Cow Country Reporter

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In This Issue

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News from your CEO

August is when marketing of our good Louisiana Spring-calves starts to increase. We have also seen the price for slaughter cows decrease slightly, from the highs of early Summer. Demand for ground beef continues to stay good and with school starting up coupled with Labor Day celebration, prices may increase. Continue to reduce the age of your cow herd during these times of high slaughter cow prices, so when the market "heads south" you have a young cow herd. Pastures conditions have been super good this year and cows and calves are showing the results. Higher body condition scores on cows and heavier weaning weights on calves, however, with great pasture conditions I have seen and heard the armyworms have arrived early and are also enjoying our forages.

CPL has named John Terrell, 14782 Hwy. 789, Keithville, LA 71047 as Region 1 Director (Northwest LA). His phone number is 318-426-0344 and email jterrell@agcenter.lsu.edu. CPL has also named Wink Alison, 9958 Hwy 4, Winnsboro, LA 71295 as Region 2 Director (Northeast, LA). His phone number is 318-614-1174 and email cwalison@att.net. Please reach out to these two men and get a meeting scheduled. Both bring a world of knowledge to our organization!

Stay cool during the dog-days of Summer and keep those calves alive and growing.

Dave Foster, CEO

Beef Markets Reflect Excess Fat and a Shortage of Lean

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

Choice boxed beef price has decreased by 5.4 percent since July 4 to a current level of about $312.50/cwt., 3.4 percent higher year over year. The decline in boxed beef price is seasonal during the hottest part of the summer. Boxed beef prices are a composite based on about 50 wholesale beef cuts and subprimals. There are some interesting things going on within this set of products this year that reflect the unusual environment in today's cattle and beef markets.

Middle meats are the biggest driver total beef value. Beef tenderloin is the highest value beef cut and the price has been quite flat and lower year over year for much of 2024. This weakness is a bit concerning but the fall may provide an important indicator of tenderloin demand going into cooler weather and the seasonal pick up in restaurant traffic. In contrast, the other steak cuts have values that are generally at or above year ago levels, including ribeye, strip loin, and top sirloin. Overall, rib primals are priced about 3.4 percent higher year over year and loin primals are averaging 1.4 percent lower this year. Middle meats from the rib and loin primals are the heart of boxed beef values.

A look at prices across the various end primals paints an interesting picture. The majority of chuck products are priced either about the same as last year or lower year over year. This includes the top blade, arm roast, petite tender and chuck roll. One notable exception is the mock tender, which is currently priced well above year ago levels. Overall, chuck primal values are up 6.6 percent year over year in July. In contrast, round cut values are mostly higher this year. Higher values are noted for knuckles, inside rounds, bottom round, outside round and eye of round. Overall, round primal values are nearly 21 percent higher year over year.

These values across the carcass contribute to the overall boxed beef value of fed beef production. Fed beef is the result of steer and heifer slaughter. While overall beef production is down 1.6 percent year over year so far, the modest decreases in steer and heifer slaughter combined with dramatically higher steer and heifer carcass weights has led to a 0.9 percent year over year increase in fed beef production through the first half of the

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Beef Markets Reflect Excess Fat and a Shortage of Lean

year. Increased days on feed contribute to the heavy carcass weights and also to an average of nearly 22 percent yield grade 4/5 cattle this year. An average of 87 percent of fed cattle are quality grading Choice and Prime thus far in 2024. Fed beef is about 84 percent of total beef production.

Nonfed beef typically makes up the remaining 16 percent of total beef production and consists of cow and bull slaughter. Nonfed beef production is down nearly 13 percent year over year thus far in 2024. Cow slaughter is down over 15 percent and bull slaughter is down nearly 8 percent. Nonfed beef production is the source of 90% lean trimmings, a major ingredient for ground beef. The current wholesale price of 90 percent lean trimmings is at a record level and is higher than several of the round cuts mentioned earlier. The market is attempting to make up for the shortage of lean beef in the nonfed market by pulling more lean beef from fed beef supplies. This mostly comes from several round cuts but also likely from the chuck mock tender (one of the few lean cuts in the chuck). Markets always attempt to balance supply and demand and the increased arbitrage between fed and nonfed beef markets today is an indication of a very unusual market situation.

How Big is the U.S. Cattle Herd?

