

Recession Rewrites The Rules

by Kent Andersen, Ph.D., executive vice president

The economy is upside-down and so are determinants of carcass value. Whether these are short-lived aberrations or signs that long-held paradigms are shifting, the current landscape provides fodder for debate. If the Choice–Select spread is relatively narrow for years to come, will a quest for greater carcass yield mean more equal emphasis between muscle and marbling? Will that lead to greater use of Continental, including Limousin, genetics?

The National Cattlemen's Beef Association (NCBA) Long Range Plan identifies food safety, nutrition, convenience, taste, positive eating experiences and value as beef-demand drivers. With the global economic upheaval and consumers pinched to the breaking point, value has taken center stage.

According to a recent survey conducted by the American Meat Institute (AMI) and the Food Marketing Institute (FMI), financially strapped consumers are dining out less, eating at home more and trading down in their beef-purchase decisions. Still, nearly two-thirds of shoppers put some or a lot of effort into eating healthy—defined as cutting back on fat, calories, saturated fat and sodium. The survey noted resilience in shoppers' commitment to purchase natural or organic meats, with 18 percent stating they have made such purchases in the past three months, down just one percentage point from last year.

The consumer's hunger to save money has contributed to total package price growing in importance, with higher priced cuts suffering more than lower priced items.

CattleFax reported that, in the fourth quarter of 2008, the rib and loin made up less than 16 percent of total carcass value, compared to the five-year average

of nearly 19 percent. During the same time, the chuck and round comprised 21 percent of carcass value, up from 19 percent just a year ago. Whereas pricier middle meats historically drive carcass value, their influence has diminished in these tough economic times.

Throughout most of the first quarter of 2009, the available supply of carcasses of different quality and yield grades, along with consumer demand, drove the Choice–Select spread for a sustained period to less than \$2. In fact, the average premium paid for Yield Grade (YG) 1 or 2 carcasses was roughly equal to that paid for Certified Angus Beef® carcasses, which grade average-Choice or better. Further, the discount for Standard grade carcasses was significantly less than the discounts for YG 4 and heavyweight carcasses, reflecting an oversupply of heavy finished cattle.

By March, the abundance of steers and heifers grading Choice (63 percent) was at the highest level since records began in 1997, reported the CME Group. The report went on to identify favorable winter feeding conditions, heavier carcass weights, increased use of instrument grading and genetics as reasons for more Choice cattle. Even beyond the last few months, the Choice–Select spread was appreciably narrower throughout most of 2008 as compared to the five-year average.

A Colorado State University (CSU) study examined the relative importance of carcass weight, quality grade and yield grade as drivers of beef carcass value in two grid-pricing systems. In times of low (less than \$5) Choice–Select spreads, the proportion of total revenue per head explained by quality grade and yield grade is roughly equal, but it is less than one-tenth as important as carcass weight.

That means producers might need to adjust future crossbreeding and selection

practices to produce the most profitable blend of carcass weight, yield grade and quality grade. Whereas, during the past decade, the industrywide pursuit of marbling has heavily influenced breed and within-breed selection decisions. In sustained times of narrow spreads and an abundance of Choice cattle, crossbreeding and selection that more equitably balance muscle and associated yield grade appears economically justified.

Provided cattle do not grade Standard and do not incur discounts for heavyweight carcasses, a narrow Choice–Select spread creates an incredible marketing opportunity for Limousin genetics and their contributions to overall systemwide efficiency in the mainstream market.

Outside the commodity trade, markets for natural (antibiotic- and hormone-free) beef continue to grow. For many of those markets, selection must be more highly customized, with potentially even greater emphasis on muscularity, to hit end-product targets profitably.

Clearly, the future is unknown. Engineering the genetics that will produce the most profitable carcasses in 2010 and beyond will be a balancing act for cow-calf producers. Fundamentally, beyond carcass traits, the cow herd must be reproductively, nutritionally and labor efficient—yet flexible. That implies productive crossbred cows matched to the environment, with multi-trait flexibility in carcass merit, such that (as markets evolve) producers can breed them to hit changing targets profitably.

Ultimately, the focus must be on improved cow-calf producer profitability and delivery of higher value beef products—defined in a growing variety of ways—to cost-conscious consumers. Even without a recession, that is a good rule to follow.

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