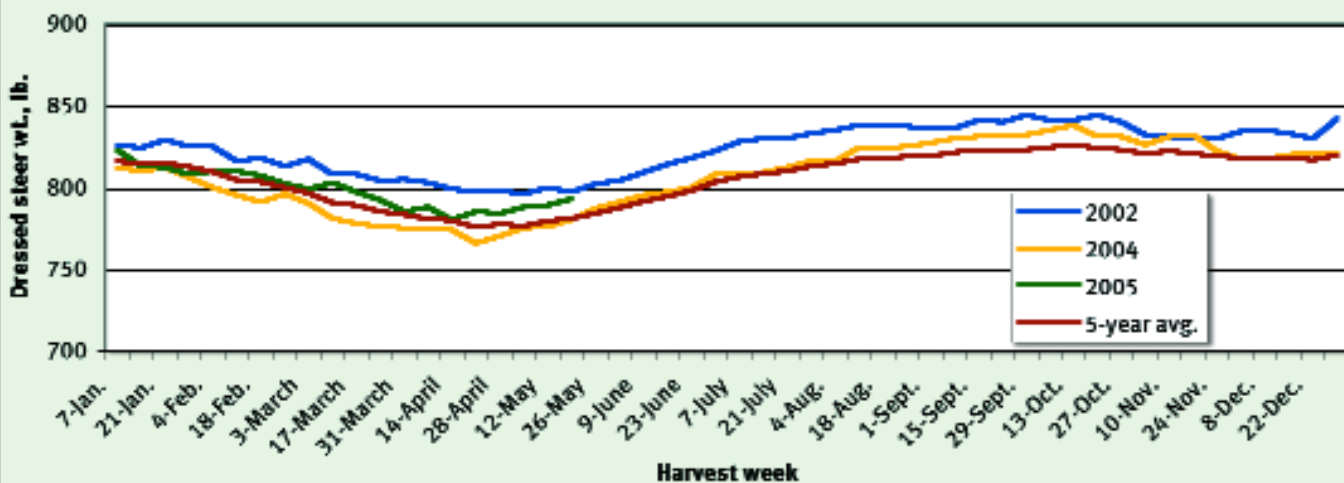
tiptoes along the fine line of customer satisfaction, as each segment of the industry is a customer of the next.

Bohn, general manager of Pratt Feeders LLC, Pratt, Kan., recognizes that calves are coming into the feedyard heavier because his providers need more pounds to make money. "One of the only ways a cow-calf man can increase his income is to get a bigger weaning weight," he says.

For a cow-calf producer or a feeder there is no real market incentive controlling whether weights are heavier or lighter, Bohn adds. The window acceptable by most packers is very broad; carcasses aren't discounted if they are within the range of 550

CONTINUED ON PAGE 132

Fig. 1: Dressed steer weight averages



lb. to 1,000 lb. These weights would roughly equal a 900- to 1,550-lb. live animal.

“You want to be within the window so you don’t get discounted for heavy or lightweight carcasses,” Bohn says. “It wouldn’t surprise me if sometime in the future they narrowed those specs up, and maybe there would be a premium for the ideal weight. It would probably be different with each processor, but they can maybe even vary it from 600 to 800, or 650 to 800 or 850. It just depends on what their markets are.”

Plant complications

The weight concern gets more complicated in the hands of the next customer. Rob Shuey, vice president of field sales for Tyson Fresh Meats Inc., says there’s a contradiction at the processing plant level when it comes to carcass size. The heavier a carcass, the more pounds produced, which slightly decreases fixed costs, he points out.

“The problem associated with that, however, is the size of the subprimal once the carcass is processed and in the Cryovac®

package,” Shuey says, adding that several years ago the number of pieces in boxed beef boxes decreased to accommodate the increasing carcass weights, which has slightly increased processing and shipping costs.

