Your Link to CERTIFIED ANGUS BEEF® BRAND

by **PAUL DYKSTRA,** *Certified Angus Beef LLC*

A turbulent 2014

As cattlemen get familiar with the 2015 calendar hanging on the kitchen or office wall, we take this opportunity to look back with some amazement. Undoubtedly, 2014 will go down as a landmark year for the beef business under conditions that many have dubbed "the perfect storm" in terms of the impact on cattle prices.

Producers in all segments largely enjoyed a multiplier effect on profit margins, as year-after-year contraction in cow-calf numbers came home to roost for the U.S. beef industry last year. Drought conditions stemming back to 2010 in Texas and the Southwest, coupled with the widespread drought of 2012, pushed beef cow numbers from 31 million in 2010 to 29 million in 2014. The net result was the fewest beef cows in U.S. inventory since 1960.

The resulting supply deficit of fed cattle and calves began to permeate the industry in the fourth quarter of 2013 as we saw live fed-cattle prices break past $130 per hundredweight (cwt.) in October, where they remained through mid-January of 2014. Values quickly marched onward to $145 in late February, heating up to range from $149 per cwt. to $157 per cwt. through mid-July.

This came in the wake of a 6% reduction in federally inspected cattle harvested. Steer and heifer counts were down more than 4% to the tune of 20,000 head weekly, but cull dairy and beef cows were also fewer by 10% and 13%, respectively. Cull beef cows would continue to decline to 17% fewer by year's end.

The value of 90%-lean ground beef jumped 20% from an April-June level of $2.50 per pound (lb.) to $3 per lb. for the duration of the year. The cull-cow shortage was enjoyed by producers who saw auction prices for high-yielding cows come within $10 per cwt. of the younger fed cattle at times.

On the other end of the pricing spectrum, boneless, Choice ribeye rolls followed seasonal price fluctuations throughout 2014, beginning January at $6 per lb., but escalating to a peak of $8.28 per lb. in late June, a 15% increase above the 2013 price at that time. After a seasonal late summer drop-off, pre-Christmas buying demand pushed ribs to $8.54 per lb. in late November, an extreme number, but only 7% above the 2013 value. All told, the comprehensive boxed-beef increase in 2014 amounted to 18.2%, according to USDA figures, easily surpassing the 2011 gains of 13.4% (see Fig. 1).

Heavyweights

The storyline that was hard to miss in the fourth quarter of 2014 was that of record-heavy fed-cattle carcass weights. Lack of finished fed-cattle numbers created a lightning-round of buying in the late fall weeks as feedlots held packers' feet to the fire on the few cattle not obligated through contractual agreements. All the while, corn prices made for friendly cost-of-gain calculations and record feedlot profits on a "cash to cash" basis.

With weekly harvest counts drastically low, packers could do nothing to force feedlots to keep a lid on carcass weights. Just the opposite, they removed penalties for heavy carcasses, in many cases, to add tonnage to their production on fewer head.

After remaining even with a year ago through mid-July, carcass weights began a steady climb, beyond the seasonal expectation. They topped the second week in November at a scale-smashing 906-lb. average on the steers, 28 lb. heavier than the same week in 2013. Fed heifers were slower to join the race in late August, but followed suit by hitting their limit a week later than the steers at an 830-lb. average, 26 lb. heavier than the year before.

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November fed-cattle harvest head counts, depressed by some 30,000 head per week, were supplanted by heavier carcass weights equivalent to 10,000 or even 14,000 head per week.

The *Certified Angus Beef*® (CAB®) brand had monitored the impact on cut size and uniformity for more than a year before deciding in November to increase its maximum-carcass-weight specification from 999 lb. to 1,050 lb. Other brands quickly followed suit.

In years where carcass-weight averages increase, we tend to see Choice and Prime grading levels positively affected. At first glance, it appears that there is a causative relationship in 2014, as both weights and marbling levels increased. The aggregate Choice grading percentage for the year ended with a 2.4 percentage point increase, rounding out at 65.4%. Additionally, Prime carcasses as a share of the total were up half of one percentage point at a 4.19% average for the year. Both numbers are the highest in the USDA data set going back to 1997.

Bear in mind that Zilmax® was removed from the market in September 2013. Therefore, a straight comparison of 2013 and 2014 quality-grade patterns cannot easily be drawn due to the negative impact that the product had on carcass quality grades. Both increased carcass weights and removal of Zilmax from feedlot diets would have lifted those grades.