By: Jason Franken, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign

How big is the U.S. cattle herd? With USDA cancelling its regularly scheduled July cattle inventory report due to budget cuts, that's a question that many would like to have answered. Fortunately, historical relationships between changes in prior and subsequent inventories and levels of cow slaughter in between or heifers' share of cattle on feed offer some indication. These negative relationships respectively explain 30% and 50% of the variation in changes in cattle inventory from one July to the next. While the share of January cow inventory that is slaughtered by July has dropped from 8.75% in 2003 to 7.76% in 2004, suggesting a slowing of cow herd liquidation, the current level still corresponds to a reduction in the July over July total inventory, as does the proportion of feedlot cattle that are heifers, currently at 39.6% compared to 39.9% last July. A model incorporating both variables explains 61% of inventory changes and estimates the July 1 U.S. cattle inventory to be 94.2 million head or 1.2% lower than in July 2023.[1] Hence, it appears the U.S. cattle industry overall remains in a contractionary phase, even if there may be regional pockets of expansion.

The USDA's most recent Cattle on Feed report indicates that feedlots placed 1.56 million head on-feed and marketed 1.79 million last June or about 7% fewer placements and 9% fewer marketings than in the prior June, bringing the July 1 total number of cattle on feed to 11.3 million head or just about 1% more than last July. With a 0.8% increase in steers on-feed relative to last July and a nearly unchanged (0.1% increase) number of heifers, the latter's share of cattle on feed, as already mentioned, also remains similar to a year ago at nearly 40%, as compared to only 31%-33% during much of the last expansion. Such a statistic typically indicates a reduction in replacement heifers, as producers remain reluctant to rebuild the breeding herd.

Given the low inventory and cattle on feed numbers, beef production is anticipated to be 1.1% lower in 2024 than last year and then drop another 4.5% in 2025. Accordingly, per capita beef consumption is expected remain near 58 pounds per person in 2024 and then decrease 3.26% to 56.3 pounds per person in 2025. Based on stronger than anticipated global demand, the USDA in its Livestock, Dairy, and Poultry Outlook revised projections of beef exports upward, now just 4.3% lower this year than the last and left unchanged a further 14.0% projected decline for 2025. Following records in 2021 and again in 2022, beef exports dropped about 14.3% lower in 2023, and the 2024 projection returns to within 1.5% of the 2020 level, while projected declines for 2025 bring beef exports down to levels not seen since 2016. Still, as a result of currently strong demand and declining production, cold stocks of beef are already fairly low. According to the USDA's June Cold Storage Report beef stocks on May 31 are down 3.4% from a month earlier and 0.5% from last year.

All things considered, prices are likely to remain above year ago levels. Quarterly prices for slaughter steers are forecast to average about $191.48/cwt and $199.08/cwt for the last two quarters of 2024, and $204.60/cwt and $209.12/cwt for the first two quarters of 2025. For 600-700 pound feeder steers, prices are forecast to average about $286.38/cwt and $277.88/cwt for the last two quarters of 2024, and $293.31/cwt and $301.50/cwt for the first two quarters of 2025. These projections reflect tight supplies and declining but resilient domestic consumption and export demand. If demand declines even more than anticipated or a larger herd exists than indicated by this analysis, then lower prices may result.

Regional beef cow slaughter

Lower beef cow slaughter this year reflects improved forage conditions and higher cattle prices.

By: James Mitchell, University of Arkansas

USDA reports weekly slaughter statistics for different classes of cattle. Beef cow slaughter this year through 28 weeks totals 1.56 million head. Beef cow slaughter has been historically high in the previous two years. During the same period, beef cow slaughter in 2023 and 2022 totaled 1.86 and 2.10 million head, respectively. So far, beef cow slaughter this year reflects a 16 percent decline compared to 2023. Lower beef cow slaughter this year reflects improved forage conditions and higher cattle prices.

One reason for the large decrease in beef cow slaughter is we started with fewer beef cows this year. Relative to beef cow inventories, the rate of slaughter this year is comparable to last year. Through 28 weeks, beef cow slaughter reflects 5.5 percent and 6.4 percent of beef cow inventories in 2024 and 2023, respectively. Beef cow slaughter is down 294 thousand head, but we started the year with 716 thousand fewer beef cows compared to 2023.

