



Your Link to

by **BRENT EICHAR**, senior vice president, *Certified Angus Beef LLC*



You've got the power

There have been few dull moments in the beef industry of this decade. Last year will be remembered for its incidents of bovine spongiform encephalopathy (BSE), as well as record-high beef prices and premiums for high-quality cattle. By late fall, some Angus cattle accepted as *Certified Angus Beef*® (CAB®) brand Prime brought home more than \$400 per head in quality premiums. Supplies were shrinking, while demand remained firm.

Early in the year, producers saw favorable fed-cattle prices as a gift and began selling a few weeks early. That boosted beef supplies above the five-year trend from April to September, but strong demand supported prices. Soon, all beef was in short supply, but especially high-quality beef. Many cattle that needed more time to cross from low-Choice to CAB never got the chance.

We know that the best Angus cattle still make the grade when sold early, but a huge share of supply comes from crossbred populations with less focused carcass genetics. That's why matters got worse last fall, when demand for all beef

outpaced supplies with a big spike in November prices. Even more cattle were pulled from what should have been future supplies. That hit CAB doubly hard because the smaller supply came in smaller packages. Hot carcass weights stayed 10 pounds (lb.) below the five-year average for months.

Supplies fell into a hole as we started fiscal year (FY) 2004 in October. Overall, U.S. beef production dropped 9.7% in the first half of CAB's fiscal year. Identified black-hided cattle were off just 8.6%, but acceptance rates had fallen sharply (see charts). Compounded by those lighter carcasses, supplies to meet demand for the brand declined 18.8% from October through April.

In the first quarter of this calendar year, identified black-hided cattle at licensed plants were down just 3.3%, compared to overall supplies at those plants dipping 8.9%. Certified numbers were still down 15.5%, and hot carcass weights were down 18 lb., about 4 million fewer pounds of boxed beef due to lighter weights alone. That's a serious

hole, but producers have the incentive and means to climb out and build something better.

Historical perspective

The cattle industry's cyclical nature means supplies will rise and fall in response to demand, as communicated by price. Historically, this has been a 10- to 12-year timespan, but that has stretched out in recent cycles. It spanned 16 years between the beef production high mark in 1986 and the most recent peak in 2002. Similarly, 14 years separate the last low mark in 1990 with the projected valley of 25.6 billion lb. in 2004.

On the bright side, this is a high valley, 1.4 billion lb. above the 1986 peak. Consumer spending for beef is 150% of what it was in 1986, which helps explain why beef production is

expected to move higher again in 2005.

Against the backdrop of overall U.S. beef supply declines in the late 1980s, CAB supplies shot upward with double-digit percentage growth — mostly from adding more licensed packing plants. The current downturn in the U.S. beef supply marks the first time there has

been a parallel effect on CAB supplies, simply because there are few additional packing plants to license. But, despite obstacles to export trade, CAB demand remains strong today.

Rays of hope

Let's look at all the reasons why CAB acceptance should increase as we work through this valley year. Market conditions that lead producers to sell cattle too "green" can't last. Producers will eventually stop trying to guess about the commodity market and let cattle dictate sale day based on having reached their potential. When the dynamic shifts, quality grades will improve significantly.

Angus-type cattle continue to make up more than half of the steer and heifer harvest. Producer surveys indicate more than 60% are buying registered Angus bulls, so those are not just black-hided cattle. Genetic improvement tools such as expected progeny differences (EPDs) and ultrasound have allowed for great strides since 1998. That's when producers started to notice that CAB grid premiums had reached \$5 million. Within five years, those premiums were 10 times higher, and producers were armed with the means to greatly increase CAB acceptance in their herds.

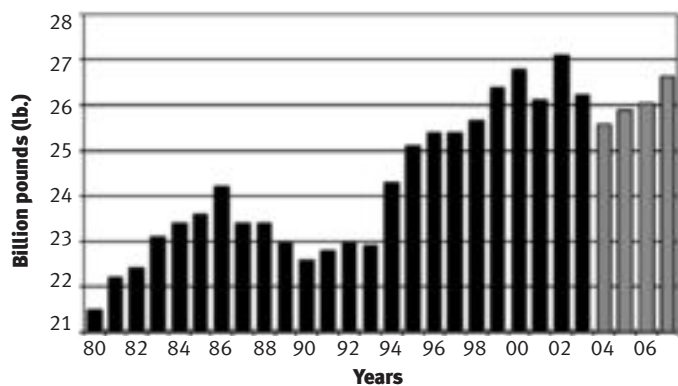
Change is constant, but nothing happens overnight in the cattle industry. If you noticed those higher grid premiums when first reported at \$25 million in 2001, perhaps you made genetic changes that year and the first progeny were harvested last year. More likely, a wave of genetically carcass-improved Angus cattle is just about to enter the supply pipeline. Recent record Choice-Select spreads will fuel the change. As heifers are retained, the multiplier effects will kick in during the next several years.

