

CAB Premiums at Seven-year High

Biannual packer survey shows cumulative contribution at \$352 million.

by **Steve Suther**

Demand for the *Certified Angus Beef*[®] (CAB[®]) brand surged higher in 2011 by more than 40% according to one key measure. Packer-reported CAB grid premiums for finished cattle totaled \$32.3 million last year, compared to almost \$23 million in 2010, according to a February survey of licensed packers.

The news ended a general downtrend in annual grid premiums from the historical high of nearly \$37 million in 2002 (see Table 1, Fig. 1). CAB volume had gained more than 40% during the eight years, and premiums often decline in the face of more supply. However, during those years, the CAB premium was becoming relatively more important in comparison to the weakening premium for USDA Choice over Select beef.

The latest CAB premium spike is supported by what happened on the boxed beef side.

“A simple average across five middle-meat items — the rib, strip, tender, butt and short loin — shows that the CAB product premium in 2011 jumped roughly 20% over 2010,” says industry analyst Julian Leopold, of Leopold Foods.

That was after a “pretty flat” period for CAB premiums following the 2008 crash in the overall economy, he says. “It looks like demand is picking back up, though, and likely at restaurants as well as retail.

“The other side of the equation would be

the volume, as the 4% increase in 2011 CAB sales over 2010 could have further increased the total dollar premiums in the system.”

Premium history

Grid premiums for CAB-accepted cattle have reached a cumulative total of \$352 million, with packers paying producers about \$28 million per year for hitting that target during the past 10 years (see Fig. 2).

The numbers come from part of CAB’s “Here’s the Premium” project that has

surveyed packers to gather total dollar grid premiums paid since 1998. They report those totals on condition that they be noted only in aggregate with no individual company numbers published. Although Certified Angus Beef LLC (CAB) tracks volume sold by packer, it does not know the share of cattle each buys on a grid that pays CAB premiums.

Such confidentiality is a hallmark of the trust and integrity built into the CAB program. It may limit the precision of reporting on price signals, but that’s more

Table 2: Boxed beef cutout comparisons

Fiscal	2008	2009	2010	2011
CAB cutout	\$160.07	\$148.55	\$157.43	\$179.78
USDA Choice	\$153.16	\$141.87	\$151.05	\$172.95
USDA Select	\$146.95	\$136.33	\$145.43	\$167.40
Ch/Se	\$6.21	\$5.54	\$5.62	\$5.55
CAB/Ch	\$6.91	\$6.68	\$6.38	\$6.83
Calendar	2008	2009	2010	2011
CAB cutout	\$159.72	\$146.89	\$162.69	\$187.96
USDA Choice	\$152.83	\$140.13	\$156.04	\$180.40
USDA Select	\$147.30	\$135.07	\$149.89	\$172.48
Ch/Se	\$5.53	\$5.06	\$6.15	\$7.92
CAB/Ch	\$6.89	\$6.76	\$6.65	\$7.56

Source: Urner-Barry.

Table 1: CAB historical packer grid premiums paid

	Pre-1998 (est.)	1998	1999	2000	2001	2002	2003
\$ Paid	3,000,000	4,368,200	7,493,600	26,516,400	30,046,700	36,986,000	34,523,400
Million hd. cert.		1.69	1.90	1.92	2.00	2.10	2.20
Gridded as \$/hd.		\$2.58	\$3.94	\$13.81	\$15.02	\$17.61	\$15.69
Cumulative Paid	3,000,000	7,368,200	14,861,800	41,378,200	71,424,900	108,410,900	142,934,300

Note: On the 31.9 million head accepted for the CAB brand from 1998 to 2011, grid premiums paid divided by all of cash-contract-formula-grid cattle figure out to approximately \$11 per head.

of a problem for USDA's Mandatory Price Reporting (see related story on page 166).

We do know, based on published grids connected with three or more packers, that the upper range of available CAB premium last year was \$5 per hundredweight (cwt.) or more. We also know from producer reports that the premium varies geographically, higher in the Plains than in the Eastern Cornbelt.

The fact remains that grid premiums have returned to the market in a big way. While it took 20 years to reach an estimated cumulative total of \$3 million paid, the 14 years since then have been rewarding for Angus producers who focus on quality. Premiums have been up and down, but last year's total was either the second-, third- or fourth-highest annual CAB grid outlay for the top four CAB-licensed packers.

