CAB Corner on Quality
(graphic file logo for heading available on request)

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Brighter New Year, But "Normal?"

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Last year was born in the shadow of the first confirmed case of bovine spongiform encephalopathy (BSE) on U.S. soil. Canada, Mexico, Japan, China and almost every other major importing country closed their borders to U.S. beef. Quite a blow but softened by the times: record high demand, record low cattle supplies and, as a result, record high cattle prices.

Fast-forward to today, when the year opens concurrent with announced opening of the border to Canadian cattle. Mexico, Canada and a few others are allowing restricted importation of U.S. beef. Although another case of BSE is confirmed in Canada, a year of adjustment and planning shrugs it off.

Japanese borders remain closed to American beef, yet we saw the highest annual average fat cattle price ever. The beef industry faces many challenges as we usher in this New Year. Certified Angus Beef LLC (CAB) has been affected by the past year's events, but nonetheless resilient. The average CAB boxed beef cutout ended 2004 trading significantly higher than commodity Choice product.

CAB's fiscal year starts in October, so at the door to 2005, we are already one full quarter into what is shaping up to be a prosperous year.

Numbers for cattle identified as Angus or Angus-influenced (A-stamped) and eligible for CAB carcass evaluation—and those actually certified into the program are both up about 11.0% over a year ago.

CAB acceptance rates have remained flat at 15.6%, because of unique market conditions. The market "pulled" cattle forward a year ago, lowering carcass weights and restricting marbling levels. By contrast, cattle today are being "pushed" to weights that are 27 lb. heavier, and to the point that high Yield Grade is preventing CAB acceptance.

How have we achieved an 11.0% increase in identified and certified numbers with a flat acceptance rate and federally inspected steer and heifer kills limited to a 2.0% increase? It's because the number of Angus-influenced cattle in the harvest mix continues to climb reaching about 53% at licensed plants today, an increase of more than two percentage points in a year.

As we increase the number of Angus-influenced cattle in the herd, demand for CAB product continues to follow the trend. Product movement under the brand is on track to achieve a goal of 10% growth in 2005. Though International trade is still down significantly due to many closed markets, CAB product movement is recovering faster than commodity beef where markets are reopened. It shows in CAB's export market-share increase from 3.7% to 4.5%.

In Foodservice markets, the 11% increase in product movement is due in part to recovered tourism in hurricane-stricken Florida, and restaurateurs finding more value and opportunity to offer CAB on their menus. CAB features are also becoming more attractive at retail versus other beef options and competing proteins, boosting retail sales by 20% over the same quarter last year.

To see the whole picture for 2005, we must note the number of brands offered today. The total number of branded beef programs listed by USDA has climbed to 50. Of those, 70% use the word Angus in the name. However, CAB maintains an 80% market-share in the field against other certified programs with "Angus" and Modest or higher marbling claims.

When will Japan open its borders? Will weather conditions and markets allow for the retention of females and growth in the herd? If the herd grows, will demand support current price levels? There are still too many unknowns to define "normalcy," let alone predict if we will begin to see its return to the marketplace at some level. Only time will tell. However, one thing remains definite as we move into 2005: demand for CAB branded products is strong, both domestically and abroad.

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