

Uptick in Beef Quality, Price

The 2010 beef business trends include exceptional prices, increased quality and better rewards.

Analysis by **Paul Dykstra**

Slaughter cows and bulls were a hot commodity, and producers cashed in on those record prices from the spring through the fall. Fed-cattle prices certainly advanced, along with quality. Those steers averaged almost \$12 per hundredweight (cwt.) more in 2010 than in 2009, according to the U.S. Department of Agriculture (USDA) Five-Area Report (\$94.89 vs. \$83.16). However, that just marked a return to 2008 levels.

They were a highlight only with regard to timing and the state of the nation's economy. The elusive \$100 target was captured or surpassed one week in October, and four out of the last five weeks of the year. Still, the beef market was resilient, to say the least, during a very tough time.

Strong exports and improved hide and offal values have been credited for some of the bounce-back. And grain prices fared just as well, so we can't discount what drove breakevens to new heights.

Harvest numbers up

Higher cattle prices did not subdue the packers' rate of harvest. Federally inspected harvest numbers were up 2.81% year over year. That's 17,812 head per week, roughly equivalent to the output of one additional medium- to large-size packing plant — but that is not what happened.

There were no major facilities added to production. Packers simply kept their chains working more hours and kept the schedules

full. But carcass weights were down. Steer carcasses averaged 835 pounds (lb.), down 12 lb. from 2009, while heifers were 14 lb. lighter at 768 lb. each.

Early predications say carcasses will get bigger in 2011 to compensate for fewer available calves and fed cattle. As the world's foremost producer of corn-fed beef, the quality of the U.S. product is top-of-mind to everyone with a stake in the game.

The quality factor

From 2000 to 2007, the number of carcasses grading USDA Choice increased only 0.05 percentage points, but 2008 and 2009 brought two years of heavy increases. The Choice share of the annual harvest moved up by 3.37 and then 3.51 percentage points, respectively.

Stakeholders questioned if this rapid advance would hold or if short-term factors had created the two-year anomaly in grading. Extreme winter weather covered the feeding belt in 2009, and the onset of heavy inclusion of distillers' byproducts in feedlot rations coincided with the timeline, as did full adoption of camera-assisted grading by USDA — 2010 may have settled some of the doubts.

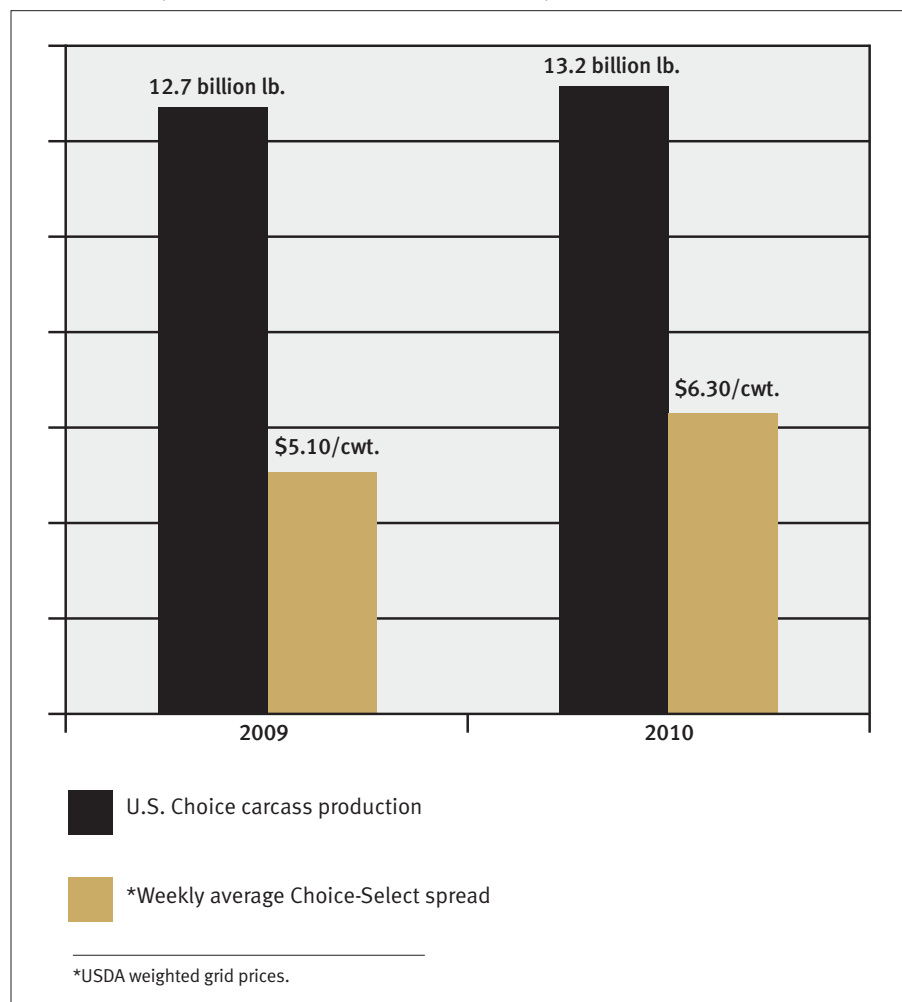
The Choice grade moved higher again, though not as dramatically, by 1.53 percentage points to end the year at 61.4% for all USDA-graded plants. The Prime grade increased a modest 0.17 percentage point, to bring the annual average to 3.15% of last year's annual fed-cattle harvest.

