

Beef Market Wants

Industry reacts to changes in genetics, management, marketing.

Story by
STEVE SUTHER,

Certified Angus Beef LLC

When corn prices moved up a few years ago, many predicted cattle finishers would reduce days on feed and quality grades would suffer. Neither happened.

Instead, a paradigm shift swept through the U.S. feeding industry: Those last days on feed are not so inefficient because cattle are growing carcass weight to sell on value-based grids. Supporting factors included the growing use of beta-agonists and the shrinking supply of feeder cattle that made replacements more costly.

That's all part of the picture that shows a dramatic 11.3-percentage-point gain in the share of Choice and Prime cattle in the five years that started in 2007, says Paul Dykstra, beef cattle specialist with Certified Angus Beef LLC (CAB) who follows that data in his weekly "Rearview Mirror on Quality" column.

"In the last two years the Choice and Prime share has settled into a steadier average above 65%," he says, "but Prime and premium-Choice brands have been garnering an increasing share of the declining supply."

That meant an even more dramatic decline in the share of the lower-grade Select beef, reflected in its recent run-up in price.

Rather than dig into those percentages, Dykstra charted reported loads of Prime and Select beef sold along with boxed-beef prices for those grades (see Fig. 1 and Fig. 2). Results illustrate the crossing lines of supply

and demand that pushed Select higher, particularly in light of the demand from hamburger grinders.

"In contrast, the supply and market data for Prime beef shows higher prices paid in the face of more pounds of Prime beef sold," Dykstra says.

Kansas State University economist Ted Schroeder attributes that disparity to the "niche" nature of the market.

"A small change in the relative supply of Prime would cause more of a price impact than a similar change in supply of Select," he says. "That's because Prime demand is more inelastic, and a small change in volume of Prime is potentially a sizable percentage change."

Why is it happening?

Jim Robb, director of the Livestock Marketing Information Center, attributes much of the initial grade improvement to the transition from human to camera grading. More recently, he allows, "Some is genetics, but a lot of it is the removal of Zilmax® from the system."

Professional Cattle Consultants (PCC) President Shawn Walter disagrees on the impact of that beta-agonist. The market analyst based in Hydro, Okla., says most of the grade enhancement is linked to genetics.

"A lot of the uptrend in Prime-grading came while we were feeding Zilmax to cattle that had already achieved their quality potential," he says. "Then we removed it from the market and fed a little longer — not much — and we only overfed to the extent that it's profitable. Grades are holding steady."

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— Paul Dykstra

Premium-Choice is doing better. Some weeks this year saw a record 29% of Angus-influenced cattle qualify for CAB, double the ratio just a decade ago.

Dykstra says market incentives play a key role. In 2013 the average Prime grid premium was \$17 per hundredweight (cwt.) over Choice, on top of the \$10 Choice-Select spread for most of the last two years. Thirty percent of the \$450 million packers have paid in CAB grid premiums since its start in 1978 were in the past three years.

"Those are strong market signals," he says, noting the Prime grid premium has averaged \$20 over Choice for much of 2014. "It doesn't look like those signals are easing up."

Pratt (Kan.) Feeders manager Jerry Bohn credits a genetic focus

on higher quality across all breeds.

"CAB has made inroads to the commercial cow herds, and competition has had an impact to where even the hybrid bulls aren't just black but have higher marbling," he says. "Drought liquidations culled the bottom end from a lot of Texas herds, too."

Gage, Okla., feeder Dale Moore, Cattleman's Choice Feedyard, credits drought.

"We don't want a drought, but starting in south Texas and moving into Nebraska, it has made better cattlemen out of all of us," he says. "Culling started with obvious targets. Then it came down to the wilder and less efficient. Finally it came to just keeping the best."

Cattle feeders are more confident in the combination of better genetics and accurate carcass grading, Bohn adds. "We used to split a pen of cattle and find a 20- to 30-percentage-point swing in Choice grade from one plant to the next, but it's a damn sight more consistent now."

Meanwhile, the lower cost of gain and the removal of an aggressive beta-agonist haven't hurt. The shift to more and heavier cattle selling on value-based grids put the spotlight on premiums and cattle capable of earning them.

The Prime premium remains strong because that demand can't be filled with the flip of a switch. Walter says cattle feeders recognize seasonal patterns in the Choice-Select spread and may incorporate that into planning, but they are not sure what to do about that constantly ringing Prime bell.

