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As Predicted

2022 saw increased prices, improved slaughter pace and higher quality-grade premiums.

by Paul Dykstra, Certified Angus Beef

Heading into 2022, we had a relatively solid idea of where the market was headed. The picture just got clearer as the year played out.

Several of the predictions that kicked off 2022 proved true in aspects of the business that are slow to change or predicated by conditions already set in place. Higher input costs in several categories extended their trend through 2022, but were exacerbated by inflation rates that were higher than anticipated upon initial upticks in 2021.

Weather patterns suggested *La Niña's* hot and dry conditions would remain throughout the year, culminating in a broader scope of the United States being in drought conditions through early winter. This furthered the beef cow culling trend while cutting a deeper trough through the cow herd than anticipated in January.

Closer to normal

The improvement in supply chain throughput at the packing level was a welcome trend shift for all beef business participants. While the first few months of the year, in particular, remained plagued by packing plant workforce shortages as a hangover from COVID, this began to right itself beginning in the second quarter.

By midyear, fed-cattle slaughter totals were topping prior-year head counts, bringing about a much more current fed-cattle supply. Through year's end, the 2022 daily and weekly head counts were often larger than in 2021.

Larger-than-normal feedlot placements in the spring, spurred by drought conditions in grazing areas, set the stage for larger subsequent finished cattle supplies in the third and fourth quarters (Q3 and Q4).

Finished cattle became more readily available in the South through this period, but the northern tier of the cattle-feeding region saw tighter supplies of market-ready cattle. This drove the north-to-south fed-cattle price spread to its record-wide range, near $10 per hundredweight (cwt.), in late summer, early fall. Concrete numbers are difficult to source, but the southern region's expanded focus on beef-on-dairy fed cattle harvested in those fed-cattle packing plants played a role in the expanded southern supply.

Trickle down

Further down the supply chain, changes in the fed-cattle boxed-beef mix affected price spreads between quality grades and branded beef. The most notable shift was the supply of USDA Prime-graded product.

Fed-cattle carcasses qualifying for the highest USDA quality grade were harder to come by as Prime slipped from 10% of federally graded steers and heifers to 8.9% in 2022. The 1.1 percentage point drop seems hardly worth mentioning; however, stated in estimated pounds of carcass weight, this translates to an 11% drop below the industry's 2021 Prime production volume.

The shift to smaller Prime cut availability came just as end users, particularly grocers, had become accustomed to broader availability of the product.

As far back as 1997, the year our USDA data set begins, the industry produced 2%-3% Prime carcasses every year without fail. Improved genetics, technology and heavier carcasses moved the number to 4% in 2014, 5% in 2015 and so on until 2020 and 2021 both notched industry averages of 10% Prime. Bolstered, no doubt, by the backlog of fed cattle and heavier carcass weights, those two years were the peak.

In 2022 we saw the annual average Prime percentage fall to 8.9%. Yet, retailers had begun including Prime in their meatcase as customers proved their commitment to high-quality beef and willingness to pay, coupled with broader availability.

Many *Certified Angus Beef®* (CAB®) brand licensed partners began offering the CAB Prime extension in their meatcases, with some smaller chains trading their entire offering up during the past few years. This year's 11% dip (down 6.8% for CAB Prime) in previously record-large Prime product supplies collided with better-than-ever consumer demand for Prime product.

This generated a record-large Prime carcass cutout premium over Choice of $92 per cwt. last October, $8 per cwt. higher than the previous October high. Cattle feeders pulled in Prime grid premiums of $30-$33 per cwt. during this period, with Choice already commanding roughly $8.50 per cwt. net over the cash carcass price, on average.

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The price-for-quality relationship continued to expand beyond the Prime category, driving a larger spread between premium Choice, low Choice and Select. The potentially outdated bellwether "Choice-Select spread" ranged widely on predictable seasonal fluctuations in carcass grading trends and consumer demand.

The low end of the Choice premium range was recognized briefly last February at $3.97 per cwt. when weekly Choice production peaked and quality middle-meat demand was seasonally low. The top end of the range was 10 times as high as the low, with a daily high in late October of a $35.69 per cwt. premium over Select.

Choice premiums climbed from the first half of the year to mark an extended trend of highs during the second half, averaging just more than $18 per cwt. for the year according to USDA.

Strong year for brand

Of course, many readers here would look to the CAB brand sales as a more accurate measure of high-quality beef demand. In fiscal year 2022, the brand posted its second-largest-ever sales volume at 1.234 billion pounds (lb.), a 1.6% increase on the prior year. The number of Angus-type animals identified at CAB-licensed packers rose 1.7% to 16.38 million head eligible for the brand. That's 70% of the fed steers and heifers nationwide.

Table 1: Carcass cutout spreads, $/cwt.

Prime-CAB®	$38.76
CAB-Choice	$17.09
Choice-Select	$17.52
Select-No Roll	$12.79

SOURCE: Urner Barry, USDA, 2022.

At 35.5%, there was a slight reduction in the percentage that qualified for the brand. However, placed in historical context, that was more than double that of 15 years ago. The 1.3 percentage point decline in accepted carcasses resulted in a net decline of 2.2% in total certified head count, which was to be expected after inflated marbling levels due to harvest delays and long-fed cattle in the past two years.

