

THE GOOD, THE BAD AND THE PROMISING

Amid current struggles, strong 2021 beef demand points to an optimistic outlook.

by Paul Dykstra, Certified Angus Beef

Patterns can be pretty reliable in a business like the cattle business, but in the past two years, both the live-cattle and beef market charted courses detached from recent history.

The 2020 market year was understandably in disarray, beginning in March. The fed-cattle backlog set in motion by plant closures and a slowing supply chain resulted in the predicted months-long issue of working through heavy, long-fed cattle marketings.

The first quarter of 2021 was supposed to bring the last of the ultra-heavy carcasses across the packers' scales. Yet, the retrospective view of the year, even into January 2022, shows that currentness has not returned for any significant period of time to the fed-cattle sector. Despite some progress with packer throughput in the past year, the marketing story of 2021 is anchored in slower-than-ideal processing speeds.

Using carcass weights as a proxy for currentness in the fed-cattle sector (see Fig. 1), it's easy to see that 2021 didn't offer much improvement compared to the prior year. Combined steer and heifer carcass weights averaged 877 pounds (lb.) in 2021, just 3 lb. lower than in 2020, but still 23 lb. heavier than in 2019. Closing out December, carcass weights broke above the 2021 December trend in an unseasonal pattern.

The number of cattle on feed for more than 150 days in the fourth quarter of 2021 also outpaced the 2020 head count for the same period — another indicator currentness in the feedlot sector was not achieved.

Divergent prices

Record cutouts. Record grade. Improving demand. These factors created divided pricing stories for cattle and wholesale beef prices (cutout) in the past year, a continuation of the trend set in play at the beginning of the pandemic.

The bottleneck in the packing sector kept fed-cattle prices in check yet again during 2021, although much improved over the prior year. The five-state fed-steer

price averaged just \$108 per hundredweight (cwt.) in 2020 vs. \$122 per cwt. in 2021, a 13% advance.

Yet the comprehensive cutout price advance from the 2020 average of \$233 per cwt. to \$275 in 2021 was an 18% change. From 2019 to 2021 the dressed delivered steer prices declined from 85% of the comprehensive cutout value to 71%. This is a reflection of the backlog of fed cattle and the extended trailing effect it had on depressing cattle prices.

Strengthening beef demand was not deterred as record annual cutout prices were posted in 2021 (see Fig. 2, page 130). Unseasonal price spikes for several subprimal cuts, particularly the ribeye, elevated total carcass cutouts to new heights, most notably in the second through fourth quarters.

Just as customers were seeing record beef prices in the grocery store, the spreads between each of the beef quality grades reached

record-wide for the year. The Choice-Select spread touched a record one-week high of \$32 per cwt. in mid-summer, while that measure averaged \$16.45 per cwt. for the year. That's compared to \$8.75 per cwt. in 2021 and \$10.47 per cwt. in the five-year average.

USDA Prime premiums above Choice were also record-high last year, touching \$84 per cwt. in November and averaging \$45.71 per cwt. for the year. The *Certified Angus Beef*® (CAB®) brand premium to Choice has been resilient for the past two years, averaging \$17 per cwt. during that period, pushing to this new threshold after averaging \$12 per cwt. in the previous five years.

Through November, annual U.S. beef exports were 16% larger in 2021 than the year prior, with export value up 39%.

The record-wide price spreads occurred counter to what one would expect, since carcass quality simultaneously pressed higher — to the richest in modern history.

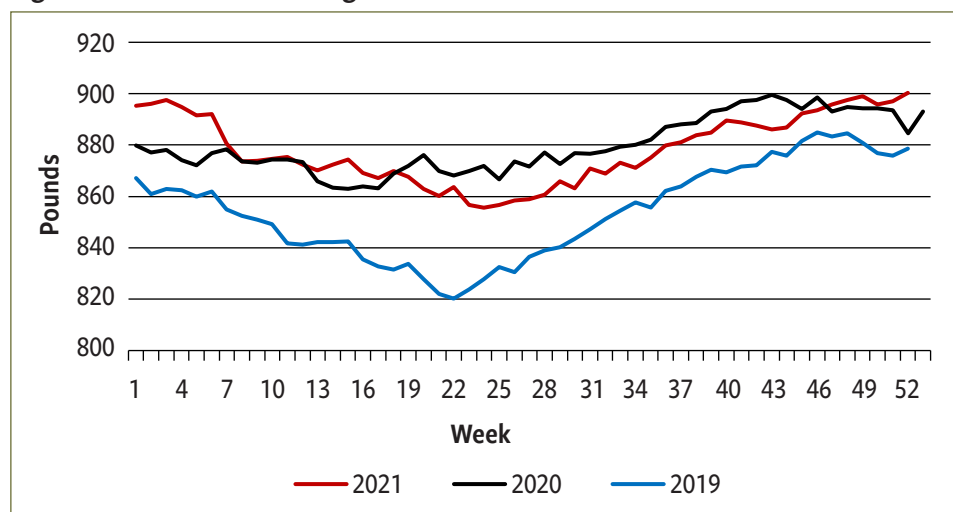
The Prime category continues to capture a larger share of the fed-cattle carcass mix, averaging 10% across the industry for the past two years. That's double the rate posted as recently as 2015.

