Your Link to CERTIFIED ANGUS BEEF® BRAND

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Quality gains in 2013

Relief for some and continued challenges for others: That was 2013 in the beef business. At the grassroots level, many cow-calf operations welcomed more favorable weather, with the drought subsiding to allow some of the best grass and hay seasons in memory. Still, California and other western areas remained extremely dry, while South Dakota and neighboring states suffered herd-decimating snowstorms in April and October.

Calf supply fundamentals improved a little but remained negative overall, repercussions of the widespread 2012 drought and prolonged southern drought that allowed fewer cattle on feed and smaller weekly harvest numbers. Federally inspected cattle harvest head counts for 2013 finished 1.56% lower than 2012, which had fallen 3.59% from 2011. Fewer U.S.-born calves and curtailed Mexican feeder cattle put fed numbers lower by 1.24% in the weekly 2013 harvest after a 3.31% decline the prior year.

The beef cow harvest decline of some 2 million head was the bottom of landslide culling. Clipped at every edge now, the U.S. herd is the youngest and best in years. Cheaper corn, abundant forage and skyrocketing calf prices through the fall further encouraged producers to hold back replacements and buy cows, even as heifer prices outstripped those for steer mates by midsummer and quality bred heifers brought more than $2,000 in the fall.

In the feedlot sector, good news was slow in coming last year as $7 corn persisted until July. Finished calf-feds worked against breakevens well above the late April cash top of $129 per hundredweight (cwt.) that fell back to $120 per cwt. by summer and languished until the October move up to the $130-per-cwt. range, but ending the year on a hyperbolic spike up to $137.

On the beef side of the business, quality moved up, especially by the end of 2013.

Quality trends up

U.S. carcass quality-grade trends had hit a plateau in 2012, easing back a negligible 0.37 percentage points in the share of fed cattle hitting Choice and Prime — a minor concern given the 5-year run-up from 53% Choice and 2% Prime to a 2011 mark of 62% Choice and 3.4% Prime. Early 2013 provided no real trend movement for the combined categories, simply tracing the 2012 seasonal trend from January through August. The early highlight was a surprisingly robust Prime grade, which gathered 3.97% of harvested fed cattle from January through April, vs. 3.32% in 2012. It came back to surpass 4% for a short time in the fall.

In the bigger picture, the 8-lb. steer carcass-weight increase that ran through August should have had a greater positive impact on quality grades. However, the pervasive use of the muscle-enhancing beta-agonist Zilmax® likely kept a lid on quality in 2012 and most of 2013. To the credit of feeders and consulting nutritionists, the documented negative quality-grade effects were somewhat mitigated through added days on feed.

Soon after packing firms said they would no longer accept Zilmax-fed cattle in September due to animal-wellness concerns, manufacturer Merck pulled it off the market. On cue, mid-September USDA quality grades began to rise, gaining an advantage of 3.2 percentage points in the Choice share compared to mid-September through December 2012 share.