Much of this positive scenario depends on producers responding to market signals — making use of the genetic and management tools available — and networking to help each other prosper. You can get in on some of the Angus premiums just by advertising that you have Angus calves to sell. But near-term history suggests the biggest rewards will go to those who cooperate and share in value discovery farther down the supply chain.



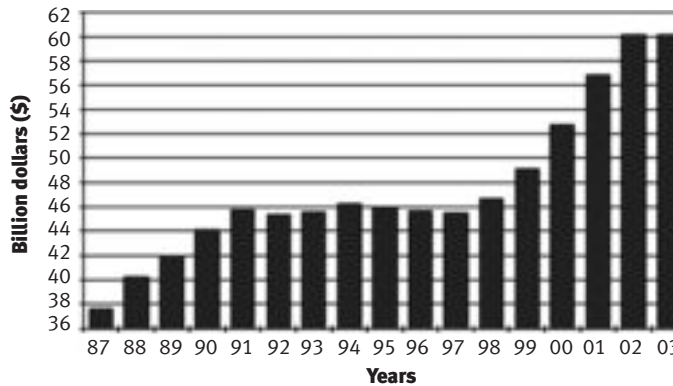
Put superior genetic selection tools together with coordinated management strategies for a bright payday.

Fig. 1: Beef production*



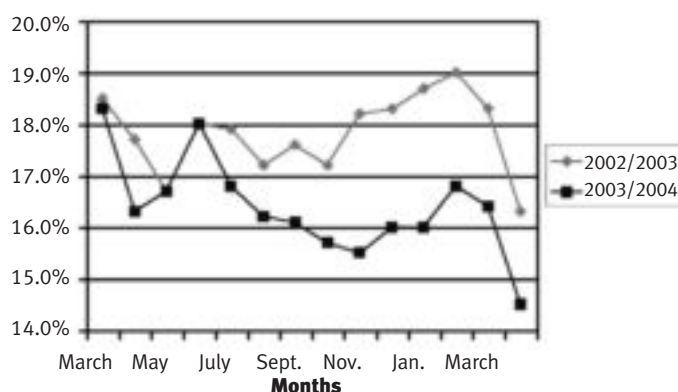
Source: USDA and Cattle-Fax
*2004-2007 projected

Fig. 2: U.S. consumer expenditures on beef*



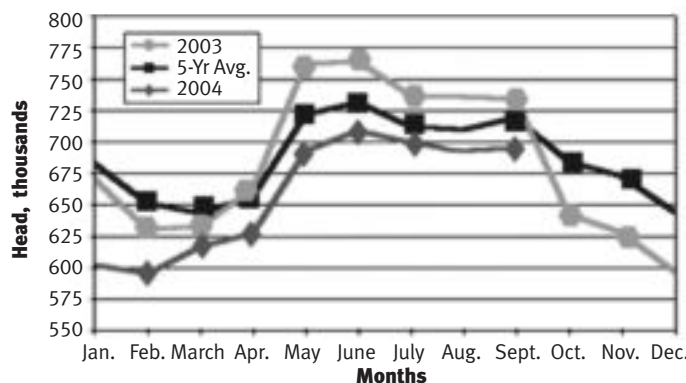
Source: USDA and Cattle-Fax
*Domestic disappearance valued at all-fresh retail price

Fig. 3: CAB®-acceptance rate declines



Source: Certified Angus Beef LLC

Fig. 4: Weekly average cattle harvest*



Source: USDA
*April-Sept. 2004 projected

Cooperation is key

Progeny information is more available than ever. Your state Angus association can help you organize a multiowner pen of Angus-sired steers or heifers for the National Angus Carcass Challenge (NACC). Your state Extension beef specialist can help get a representative set of your cattle in the local futurity or assist with enrolling them in Iowa's Tri-County Steer Carcass Futurity. Your Angus seedstock supplier can help you forge a value-discovery link with a CAB-licensed feedlot partner.

Through this linkage, you can mesh management and genetic potential to make the most of your high-quality Angus genetics so that they achieve CAB and CAB Prime. Throw out the notion that all cattle are the same. Use such new management tools as early weaning and coordinated health programs to bring out the best in individuals. By working together, we can add another million head of CAB-accepted cattle to the annual number in the years ahead. History suggests that action will funnel another \$20 to \$30 million into producer pockets when they sell through value-based markets.

Sure, export demand looks bad, with Japan shut down and Canada at one-third volume at press time. But Mexico is beginning to open, and the other obstacles to broader trade will be removed in time. That will improve an already bright future.

Not unlike the movie slogan "Build it, and they will come," our history says

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