USDA also reports regional cow slaughter data. The first table in this article reports weekly beef cow slaughter through 28 weeks for select regions. There are noticeable differences across regions. In the selected regions, beef cow slaughter ranges from 11 percent lower year over year in Region 4 to 23 percent lower year over year in Region 7. Across the five regions, beef cow slaughter is down 290 thousand head compared to 2023.Across regions, beef cow slaughter compared to beef cow inventories is similar for 2024 and 2023. For example, beef cow slaughter

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Regional beef cow slaughter

rates in Region 4, which includes most southeastern states, are the same between 2024 and 2023. Beef cow slaughter or cull rates in Region 5 are much lower this year but still reflect 13 percent of beef cow inventories. The 2024 cull rate in Regions 6, 7, and 8 is slightly lower compared to 2023. Regional differences in beef cow slaughter reflect local drought conditions, markets, and relative profitability.

The Markets

Feeder cattle and calf prices were mostly higher last week and remain well above year-ago levels. Fed cattle prices were up last week while boxed beef prices declined. Both fed and feeder cattle futures finished the week higher.

Speer: Choice/Select Spread = The Rearview Mirror

By Nevil Speer

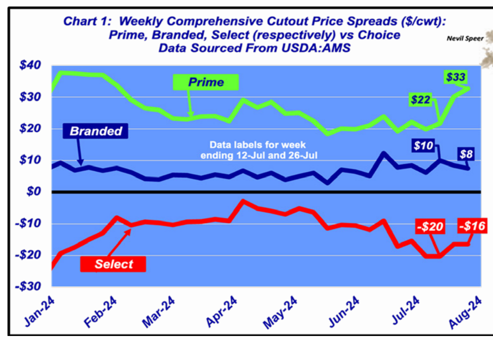
Passing The Test: Several weeks ago, I received an email that asked: "I am wondering how you explain the difference between the cash in the North versus the South? Is it grade? The choice select spread has not been wide. Is it supply? Or is it because the north actually negotiates the price?"

And so, I played along. I emailed back, "Must be the last one, right? " To which I received the following response: "Correct." I passed the test.

But aside from that, there are two parts here that are important: 1. cash trade, and 2. price spreads.

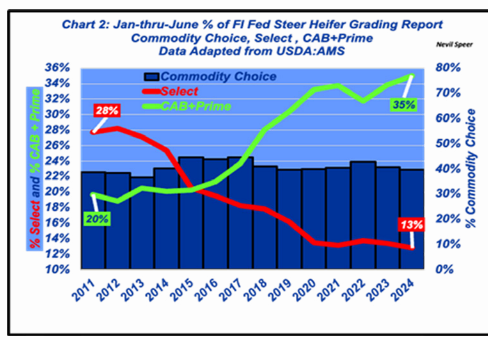
#1 Cash Trade: I've written on the topic any number of times – the premise, "more trade, better prices" isn't backed up by the data. Most recently, I covered the topic in this column: More Trade = Better Prices (Not So Much). Since 2005 through mid-2024 (1,002 weeks), "...the difference in negotiated trade explains just north of 5% of variation in cash prices. That is, 95% of the variation in weekly cash price is driven by other factors."

#2 Choice/Select Spread: What really caught my attention was mention of the spread. Let's explore that a little further.



The first graph details weekly spreads for the year from USDA's Comprehensive Cutout report. There are several items of note. First, the Choice/Select spread was $20/cwt the week I received the email. Moreover, it had been steadily widening in the preceding weeks and stood at its widest point since just after Christmas. Second, note also the Branded/Choice and Prime/Choice spreads: $10 and $22, respectively. They also were widening. That directional change plays an important role in weekly pricing (it's not today that matters, but rather some anticipation of where the beef market will be).

Weekly Cutout Price Spreads (NS)Volume Difference: But it's not the magnitude of the Choice/Select spread that's important here. More significant is the question of why the measure even remains a benchmark of market indicators (e.g. USDA regularly features it in their National Daily Cattle and Beef Summary).



The second graph provides some context. The chart provides Jan-thru-June percentages of cattle landing in Select, Choice, and CAB-plus-Prime categories, respectively (all derived from USDA's Grading Dashboard).

Several things of interest:

1. Commodity Choice has remained relatively steady (the average since 2011 is 41% - ranging from 37-to-45% on an annual basis). However, the mix around that flat line has dramatically changed over time.