Fig. 1: USDA Prime, price vs. volume

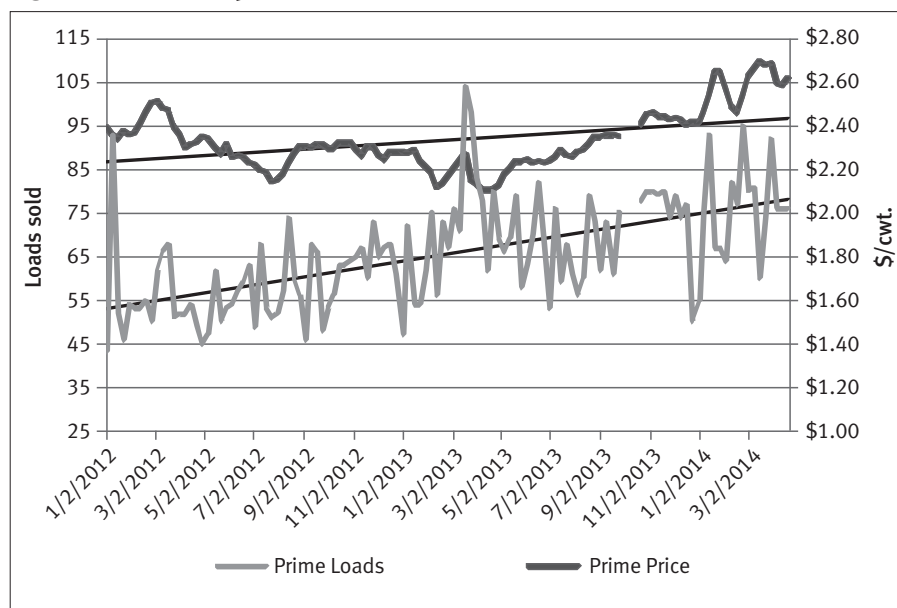
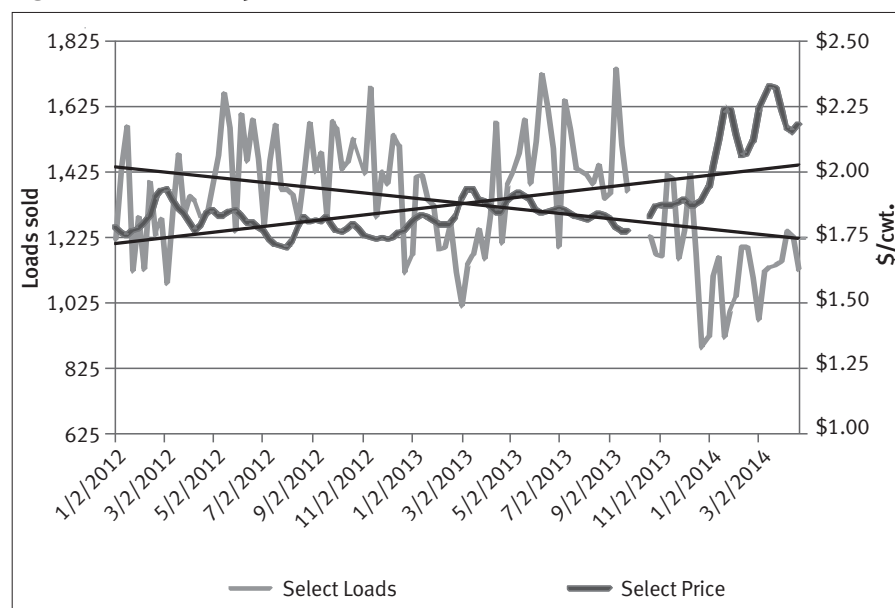


Fig. 2: USDA Select, price vs. volume



More Prime

The industry reacts

"It's not like they can just feed their cattle a couple weeks longer and make them grade Prime," he says. Known genetic potential to gain and grade is a prerequisite for any plans to answer that call and collect the rewards.

Robb says cattle feeders have substantially changed management and marketing in the last five years as carcass weights increased through last fall, shifted gears and recovered since last fall.

"Having beta-agonists in the system moved the market to more grid and formula selling with less negotiation," he says, "but holding onto the cattle longer this winter and spring paid off for feeders. Packers had to come chasing them, and feeders reacted to that. It's a complicated, biological system, but lower cost of gains, adjusting implant programs and beta-agonists have all entered in."

Walter says tight supplies mean volatile

prices and greater risk will continue as well.

"People talk about commodity prices and ground beef, but quality is driving the market, and we might see quality premiums exaggerated this year," he says. "If you maintain 4% Prime, that's a smaller number of carcasses, and demand is based on pounds."

Breakeven cattle-feeding strategies are further complicated with \$2,000 on the

line for each animal, and most of that paid for the calf.

Robb sees more of a lid on the price of beef and finished cattle than on the price of calves in the near term, with increasing "differentiation by ability to grade."

"Buyers for the big feedyards were in Montana by January this year, buying unborn calves for fall delivery. Those are all calves with a known history for performance and grade," Robb says.



Chewing the fat over an ideal end point

If you give most cattle more time and feed, they will pay you back in profit, especially when the replacements for those cattle will cost more than the last turn.

