One Brand Defines Premium Demand

CAB vs. Choice cutout value often similar to Choice-Select spread.

by **Steve Suther**

Premiums paid for *Certified Angus Beef*® (CAB®) products continue to build demand for high-quality beef, according to private and government reporting services.

When demand for beef faltered last summer, Cattle-Fax noted an exception for high quality in its July newsletter. It did not include USDA Choice in the exception.

"As the Choice-Select spread narrowed, premiums for higher-quality beef products have remained relatively wide," wrote analyst Mike Miller. "Using Urner Barry's *Certified Angus Beef* cutout value as a proxy, premium products are still garnering a $6.50-per-hundredweight (cwt.) premium to Choice, even as the Choice-Select spread has moved to around $3 per hundredweight."

Urner Barry Publishing Inc. has reported meat trade prices since 1858 and purchased the industry-leading *Yellow Sheet* newsletter in 1992. That publication began to report weekly CAB boxed beef cutout values in April 2001. Editor Joe Muldowney says it is not unusual for the CAB-Choice price spread to be wider than the Choice-Select spread. In fact, it happens more than a third of the time, including 30 of the 52 weeks in 2004. Producers may not have realized the significance of CAB demand at a time when cash markets captured more of their attention and cattle.

Increasing premiums

Miller said the CAB-Choice spread average of $7.40 per cwt. seen last July was down from $9.20 in 2004, but still wider than in 2003 or 2002. The Urner Barry quoted CAB-Choice cutout spread for all of 2003 was $8.00 per cwt., $7.51 per cwt. for 2004, and $6.41 per cwt. for the first 49 weeks of 2005, varying by season.

"Getting that entire premium on either a grid or formula is a different story, but nevertheless these premiums remain very stable," he noted. "Prices for cattle that qualify for premium programs should continue to increase over time, compared to either commodity Choice or Select, as more products are sold under a brand name."

However, Miller added, there must be a distinction between CAB and simply "premium Choice" products selling under a brand name.

"We need to have some kind of proxy to represent the high-quality brands, but we also need to keep in mind that the premiums available for many other brands in this category pale in comparison to those that the CAB brand commands," he said.

Muldowney agrees. "USDA reports premiums paid for branded programs, which include everything that has a specification of at least average Choice. But, if there is no commission to pay, the selling price can vary a lot. A packer may sell premium product for just a little more than Choice price," he explains.

That's one reason the USDA-reported cutout value for branded programs is often significantly lower than the CAB cutout reported by Urner Barry. Another reason is the more automated nature of USDA reporting, Muldowney says, and its use of 21-day spot market prices. By contrast, Urner Barry uses a more current, 10-day spot price in its exclusively voluntary, interview-based program.

USDA encounters similar disparities in trying to report premiums paid to producers for cattle accepted into all those programs considered as "branded quality," average Choice or better. Its "National Weekly Direct Slaughter Cattle — Premiums and Discounts" report *(wwww.ams.usda.gov/lsmnpubs/csdn.htm)* for the week ending Dec. 16, 2005, illustrates the problem. It shows a range of premiums for "average Choice or better" of $0.00 to $12.78 and a simple average of $2.03. It is not uncommon for academia to refer to this USDA report to quantify premiums for branded quality, showing scant incentive in comparison to CAB premiums.

"Prices for branded programs are not easy to report on when you combine them," Muldowney explains. "CAB has the reputation — consumers know it is good stuff — and it has the rigid specifications. Others are still in a proving stage.

"Several years ago, when people wanted us to quote 'a premium program,' right or wrong, we chose to quote CAB, because it goes across virtually all packers and was recognized as the standard for all premium programs. It was the largest and everybody could relate to it," Muldowney says. "Consistency is just as important when you are putting out market quotations as when you are putting out a product."

Miller says Cattle-Fax was to quote the Urner Barry CAB cutout values weekly beginning in January 2006.

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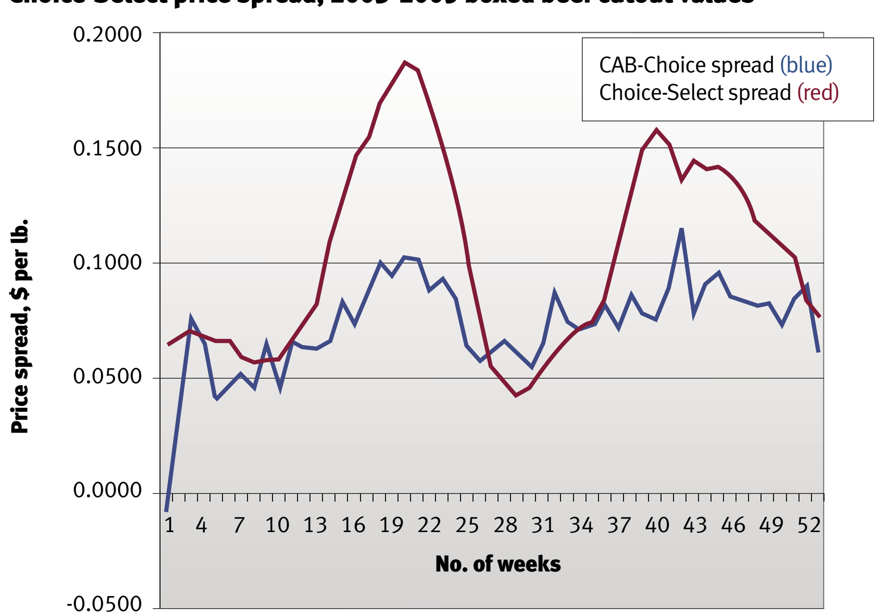
Fig. 1: Three-year average CAB-Choice price spread and three-year average Choice-Select price spread, 2003-2005 boxed beef cutout values



Source: Urner Barry