Carcass weights through April ran record-large for the period, while the slaughter pace ran slightly below the prior year. The weight trend pulled rapidly lower in May, however, in a trend line essentially matching that of 2021 for the rest of the year.

The weighted average fed-cattle carcass weight in mid-December was 880 lb., 2 lb. heavier than the prior year and equal to the record-high 2020 average brought on by the pandemic backlog. Steers were down 1.8% in the fed-cattle mix, and heifers increased by 4.8%, pulling the weighted average lower since they were 75 lb. less than their steer counterparts last year.

Increasing carcass weights are not a new theme, and odds favor a continuation of the trend.

This is not only true due to the long-term trend for a 5-lb. annual increase in weights, but also due to the exceptional decline in beef cow numbers, expected to culminate in

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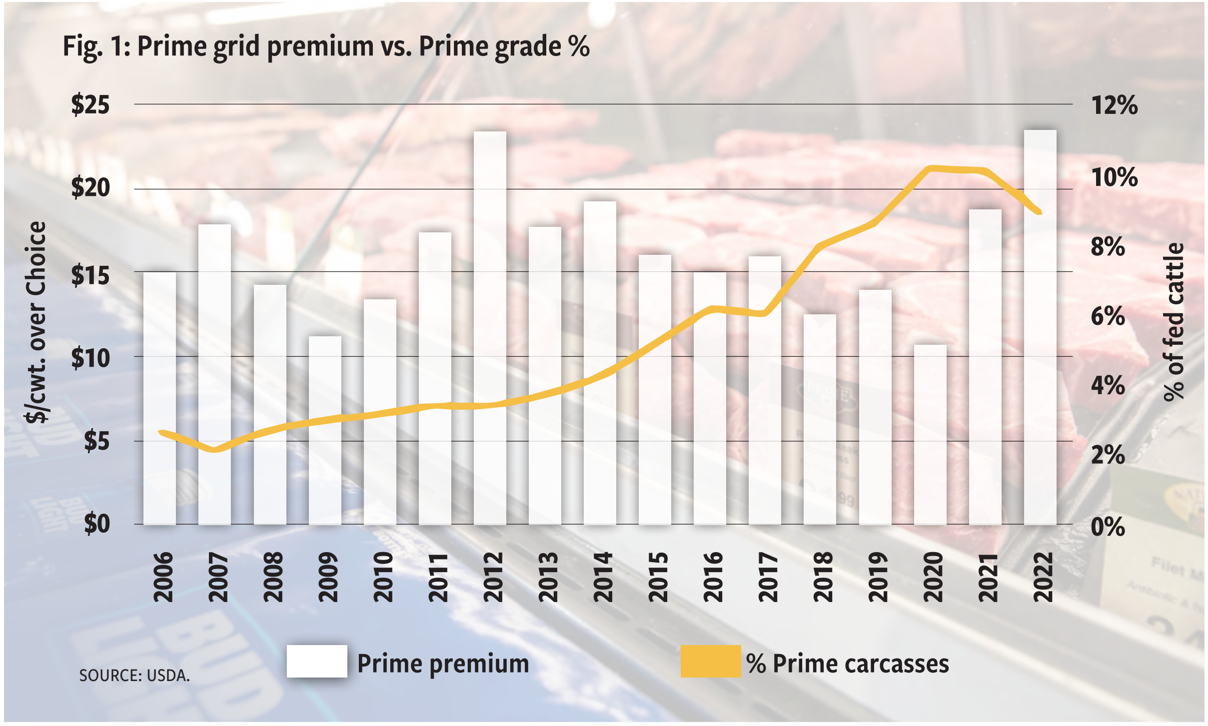
1 million fewer cows in the final Jan. 1 USDA report.

Cattle feeders expect to see higher average fed-cattle prices in 2023, but they also face higher replacement cattle costs. The latter will continue to push breakevens higher and, if history is any predictor, many replacement cattle will be priced above those breakevens.

All of those factors place votes in the column for increasing weights going forward as feedyards opt to add days to cattle already on inventory.

On the other hand, rising feed-input costs pressure feed efficiency on a liveweight basis toward the end of the feeding period. This factor keeps cattle feeders who market on a liveweight basis cognizant of rapidly disappearing profitability on cattle in the heaviest of weight classes.



The beef sector attempted to shore up the fed-cattle shortage in 2014-2016 with added weight per head, and it will certainly be a factor to watch in the next few years. However, 2022 average carcass weights are already 22 lb. heavier than in 2015-2016.

Lessons learned

Most know supply and demand factors aligned much more favorably than in any of the previous years as they relate to cattle prices and leverage. Yet, even with exceptional demand, the production sector can't shrug off the cost side of the equation.

Fed cattle need to be worth the projected 2023 prices at and above $160 per cwt. to generate enough revenue from the feedyard back to the ranch to combat higher input costs throughout the calf's life cycle.

If there was a lesson in 2022, it was that the beef market is very sensitive to declines in quality grade, as evidenced through price signals. It's the first time in recent history where we've gone backwards — albeit ever so slightly — and customers are telling us they have unfulfilled demand. That's reflected in the premiums paid, and that's saying something after two years of extremely high premiums.

We've hit a new plateau, and the cattlemen who continue to include carcass quality as a piece of their selection criteria will be primed to take advantage. ABB

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