2. Select volume has steadily slid from 28% to 13% of the slaughter mix.

3. CAB-plus-Prime volume has wholly replaced the difference increasing from 20% to 35%.

In other words, the Choice/Select spread represents roughly only one-out-of-eight head – while premium grading cattle are nearly triple that volume and make up more than 1/3 of the total slaughter mix.

Fed Steer Heifer Grading (NS)Rearview Mirror vs Windshield: Several months ago I wrote a column entitled: Beef Quality Driving The Business. I noted that: "Prime and Branded sales account for 60% of the new dollars coming into the business since 2005. Even more impressive, sales for the Prime and Branded categories own annual growth rates exceeding 14% and 10%, respectively, during that time...[Marbling is] the difference maker when it comes to consumer satisfaction, subsequent spending and the total dollars available to the industry." And I also mentioned, "It all starts with the cattle."

Table 1: Annual Wholesale Beef Sales ($B) By Category
Data Adapted from USDA:AMS (Comprehensive Boxed Beef Cutout)

	Prime $	Branded $	Choice $	Select $	Total $
2005	$0.13	$1.41	$5.57	$4.33	$11.44
2010	$0.22	$2.84	$6.90	$4.54	$14.50
2015	$0.52	$4.93	$9.23	$4.64	$19.32
2020	$1.13	$6.21	$9.99	$3.47	$20.80
2023	$1.41	$7.99	$11.22	$4.08	$24.70
Difference '23 vs '05 ($)	+$1.28	+$6.58	+$5.65	-$0.25	+$13.27
Annual Growth Rate (%)	14.16%	10.12%	3.97%	-.33%	4.37%
Portion of $ Gains vs 2005	60%		40%	-2%	

Annual Wholesale Beef Sales (USDA)That brings us back to the beginning. Neither commodity Choice nor Select is driving the business. And so, as it relates to spreads, the Choice/Select spread is increasingly irrelevant in the marketplace. It's where we've been – the equivalent of looking in the rearview mirror.

Conversely, the true threshold of value differentiation is Modest-or-better marbling. That's the better cutoff in terms of determining margin contribution. And thus, the windshield view of the business.

Nevil Speer is an independent consultant based in Bowling Green, KY. The views and opinions expressed herein do not reflect, nor are associated with in any manner, any client or business relationship. He can be reached at nevil.speer@turkeytrack.biz.

Pasture and rangeland condition update

Pasture and rangeland conditions in the U.S. remain close to year-ago levels.

Pasture and rangeland conditions in the U.S. remain close to year-ago levels this week. Approximately 30 percent of pasture and rangeland are in poor to very-poor conditions. However, these conditions are not uniform across the U.S. Drought gripped the Southeast U.S. starting in June and has continued into July. More than 60 percent of the Southeast (AL, FL, GA, NC, SC, and VA) is experiencing drought. These drought conditions have hurt pasture and rangeland conditions in the Southeast. According to the USDA in mid-July, about 30 percent of the pasture in the Southeast (AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV) are in poor or very poor condition.

Some drought conditions exist in other areas of the country, as well, including approximately half of Texas, 60 percent of Oklahoma, 70 percent of Tennessee, and over 90 percent of Wyoming and Montana. Approximately 25 percent of Oklahoma and Texas pasture and rangelands are in poor or very poor condition. The Great Plains states are in better condition with around 20 percent of pasture and rangelands in the same condition.

These stable pasture and rangeland conditions year-over-year set the groundwork for a rebuild. With improved forage availability and lower feed costs, the ability of producers to expand their herds profitably increases. However, there are many factors that will play a key role in these rebuild decisions on an operation-by-operation basis, including expected future profitability, interest rates, land availability and other input cost changes.

Drought in certain areas and improved conditions in other areas creates uncertainty to the feeder cattle and calf price outlook for this fall. If drought incentivizes producers to bring more calves to market compared to normal, calf prices may see a more pronounced seasonal dip this fall in those areas, while still remaining high compared to recent history. However, in areas with good conditions, calf supplies may remain tight this fall, pushing prices higher than expected.

REMINDER

Your dues are due for this year starting July 1, 2024.
If you have already paid, THANK YOU, if not please pay this month.

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