Shuey says Tyson separates carcasses into different weight ranges so groups of similar weights can be processed during certain time periods of the day. “We have maximum weights for carcasses, over which we don’t even process. We basically sell them out to other carcass breakers,” he adds.

While more pounds per carcass can add efficiency, it can also hinder a packer's ability to market beef. As carcasses get bigger, so does each cut, including many of the high-end middle meats.

"For the most part we have gone too heavy, and we don't have enough of the light cuts to meet the demand that's out there. Seasonality plays into it also," Shuey says. "There are different times of the year when we have an abundance of light cuts, but most of the time we err on the side of heavy. Even

though price discounting typically occurs, it's not that difficult to get rid of the heavy cuts, but the problem is not having enough light meat to meet the demand that's out there from the foodservice sector."

Working with what's available

That's where a foodservice distributor steps in. Many times it's a food distributor that takes on the role of providing individual cuts to meet demand in the customer-satisfaction process. From white-

tablecloth dining to family buffets, specialized cutters help find ways to utilize different sizes of subprimals. John Stowell, corporate director of center-of-the-plate programs for Dole & Bailey, says he expects size variation in the beef supply he purchases from packers.

"From the producer side, there has to be a variation," Stowell says. "Not all cattle can fit the same mold. You have different environmental conditions across the country,

CONTINUED ON PAGE 134

so you need different-sized cattle to fit those needs. It's our job to try to sort them out on this end."

Dole & Bailey's major clientele include some of the finest white-tablecloth restaurants, which means center-of-the-plate presentation is everything. "With a cutting operation, it's our job to figure out a way to make it work. We saw some 20-pound ribeyes this year, which I've never seen before," Stowell notes.

Stowell says his company has taken different approaches to cutting extremely heavy product. Ribeyes can be sold as ribeye roll steaks or cut even further down to the individual muscle and sold as a filet of rib. There is a lot of research that goes into making a center-of-the-plate cut that will provide a nice, thick portion with visual appeal and the ability to cook to a medium-rare doneness.

"You hear it a lot that these cuts are getting too big and we are not going to be able to sell them," Stowell says. "We have to sell them, because the alternative is [consumers] buy something else. So, we need to find a way to make it work on a white tablecloth as well as family style."

Stowell says it is becoming more popular

in fine-dining establishments to offer strip and rib steaks that are cut into half portions.

Put it into perspective

Just because current carcass weights are above last year's mark doesn't mean doom and gloom for the beef industry, Bluntzer says.

When considering the way meat animals are raised in the U.S., you know from the time chickens hatch nearly the hour at which they will be harvested, he says. Hogs are raised on a schedule, and their harvest dates can be predicted to within about a week.

"With cattle . . . you just don't know. You can literally push or pull them three or four weeks either way. And that has to do with the type of cattle going on feed; if they are heavier, they generally come out heavier," Bluntzer says. "You've got a lot of different factors in control of these weights. But, most important for market analysis is this — I have to make a determination whether to sell that animal today or hold it until tomorrow. The higher the price, the more anxious I am to get those animals sold. I want to capture that value today and vice versa."

Current marketing dynamics, Bluntzer says, may see feeders holding cattle. At the

time this article was written, cash trade and futures prices were near even, leaving little incentive to push cattle to market. The cash price was expected to be lower than the future price in the coming weeks, leading Bluntzer to expect owners to hold cattle.

"Those are the economic dynamics that cause weights to increase or to decrease against their seasonal pace," he says. "We did have a relatively poor feeding winter, both in the panhandle and the Midwest, so that was keeping weight off as well. Now we are seeing the catch-up here. All of those things are driving weights."

Cattle may likely continue to get heavier and heavier. Bluntzer reports that the breakdown of USDA placement weights have been very skewed toward heavier animals in the last four months.

He says, "I've had to continually revise weight projections upward. For nine months I was advising them downward, and now all of the sudden the signs have changed. I am becoming more bearish from a weight standpoint. It doesn't mean I am forecasting \$75 prices, it's just that my expectations have come down."