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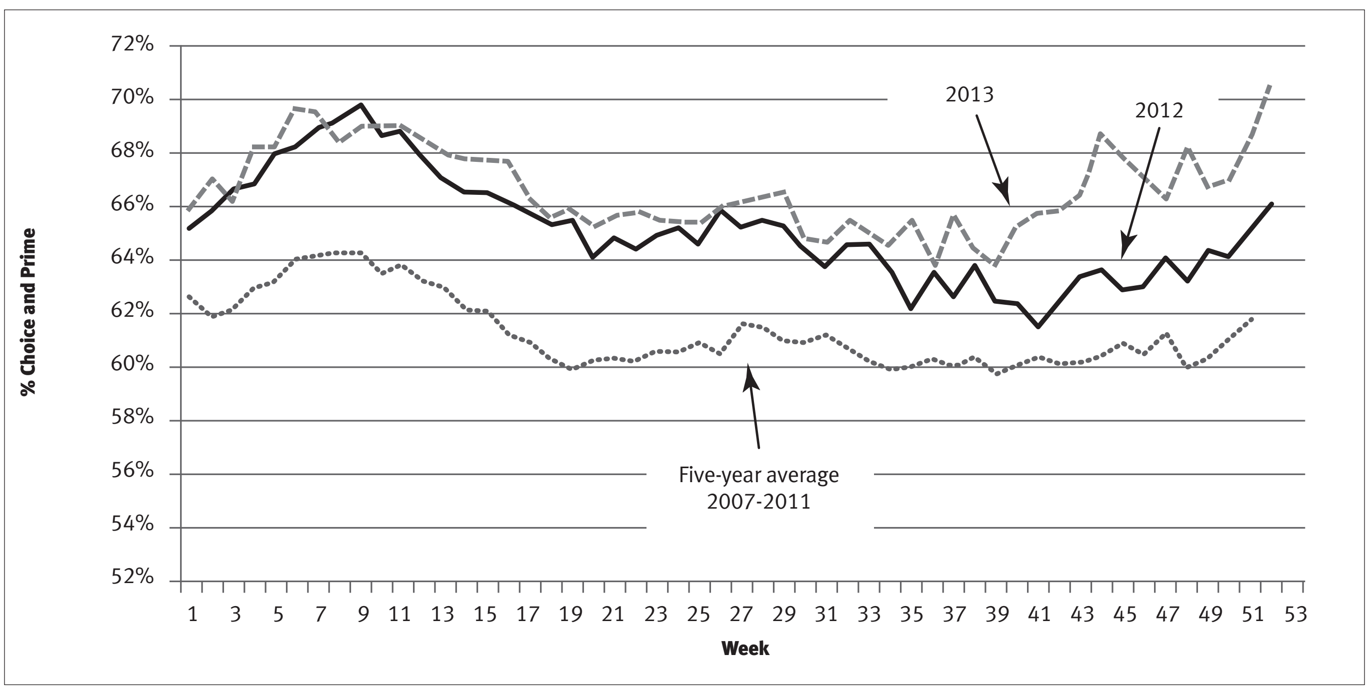
USDA tracks the share of Choice carcasses certified for Premium Choice

Fig. 1: Weekly combined U.S. percent Choice and Prime Grades



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brands, and that figure came in at a little more than 2 percentage points higher in 2013 at 26.6%. The largest of those, the *Certified Angus Beef*® (CAB®) brand, experienced a seventh straight record sales year with 865 million lb. sold in the company's fiscal year ending Sept. 30. The 6.7% increase in tonnage sold was balanced across middle meats (6.6%), end meats (6.9%) and ground beef (5.1%). Prime and Natural brand extensions were up 15% and 4.6%, respectively.

In the quality-value relationship, cattle feeders and packers alike benefitted in 2013 with the ebb and flow of seasonal demand. Although three weeks of data during the government shutdown were never reported, remaining figures show a $9.67-per-cwt. Choice-Select price spread for boxed beef compared to a 2012 figure of $10.07 per cwt.

Choice carcasses in late May through June were rewarded with a $15.39-per-cwt. advantage over Select, while the Choice price touched $206 per cwt. before the spread fizzled to a summer low in the $5-per-cwt. range and Choice boxes bottomed at $187 per cwt. in late July. August saw the turnaround begin for the richer-marbling cattle as the Choice boxes made the slow climb back to the mid-$190s in September and headed to more than $200 per cwt. again in November. The fall Choice-Select spread topped in the area of $16 per cwt. during October-November, but remained higher than $10 per cwt. until the last days of December.

Rewards for quality

USDA reports indicate a range of grid premiums on CAB-qualified carcasses, driven by supply and demand. Late-October data pegs one packer paying $7 per cwt. on CAB carcasses with feedlots sharing their own trade information at $8 per cwt. in Texas as a standout figure. Simple averages in the packer-reported data show the 2013 average at $3.79 per cwt.

Future trends in cattle supply and beef quality are ever unfolding, but the most recent five years suggest quality improvements are here to stay. We can only hope that weather and economics will allow cow-calf producers to stay a course of herd rebuilding such that our packing infrastructure, which has seen recent losses, can remain intact.

If this occurs it's clear that we have the genetics in place to keep improving cattle, and the bar continues to rise with regard to end-product merit. Fed cattle in the northern states will have to surpass 75% Choice in February, the richest grading month of the year, if feeders are to be paid for the added quality. Perhaps a goal of 20% Prime is no longer inconceivable for individual producers, given that the Prime grid premium last year was frequently at $20 per cwt. over Choice, averaging $17 per cwt. for the year. Many have already charted those waters with success.