Trends . . . BEEF BY-PRODUCT VALUES IMPROVE; HIDES FALTER

USDA AMS provides values per hundredweight on a weekly basis. The Livestock Marketing Information Center creates a simple average of those weekly values to create a monthly time series for cheek meat, hearts, livers, tripe, tongue, meat and bonemeal, edible tallow, rendered bleachable tallow and hides. At the time of this writing, by-product values were available through November. Year-to-date values show that many by-products are showing year-over-year increases for 2019 when compared to the prior year.

Hide values are struggling, which are the biggest component of byproduct value. Hide values are down 32% from a year ago from January to November. On a per hundredweight basis, January through November of 2019 averaged $47.85 per cwt compared to $70.37 per cwt in 2018. This year’s values will be the lowest annual average for hides since the start of this data set in 1992. Year-to-date, meat and bonemeal also was below a year ago, down 14% compared to 2018’s. One of the highest increases, is in tripe and tongue value, up 34% and 25% in year-over-year comparisons. Smaller gains were made in hearts, up 10%. Edible tallow and rendered bleachable tallow for the first eleven months of 2019 were up 8% each from last year.

Cheek meat values rose 5% over that timeframe, averaging $168.69 per cwt. Most of these products are consumed in overseas markets, making exports a large part of the discussion. Trade data available through USDA FAS has been released through October of 2019. Several categories have seen larger volumes shipped overseas in 2019 compared to 2018. One of the largest
gains was in kidneys, up 13% in year-to-date data. South Africa is the largest destination for U.S. bovine
kidneys, and purchases in 2019 are up 26% year-over-year. Sales to Egypt, who buys more than half of total
livers exported, through 10 months of the year were up 3%. The largest tongue market, Japan, bought 1%
more than last year in the first 10 months of 2019, and Mexico, the second largest market for U.S. tongue,
bought 35% more in that timeframe. In 2019 cattle hides sold as parts were down 74% and those sold whole
were down 5% over the Jan-Oct interval.

CHOICE-SELECT BOXED BEEF SPREAD REMAINS ELEVATED

The Choice-Select boxed beef spread was $17.77 the first week of December, that was 19% above the
same week last year. Since early June, the spread has ranged from $19 to $27 per cwt which is well above
last year and the five-year average. The Choice-Select spread is the difference between the Choice and
Select boxed beef (carcass equivalent wholesale) value. The spread is used to gauge the relative value of
choice products over select products and is an indication of supply and/or demand factors influencing both
grades. Typically, the Choice-Select spread starts to narrow following peak demand around July 4th. In 2019
the spread was elevated due to strong demand and lower available supplies for Choice product.

The key to the Choice-Select spread being historically wide has been the amount of cattle grading
Choice. Through the end of November, the average percent of total cattle slaughtered that graded Choice
was 70.9%. This is about 1% below last year. Similarly, the year-to-date average percent of cattle
slaughtered that graded Select was 17.1%, down 2.6% from last year. The percentage of cattle that have
graded prime is averaging 8.5% year-to-date, up 8.7%. Interestingly, total cattle slaughter through the first
week of December is 1.4% above last year at 31.1 billion head. Slaughter data does not indicate that there
is a lack of cattle available, but there is a lack of Choice grade cattle.

A factor contributing to the lower available supplies of Choice product are cattle graded for Branded
programs. Branded programs typically include higher quality grade cattle which may contain cattle that
grade Choice and/or Prime. The USDA AMS National Steer & Heifer Estimated Grading Percent Report
(NW_LS196) provides the percent of Choice grade USDA certified in the upper 2/3rd and this category has
been steadily increasing. Year-to-date this category has been averaging 31.5% of total cattle slaughtered
which is 7.4% above last year’s average. Branded boxed beef prices have been commanding an average of
$5.3 per cwt above the Choice boxed beef price indicating that there may be more Choice product going into
channels for Branded products. The relatively higher price for Branded boxed beef products over Choice
products and more cattle qualifying for Branded programs may be contributing to lower availability in the
Choice category.

U.S. CATTLE PRICES: TAILWINDS AND POTENTIAL HEADWINDS

Looking ahead to 2020, cattle prices have some supportive tailwinds, especially when compared to the
results posted in 2019. U.S. beef production is forecast to only have a modest (about 1%) year-over-year
gain. For 2020, current forecasts are for tonnage imported to decline and for exports to grow. The 2019 calf
crop was smaller, and 2020 will likely follow that trend. On a per person basis domestic beef availability is
expected to slip slightly compared to 2019’s and record its second consecutive decline. Those availability
factors all point to modestly higher fed cattle prices, up 1% to 4% next year, with the largest percentage
gains in the second half of the year.

Turning our attention to calf and yearling prices, they are expected to be underpinned by rather strong
fed cattle prices and low feedstuff costs. If spring grasslands green-up normally, lightweight animal prices
could face good demand for summer grazing programs. Last summer reminded us that calf and yearling
prices can be lowered quickly by any problems with the U.S. corn crop. A smaller forecasted spring-born
2020 calf crop and a normal summer growing season sets the stage for next year’s fall weaned calves to
price near to slightly above 2017’s prices (i.e., above both 2018 and 2019 prices).

What are the potential headwinds to the markets? First, at this time of year, we always give a nod to the
potential for drought negatively impacting the cattle market. Beyond that, the major issue is the intersection
of two forces. First, any significant faltering in beef demand (domestic or by foreign buyers) due to
macroeconomic conditions or trade wars. Alone that would be negative, but it could become a major
headwind because of the huge ramp-up that is occurring in U.S. pork and poultry production. U.S. per capita
supply of all red meat and poultry was record large in 2019. Next year (2020) there will be significantly more,
and that assumes exports of beef, pork, chicken, and turkey all establish new all-time highs.