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Better beef trend explored

The first half of 2010 has been a wild ride in the cattle business, but the trend toward higher quality beef continues, according to Paul Dykstra, beef cattle specialist with the *Certified Angus Beef*[®] (CAB[®]) brand. He tracks variations in USDA harvest and grading reports in the weekly e-newsletter column, *Rearview Mirror on Quality*.

“Relatively attractive prices for cull cows and bulls beefed up overall supplies since last winter, the number of all cattle harvested being up 1.8% over 2009,” Dykstra says. “That’s ironic, considering the U.S. cowherd is still shrinking at an annual rate of about 2%. It also means we are likely to see fewer of these culls on the market the rest of this year.”

Prospects for a turnaround in herd inventories are dim, because the heifer share of federally inspected harvest was up 1.7% in the first half of 2010, compared to 2009.

The fed cattle side shows a similar increase in head harvested, up nearly 1% for that first half. But Dykstra says there’s a lot going on behind that number.

“Carcass weights for fed cattle were down by a large gap compared to the prior year,” he notes. Steer carcasses fell back 18 pounds (lb.) on average to 821 lb.; the heifers, at 758 lb., were 17 lb. off the 2009 mark. Why? “Winter hit the U.S. feeding belt with particular force. Cold, wet conditions persisted, leaving most feedlots with daily gains and feed conversions in dire condition. Pens were sent to market early or well below target weights just to get it over with and stop the expense meter.”

Packers have seen profits for much of this year, and feedlots in the top five states had a nice run since the mid-March mid-\$90s to a six-week sustained average above \$98 per hundredweight (cwt.), Dykstra says. “Both were willing to keep the harvest chains full at those prices, so the bottom line is that it took more cattle to reach the packers’ sales-volume targets.” The net result is a 1.2% decrease in tonnage of fed cattle carcass beef, despite the higher head count.

The other side of the coin is the continued uptrend in available Choice and Prime grade beef. It started in 2008 when the share of Choice beef moved up from 52% to 55.4%, followed by a similar jump to 58.9% Choice in 2009.

“The sudden and sustained move had everybody searching for causes,” Dykstra notes. “Genetics, instrument grading and feedlot rations that optimized distillers by-products could all figure in.”

Regardless of cause, numbers say it’s real, he says. “The first-half 2010 share of Choice is 62.5%, with another 3.1% Prime – a 10 percentage-point increase in the share of Choice cattle in the mix since 2007, and more than a point gain in the share of Prime means that grade volume is up by a third in less than three years.

“Maybe the rough winter this year boosted quality grade,” Dykstra adds. “Research indicates greater feed intake in cold weather tends to improve marbling.”

Lower carcass weights aside, improved grading meant an increase of 2.67% in total Choice beef available, along with a 10.6% increase in Prime production. “That’s like 8,337 more Choice carcasses and 1,523 added Prime carcasses per week compared to last year – about one day’s total head-count for two large packing plants every week,” the beef specialist says.

And that’s good news. “Bear in mind this is not an added supply burden on the market,” he says, “but the replacement of lower quality product, mainly the Select grade, with higher quality product. That bodes well for satisfying U.S. beef consumer at home and abroad.”

However, it did not bode so well for premiums in the short-term market.

“The narrow Choice/Select price spread for a couple of years was partly due to better cattle, partly due to the recession that shifted consumer dollars from dine-out to dine-in,” Dykstra says. The effect was severe, but gradually lessened with recovery, and as retailers began to carry more premium beef. That helped the spread climb from nothing to the \$9 area by this summer.

“But with beef quality on a higher plateau now, it takes a higher percentage of Choice and better cattle in each group to win premiums on the typical grid that pays when you beat the plant average,” he explains. That \$9 spread means a pen grading 100% Choice earns premiums on just a third of those cattle in northern markets where Nebraska packers have averaged 68% Choice so far in 2010. Kansas packers are harvesting 63% Choice cattle, while the Texans have seen a 51% Choice average this year, improvements of 4.4 and 3.7 percentage points, respectively.

“Moving forward, the next logical goal for producers is getting more cattle qualified for a premium brand like CAB or USDA Prime,” Dykstra says. “With payouts ranging from \$2/cwt. to \$5/cwt. on top of the Choice price for CAB, and Prime prices from \$10/cwt. to \$13/cwt. above Choice, the motivation is clear.”

The good news is that the better groups of carcass-oriented cattle are surpassing those higher packer-averages for Choice, and even average cattle are going 28.4% premium branded and Prime. Black-hided cattle in the mix have increased to 63%, compared to 60% year-to-date in 2009.

“Cattlemen have responded to long-term demand with genetic selection and management,” he adds. “Many of the better pens of Angus cattle today can reach 60% or 70% CAB acceptance, and

often upwards of 15% Prime.” When they do that with acceptable dressing percentage and yield grades, the premiums flow.

END of text; see table below.

U.S. Weekly Average Production	First Half of Calendar Year			
	2009	2010		% Change
F.I. Cattle Harvest, Thousand Hd.	634.4	645.9	↑	1.80%
Fed Cattle Harvest, Thousand Hd.	507.3	512.3	↑	1.00%
Fed Cattle % of Total F.I. Harvest	79.9%	79.3%	↓	-0.01%
Steer Carcass Weight, Lb.	839	821	↓	-2.20%
Heifer Carcass Weight, Lb.	775	758	↓	-2.20%
Fed Cattle Carcass Prod., Mil Lb.	413.4	408.3	↓	-1.00%
U.S. Prime %	2.79%	3.12%	↑	11.80%
U.S. Choice %	60.13%	62.54%	↑	4.01%
U.S. Prime Production, Mil Lb.	11.5	12.7	↑	10.50%
U.S. Choice Production, Mil Lb.	248.5	255.1	↑	2.70%
% Choice Carcasses in Premium Choice*	22.92%	25.27%	↑	10.30%
*Note: Premium Choice reflects only USDA certified brands.				