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**NEWS**

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## Commodity beef hit harder by economic downturn

*Quality shines in tough times*

Amid news of decreased consumer spending and falling stock prices, the beef industry has its bright spots.

Market analyst Dillon Feuz says overall protein purchasing patterns point out a dedication to beef.

“So far the data has not shown that consumers have really cut back on beef consumption,” he says. “They’ve just altered that consumption.”

The demand for middle meats like the ribeye and loin has softened, but grinds and economy cuts from the chuck and round have grown in popularity.

At the same time, consumer dollars keep voicing a preference for high quality, across all cuts. Certified Angus Beef LLC (CAB) set a record for the largest January sales in the history of the company at 54 million pounds (lb.).

That tenth-largest sales month ever helps put the company’s business up 2% since October 1, over the previous fiscal year, which made its own headlines.

“In today’s marketplace for any business to be up is impressive, especially when you consider that we’re up against the highest year in the history of the program,” say Brent Eichar, the company’s senior vice president. Last year licensees marketed a record 634 million lb. of *Certified Angus Beef*<sup>®</sup> (CAB<sup>®</sup>) brand product.

Customer loyalty helps insulate CAB somewhat from the fluctuations seen with commodity beef, Feuz says.

“I think the message this sends the production community is that flavor is still top of mind for consumers, and that marbling really matters,” Eichar says.

Feuz says the Choice/Select spread, down to the lowest levels since 2005, might be misleading as a market signal right now.

“There is so much going on where the overall economy is just changing all the historical relationships,” he says. “It’s hard to tell what is happening because of some current supply-demand situations within the beef market, and how much of it is just overall economics driving prices lower.”

While the supply of commodity Choice beef is up more than 3% over last year, the effect of that greater supply of product is magnified as shoppers trade down to lesser cuts.

“That’s probably the main factor now pressuring the Choice/Select spread, just that the middle meats aren’t selling as well,” Feuz says.

Eichar notes the main reason for a wide Choice/Select spread in 2007 was demand for the loin and rib.

“The middle meats carried almost the entire premium. It was not on overall carcass value,” he says.

The past few years, the lack of exports to Korea and Japan kept pressure on the Choice/Select spread, too.

“When they were out of the market, even though we weren’t necessarily producing more, we effectively had more Choice product in the U.S. market,” Feuz says.

Gaining access to those other outlets has been key for CAB. Although Mexican exports declined sharply as the U.S. dollar regained value against the peso, CAB has been successful in growing business in Canada and South Korea. The latter is already up 3 million lb. over last year’s sales.

Still, Eichar says, “It’s not all roses.”

Middle meats are selling at a discount to last year and food service sales are down 5%. Retail is aggressively trying to move that additional product by offering features and discounts. Savvy buyers might realize this is a time to get more for the dollars they’re laying out.

“You may actually see an increase in sales of CAB,” Feuz explains, “where buyers are saying, ‘Boy, I can now get this superior product for just a little more money than what I can get commodity beef for.’ If they get that product and it’s a positive eating experience, then as markets come back and that spread widens, CAB may have hooked more customers.”

In this decade, CAB demand easily improved to pre-2002 levels and has been on an increasing plane every year since. Projections are to sell more pounds this year at only a slightly lower price, indicating that demand is still strong, Eichar says.

“Although grading seems to be up this year, we’re going to need increasing supply to get to our goal of a billion pounds in the next 10 to 20 years,” he says. “And I do believe we have demand for a billion pounds. When you can move contrary to consumer confidence, that bodes well for your product.”

Feuz has the same optimism for the beef category as a whole.

“When the economy stabilizes and that fear factor is gone, if we’ve maintained our customer base, we’ll be in a much better position,” he says. “Prices will rebound much quicker than if people had gone away from beef to pork or poultry.”

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