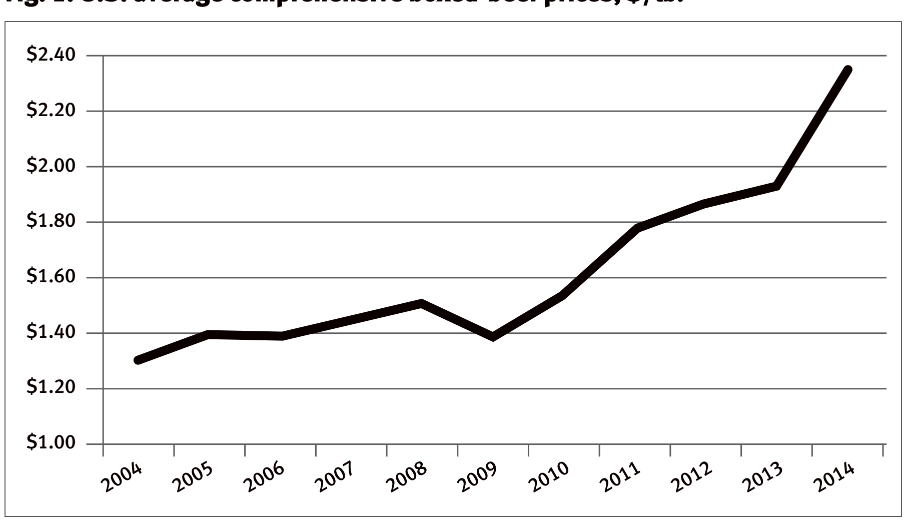
Furthermore, the proportion of feeder cattle placed on feed weighing more than 800 lb. was higher in 2014, and the percentage of Holstein steers in the mix grew to as much as 20%, with beef numbers suppressed. Each of these factors is influential and positive with regard to marbling levels and quality grade.

The fed-cattle mix

The USDA reports quality grade in a regional format for 10 vast regions, but then separates the "big three" packing states of Nebraska, Kansas and Texas in weekly data. U.S. quality grade has shown dramatic advances since 2006, but Texas packers have come the farthest, adding 15 percentage points to their Choice grading share in those eight years. Much of that gain occurred in 2014 as fed cattle harvested in Texas jumped 5 points to average 57% Choice.

As we look to the north, where quality grades are always better, Kansas packers improved 2.5 points, averaging 64.5% Choice, while Nebraska saw the least one-year improvement, up 1 point,

Fig. 1: U.S. average comprehensive boxed-beef prices, $/lb.



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but the highest quality at 69.5% Choice in 2014. Always slight in numbers but powerful in value, the Prime carcasses followed the same trend, averaging 1.4% in Texas, 2.9% in Kansas and 4.8% of the Nebraska fed-cattle weekly harvest.

Short of predicting an end to the drought in California and the Southwest, there is good news as we look to rebuild the cow herd. Heifer retention appears to be under way if the steer/heifer ratio in the weekly harvest is reliable guidance. That trend shifted notably in 2014, moving the heifer portion lower by 1 point to 35.4% of the fed-cattle mix, the lowest since we began tracking the figure in 2009, but not as low as historical herd-building years where the figure was in the lower 30-percentile range.

Even so, 2.4% fewer heifers were marked for retention in the July 2014 USDA cattle-inventory report as compared to the July 2012 report. Governmental budget problems didn't allow for a mid-year report in 2013. With the fall calf market at an all-time high, producers were challenged with a decision on just how many heifers to keep, weighing the opportunity to restock the herd vs. immediate profits.

Editor's Note: *Paul Dykstra is a beef cattle specialist for Certified Angus Beef LLC.*

The CAB perspective

Sept. 30, 2014, marked the end of an eighth straight record year for the *Certified Angus Beef*® (CAB®) brand. The 2% growth in sales tonnage set a new mark at 882 million pounds (lb.), not an easy task in a fiscal year that saw fed-cattle harvest fall by 4%.

In the 2014 calendar year review, smaller head counts challenged CAB-licensed packers from both a price and availability perspective. The black-hided percentage of fed cattle deemed eligible for further inspection by USDA graders under the brand's 10 carcass specifications was slightly lower (62.2%) in 2014 than in 2013 (63.2%). Having 2.5% more Holsteins in the mix figured into that math, since they are not eligible, but add to overall fed-cattle numbers.

The year ended with 5.5% fewer fed cattle harvested (about 26,000 fewer per week). With the slight reduction in black-hided animals, that meant licensed packers handled 6.4% fewer cattle eligible for CAB.

However, the national quality-grade improvement made a big difference, helped in late November by the CAB carcass-weight specification adjustment. For calendar year 2014, CAB acceptance among eligible cattle came to 25.9%, an increase of 1.3 percentage points on the year. Anecdotally, on a herd-by-herd basis, our staff continues to see some of the most product-focused cattlemen achieving CAB acceptance rates well above 60%, with some loads achieving 50% Prime.

Boxed-beef prices near their all-time highs at year's end did not dampen demand for the best beef. December 2014 came in as the largest ever for that month in CAB sales. Licensed retailers could not match their brisk 2013 sales, but product movement in foodservice and international divisions were all-time December highs and pushed overall brand sales to 66.1 million lb.