Momentum

Looking at boxed beef values over the past

CONTINUED ON PAGE 164

Fig. 2: Cumulative CAB premiums paid

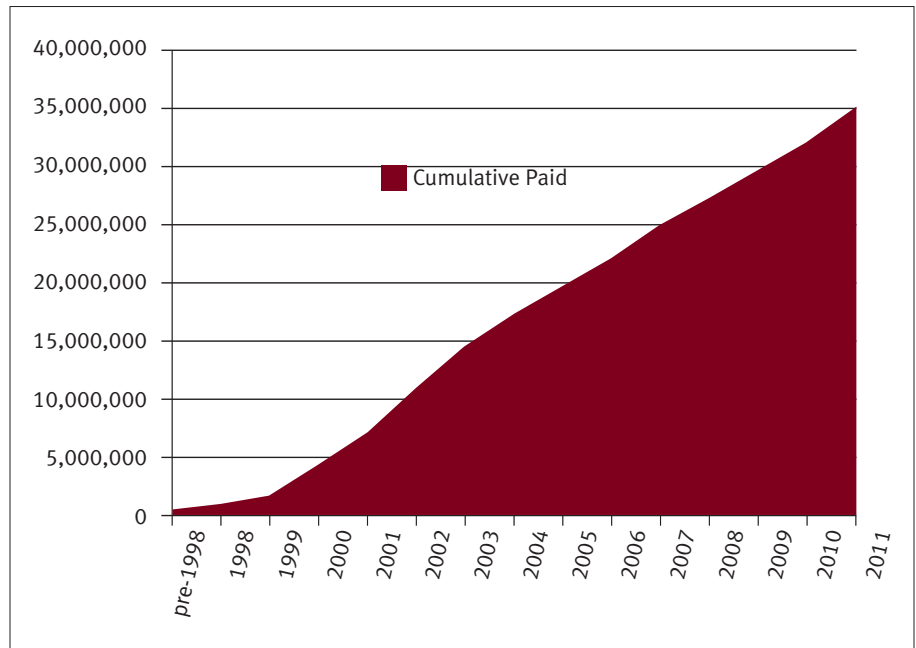
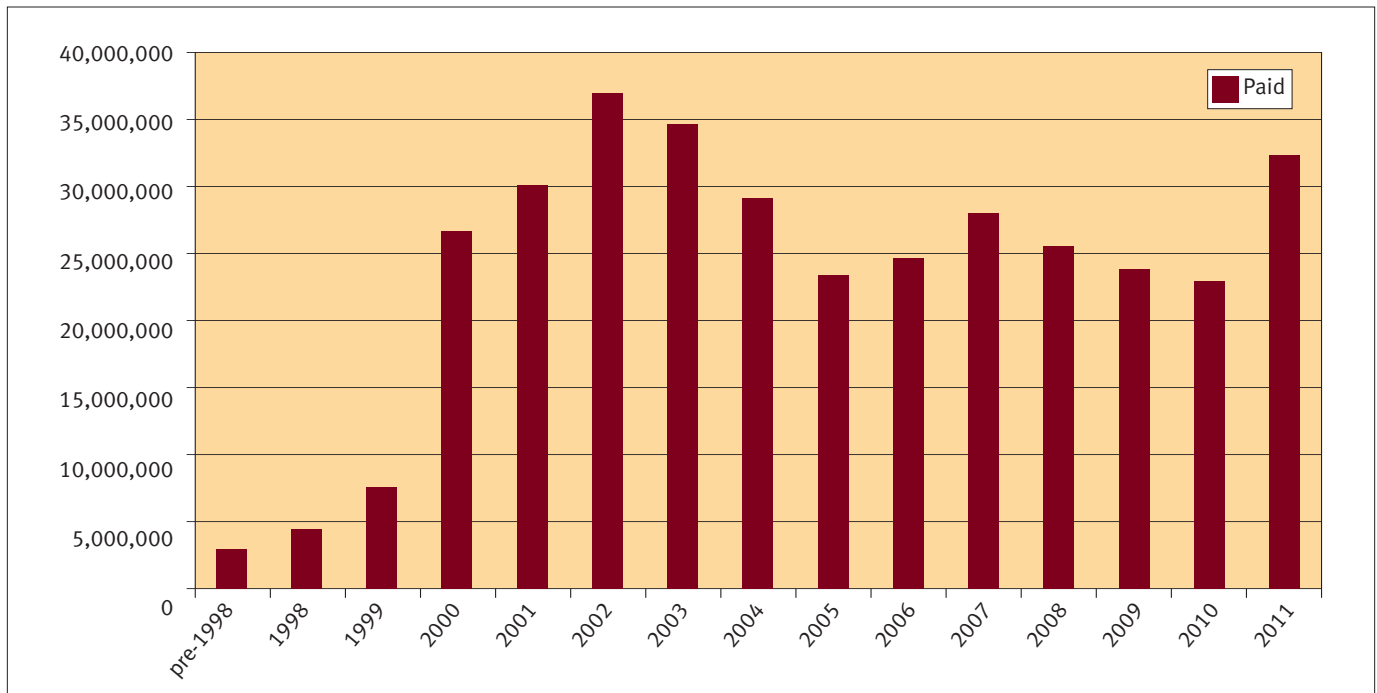


Fig. 1: CAB premiums paid by calendar year



	2004	2005	2006	2007	2008	2009	2010	2011
	29,043,600	23,361,400	24,600,252	27,833,401	25,500,001	23,745,538	22,923,679	32,271,856
	1.85	1.99	1.83	2.10	2.50	2.70	3.46	3.56
	\$15.70	\$11.74	\$13.44	\$13.25	\$10.20	\$8.79	\$6.63	\$9.07
	171,977,900	195,339,300	219,939,552	247,772,953	273,272,953	297,018,491	319,942,170	352,214,026

CAB Premiums at Seven-year High CONTINUED FROM PAGE 163

four years by CAB fiscal year (Oct.-Sept.) vs. calendar year (Table 2, page 162) helps to illustrate the fourth-quarter strength in beef prices in 2010 and 2011. 2012 is off to a roaring start. The USDA report that tends to under-report CAB premiums recorded a weekly rate of \$8 in January.

“Of course, that could be seasonal, and it is way too early to talk about a trend for the year,” says Kansas State University economist Ted Schroeder.

There is much volatility and uncertainty

in the market, with severely negative packer margins. But with all beef priced at historic highs, a trigger level may turn consumers toward either higher-quality beef for a little more premium or away from beef toward other proteins.

“We also know that not all cattle qualifying for CAB receive a grid premium,” Schroeder says. “Many are sold in ways that return a commodity price to the seller, but enable the packer to capture CAB premiums for the beef.”

The 40% jump in reported total CAB grid premiums — when USDA’s muted reporting system shows little change — probably means a lot more CAB-qualifying cattle sold on a value-based formula or grid last year.

“That says if you want in on the higher CAB premiums, you should look at selling your cattle on a value-based grid that pays a competitive rate for those that qualify for CAB,” he adds.

