

BeefTalk 480: The Value of Beef: More Figures and More Headaches

A discussion was initiated as to where one should look to find out why the value that the producer receives for beef seems to be questioned. It goes without much discussion that this topic is complicated and difficult.

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Recently, the data on a steer that was utilized in a previous demonstration was reviewed to help find an answer to the question. In summary, the 1,375-pound steer (steer No. 2) was priced at \$84.76 per hundredweight of live weight minus 4 percent shrink (Oct. 23 six-state average price published by CattleFax). This set the live value at \$1,118.83.

After adding up the 31 retail products fabricated from steer No. 2, the total came to \$997.90. The value of the retail cuts came up \$120.93 short, but was supplemented by \$109.96 worth of drop credit, so, in reality, the carcass value was \$10.97 below the purchased price.

So what happened? As Rob Maddock, North Dakota State University associate professor and meat scientist, points out, "Part of the answer is the dressing percentage was poor. Even accounting for cooler shrink of 2 percent to 4 percent of hot carcass weight, the animal appeared to dress around 61 percent."

When buying cattle live, dressing percent is a huge factor in determining profitability. Maddock did the math. "A 1,320-pound steer in average condition and with minimal mud should dress at around 63.5 percent for an 838-pound hot carcass, he said. The carcass will lose weight in the cooler. The average weight loss in a large plant is around 2 percent to 4 percent, which gives us a cold carcass weight of 805 pounds."

In this case, the total retail product was 792 pounds, which is 13 pounds less than the hanging rail weight.

Maddock went on to conclude that, "If the steer was above average and dressed closer to 65 percent, then the processor made money buying the steer live."

Following up on that point, the same steer could have been sold in the meat rather than live. That same week, this carcass on the rail would have brought \$135 per hundredweight, or \$1,086.75, for the hanging 805-pound carcass. Now, instead of being \$10.97 short, the value of the retail cuts would be \$21.11 greater than the purchase price. The \$21.11 would be available to help offset the harvest and fabrication costs. This figure is more commonly called gross margin or the difference between the value of the product (revenue) and the cost of the steer.

One question that often is asked is what the current harvest and fabrication costs are for beef processors. After considerable searching, the answer was revealed at http://www.ams.usda.gov/mnreports/nw_ls410.txt. When one says considerable searching, there is little wonder why a producer may have a lot of frustration trying to account for the beef he or she sells. A simple search on the Internet will yield mind-boggling results.

For example, a search of "beef pricing" yielded more than 2.63 million hits. There is no need to feel frustrated because most everyone else is. Data overload, a delete key and we are back to just feeding the cows. However, the above site did hit pay dirt, and as of Monday, Nov. 9, the average processing cost per hundredweight of carcass was \$12. So for steer No. 2, the fabrication cost would be estimated at \$96.60. The per-head slaughter costs are estimated at \$50.50 for a total harvest and processing cost of \$147.10. The gross margin for steer No. 2 was pretty dismal at \$21.11 and is not close to covering the additional cost above the value of the live steer in producing beef.

The point is, one steer does not indicate the state of the industry because the industry self-corrects on a daily bases. In other words, in order to stay in business, any logical businessperson will decrease the price paid for beef until the gross margin will cover the costs of harvesting and processing. Of course, when demand goes up and the price starts to move upward, optimism returns to all phases of the business. Both options exist in a free marketplace.

Right now, the best bet is to follow the numbers. The bottom line remains; the beef business is tight for all concerned.

May you find all your ear tags.

Your comments are always welcome at <http://www.BeefTalk.com>.

For more information, contact the NDBCIA Office, 1041 State Ave., Dickinson, ND 58601, or go to <http://www.CHAPS2000.com> on the Internet.

Value of Beef



Another good site to know if one is interested in the value of beef.

USDA Beef Carcass Price Equivalent Index Value

www.ams.usda.gov/mnreports/nw_ls410.txt