That small fraction is of little consequence to the commodity masses, but it carves out an advantage for breeders and feeders who care to focus on it. Scarcity means higher values.

USDA grid-pricing numbers indicate that an 850-lb. Prime carcass would have brought \$132.86 above regional fed-cattle averages in 2010, \$167.62 higher than a Select carcass of the same weight.

The portion of black cattle eligible for branded beef programs based on the "Angus type" requirement, was higher again in 2010. Data tracking came to a halt in late October, due to USDA system overhauls, but the nine-month trend showed the black-hided share of fed cattle at 63.68%.

Fig. 1: Carcass production and USDA Choice-Select spread



CONTINUED ON PAGE 184

Uptick in Beef Quality, Price CONTINUED FROM PAGE 182

That's up 2.34 points from 2009, when USDA first began reporting it. With the combination of more black-hided cattle in the harvest mix and a higher grading trend, USDA shows 25.4% of the Choice-grading carcasses were certified into an upper-two-thirds-Choice branded program, such as *Certified Angus Beef*[®] (CAB[®]), in 2010. That's an annual increase of 2.24 points.

Price per pound still commands attention when cattlemen decide production goals and management plans. Choice and premium Choice beef supplies are at record levels, so we'd expect "price per pound" to decrease for these two classes on a year-to-year basis. But the opposite is true.

Weekly USDA grid price data says packers paid an average of \$6.30 per cwt. for Choice above Select in 2010, up \$1.20 per cwt. of carcass compared to 2009. The CAB premium — added to the Choice bonus for qualifying carcasses — also increased. Although individual grids paid significantly more, the weighted U.S. average moved up from \$2.71 to \$2.78 per cwt. At the same time, Yield Grade (YG) 1 carcasses (those with the least external fat) improved 4¢,

while YG 4 carcasses were devalued by 3¢ to a discount of -\$12.32 per cwt.

The premium for marbling is much lower than it was in 2006, when we had 10% fewer Choice carcasses and the U.S. economy was roaring. But, given the uncertainty in our domestic market and the increased availability of Choice and higher beef, the

uptick in premiums flew in the face of expectations. The nod goes to quality, where American cattlemen are leading the world.



Editor's Note: Paul Dykstra, beef cattle specialist with CAB, tracks USDA grading trends and harvest numbers in his weekly column, "Rearview Mirror on Quality."

Table 1: U.S. annual beef production

	2009	2010		% Change
Federally inspected cattle harvest, million hd.	32.6	33.6	↑	3.1%
Fed-cattle harvest, million hd.	25.9	26.5	↑	1.0%
Steer carcass weight, lb.	847	835	↓	-1.4%
Heifer carcass weight, lb.	782	768	↓	-1.7%
Fed-cattle carcass prod., billion lb.	21.3	21.5	↑	0.9%
U.S. Prime, %	2.98%	3.15%	↑	
U.S. Choice, %	59.71%	61.47%	↑	
U.S. Prime production, million lb.	635	677	↑	6.53%
U.S. Choice production, billion lb.	12.7	13.2	↑	3.7%
% of Choice certified as premium Choice	23.16%	25.40%	↑	