

BeefTalk 483: Understanding and Proactive Is Better Than Defensive and Average

One could conclude that given the extreme amount of variation within beef prices, it is futile to try to make sense of it. That would be wrong.

By Kris Ringwall, Beef Specialist
NDSU Extension Service

Tracking the value of beef is interesting. No matter where one turns, there is considerable variation that results in a value spread.

This occurs to feeder calves, backgrounded calves or at harvest. On the rail, similar variations occur all the way to the box.

One could conclude that given the extreme amount of variation within beef prices, it is futile to try to make sense of it. Well, that would be wrong, but unfortunately, that is too often the chosen path.

It is unfortunate because when we choose to not pursue a further understanding, we tend to get defensive. Remember steer No. 2 that we sold a while back for \$84.76 per hundredweight of live weight minus shrink (Oct. 23 six-state average price published by CattleFax)?

The steer weighed 1,375 pounds. However, with an estimated 4 percent shrink, the total came to 1,320 pounds. In other words, steer No. 2 returned \$1,118.83 live.

Was this a fair price? The answer was in the average value of the 31 retail products fabricated from steer No. 2. The value was \$464.87 for the two front quarters and \$533.03 for the two hind quarters, which gave us a grand total of \$997.90.

Given average prices, the steer sold for more than it was worth on the rail. However, an additional question could be asked about values based on the reported lows and highs for the week of Oct. 23.

The weekly boxed-beef sales report from the U.S. Department of Agriculture's Agricultural Marketing Service is the price basis. So, let's revisit the 420 pounds of forequarter for steer No. 2.

The forequarter was fabricated into 14 products. Based on the average price, the most valued cut was 25 pounds of ribeye roll at \$126.79. However, the range of reported values was a low of \$118.81 to a high of \$143.77. The second greatest value was 46 pounds of boneless chuck roll that brought \$84.37. The range in reported values was a low of \$76.66 to a high of \$92.08.

The total value of the two forequarters had an average value of \$464.87. However, if one valued the forequarters at the reported low prices, the value would be \$426.93. If selling at the reported high value, the price would jump to \$512.92.

Of the 372 pounds of hindquarter, 17 retail products were generated. The most valued cut was 23 pounds of strip loin at an average price of \$94.81. The low reported value was \$88.01, while the high value came in at \$108.52.

The second greatest value was 13.3 pounds of defatted tenderloin at \$93.51. The low reported value was \$87.91 and the high value was \$108.85.

The total value of the two hindquarters was \$533.03. The hindquarters had a low value of \$496.41 and a high value of \$587.92. The average value for the total carcass was \$997.90.

The range in total product value would have been at a low of \$923.34 to a high of \$1,100.84. We only can guess at the price for each fabricated product.

If all the products sold based on the average reported price for the week, the buyer of steer No. 2 would be hard pressed to demonstrate a positive return on investment. The sum of the average value of the 31 fabricated products is less than the sale price.

Some products actually sold for less, resulting in a potential loss of \$74.56. However, there also was the opportunity that week to sell the fabricated cuts at an additional \$102.94.

There is variation in all beef products. Understanding variation at the packer level, as well as our management and genetic programs is important. To access the top side of the beef market, is an important goal, but not always under our control.

In this case, once all the additional credits are added to the carcass value, steer No. 2 moves from the loss column to the profit column. Understanding and being proactive is better than being defensive and average. 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.

Steer #2	
Boxed Beef Prices — October 23, 2009	
Carcass Value	
Low	\$923.34
Average.....	\$997.90
High	\$1,100.84

Source: USDA Agricultural Marketing Service Archives
www.ams.usda.gov/AMSV1.0/Marketnews