Traditionally, cattle feeders have estimated external fat thickness over the 12th rib as one measure of finish, and although some research and carcass contests still ship cattle to the packer as soon as 0.3 inches (in.), the norm has reached nearly twice that. Logic supports the trend.

"Finishing most cattle to anything less than a half inch of backfat is leaving money on the table," says Certified Angus Beef LLC (CAB) vice president Larry Corah. "Underfinishing is particularly inefficient when cattle have the potential to achieve premium levels of marbling."

Spanning decades, Corah says, "consist" data from CAB-licensed packers shows a typical pen-average fat thickness of 0.52-0.54 in. The range in groups is less than a quarter inch to more than an inch.

"Now, with cost of gain dipping below 90¢ per hundredweight (cwt.) on good cattle in certain regions of the feeding belt, and cattle selling for \$1.40 to \$1.50 or wherever they settle, cattle feeders are rethinking target weights and the fat-cover end point," he says.

Carcasses at or below 0.4 in. of fat cover tend toward lower marbling and quality grades (see Table 1). Evidence also suggests more cattle today can be fed to 0.6 in. of fat cover before Yield Grade (YG) 4 discounts begin overtaking quality premiums. Earlier CAB surveys found little problem at 0.59, but the other side of 0.6 starts to build up YG 4s.

"Quality grade improves dramatically as weight and fat cover increase beyond last century's targets, according to the cattle currently going through our packing-houses," Corah says. "The share of Choice and Prime increased 10.9 percentage points and *Certified Angus Beef*® (CAB®) brand acceptance rates moved up 7.5 points when fat cover increased from an average of 0.4 to 0.6 inches."

He notes many feedlots have set a YG 3 target and allow more YG 4 discounts because that optimizes profit.

"One leading packer says within its database each increase in YG score adds 20 to 25 pounds of carcass weight while increasing marbling score 30 to 40 points," Corah says. For example, Choice went from 65% at YG 2 to 92% at YG 4, on average. The ideal for profit was a YG 3, but a YG 4 brought in more than \$100 per head above a YG 2 after all discounts and premiums.

"Like all things, some moderation is needed. Heavyweight discounts add to the YG 4 dock to keep a practical lid on the trend, and those who market to consumers certainly do not want larger cuts," he says.

Partners weigh in

A survey of CAB partner feedlots confirms the prevalence of a YG 3 target, but as Karl Hess, Lancaster, Pa., puts it, "If we don't have a YG 4, we didn't feed long enough, and if we don't have a Select, we didn't sort hard enough."

Geoff Shinn, Performance Blenders, Jackson, Mo., points out, "Fat cover and marbling are not directly correlated. You can have externally fat cattle that won't marble. Knowing their genetic potential is the most important, then days on feed and, finally, the energy and nutrient density of the ration."

Dale Moore, Cattleman's Choice Feedyard, Gage, Okla., agrees backfat alone means little.

"A truly finished animal is going to grade what he is capable of at the time of harvest," he says. "We can alter that by longer feeding for a little more marbling or shorter to decrease YG issues, but if he is finished, that backfat will probably be 0.5 to 0.6."

Sam Hands, Triangle H, Garden City, Kan., says dressing percentage is becoming a more important factor in feeding to an end point packers want. "It can be a trap if you get too many YG 4s on a load with great dressed yield. With the shortage of numbers, dressing percent will continue as a driver."

Allan Sents, McPherson County Feeders, Marquette, Kan., is among those who do consider fat thickness a primary indicator.

"That range of 0.5-0.6 is our target, and we pretty routinely hit an average between 0.5 and 0.55 inches — that's probably up 0.05 in the last five years with heavier carcasses and more YG 4s allowed," he says. Cattle may also be fed a little longer going into favorable weather.

Several feedlots rely on ultrasound, which includes backfat in the equation. As one feeder points out, grid sellers may be called "price takers," but it puts much more weight on knowing genetic potential of cattle to earn premiums.

Terry Beller, a Lindsey, Neb., cattle feeder, sorts visually and sells 70% on grids. He expects 100% Choice or better, even if outliers may fall short. He notes, "My returns usually show the percent Prime and YG 4 running hand in hand."

Fig. 1: Carcass and grade characteristics as 12th-rib fat varies

	Compositional end point: backfat depth at 12th rib, in.								
	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9
Marbling score	373	391	411	430	451	459	471	479	486
Choice and Prime, %	31.9	38.9	50.9	60.7	69.4	71.6	76.7	76.8	81.1
CAB® Accept. Rate, %	6.1	8.5	11.7	17.4	22.1	24.9	27.9	30.9	32.6
Yield Grade, % 4s and 5s	0.1	0.0	0.3	0.7	3.3	14.3	35.8	64.3	85.8
% Choice		24.6%			54.6%			20.8%	
% Premium Choice and Prime		43.4%			64.2%			72.5%	
% Premium Choice and Prime		12.2%			25.2%			36.7%	

Source: CAB Consist Study.