At 72% of the mix, the Choice grade was also steadily at a record high for the past two years. That represents a culmination of 15 years of carcass quality improvement, pulling Choice up from just 51% of fed cattle in 2006.

The number of CAB carcasses was up 8% in 2021, with weekly head-count totals near 115,000 head.

The rate at which brand-

Fig. 1: Fed-cattle carcass weights



SOURCE: USDA.

Continued on page 130

eligible carcasses were certified was steady at 36%.

Overfed

One of the negative aspects of the fed-cattle backlog has been the fact that increased days on feed and heavier finished cattle weights have added to the Yield Grade (YG) 4 and 5 categories. As of October, the combined YG 4 and YG 5 total had reached just less than 20%, roughly double the share produced in 2011.

As the market-ready fed-cattle supply becomes more current, expected later this year, average days on feed should arguably decline. If that trend develops, then we'd expect to see fewer overfinished cattle and a smaller proportion of YG 4s and 5s as a result.

Cattle supply and beef demand expectations for 2022 are optimistic as the national beef

cow herd continues to decline due to drought conditions in the northern and western parts of the country. Several companies have planned to expand packing capacity, but the timeline for those facilities to commence slaughter suggests those developments will not change throughput for several months.

Even so, the cattleman's share of carcass cutout values is set to

increase as packers find fewer finished cattle to choose from in the near future.

If demand holds at the most recent levels, cutout values should remain high, with continued larger gross values for finished cattle. Considering the production factors of the past two years, it's logical to consider that advances in carcass quality, or higher marbling scores, will be less likely to develop in

2022 than in the previous two years.

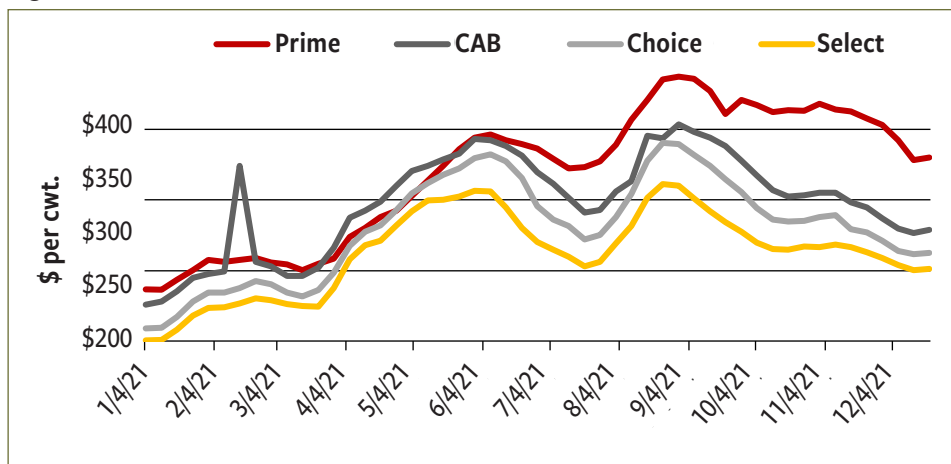
With this said, price spreads for higher-quality carcasses are also more likely than not to remain wider than they have historically. Seasonal fluctuations in supply and demand for premium cattle and resulting carcasses will logically create varied ranges in the quality price spreads throughout the year.

Even though a smaller share of packer wholesale values found their way to cattlemen in the past two years, it appears that packer grid premiums should be supported by wider wholesale boxed-beef spreads.

After a couple of years of historic highs and going off-trend, it's time to write 2022's history. I'm as optimistic as anybody about that. █

Editor's note: Paul Dykstra is assistant director of supply management and analysis for CAB.

Fig. 2: 2021 carcass cutout values



SOURCE: USDA Urner Barry.