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Daily Livestock Report

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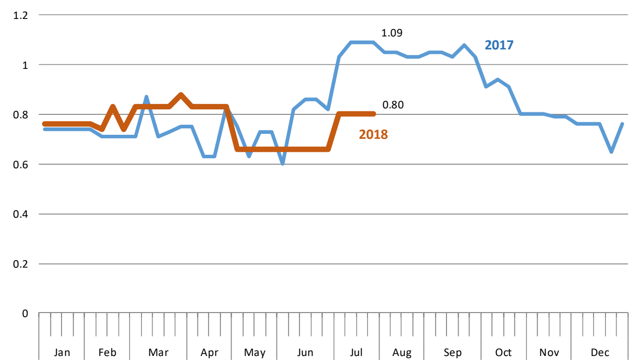
Many cattle and hogs in the US are marketed using some kind of a base price, which is then adjusted up or down given carcass quality characteristics. Additionally, **packers will pay premiums if hogs or cattle possess attributes valued by the consumer**. There is generally a good understanding of the premiums paid for prime cattle or lean hogs. However, the premiums paid for non-carcass merits are not understood as well, in part because only recently we have started to get consistent data. The premiums paid reflect market conditions and may be affected by shifts in demand. Take the premium paid for hogs that have been raised without beta agonists in their feed. China insists that all pork imported into the country needs to be free of beta agonists, a rule that is strictly enforced through third party testing. As a result, US packers that want to ship product into that market, and do not have enough of their own hogs, pay a premium to producer to deliver such hogs. Last summer the premium paid for hogs raised without beta agonists was $1.09/cwt (dressed carcass basis). Now that pork exports to China have ground to a halt, the premiums paid for such hogs appear to be struggling, last quoted by USDA at $0.8/cwt.

The premium data is collected by USDA as part of the Livestock Mandatory price Reporting system (LMR). For a while, the premiums reported for things such as hogs raised without antibiotics or group housing were not reported because there was not enough information to meet the confidentiality guidelines. Starting last summer, however, USDA included all these "other" premiums in one category and started to report as such. As expected, the premium range is quite large. For the week ending July 28 the range for the "other" category was between 15 cents and $15/cwt, with an average of $3.69/cwt. It is important to recognize that just because a packer pays an additional $4/cwt for say a hog carcass that was raised without antibiotics, this premium is not distributed evenly through all the cuts harvested from the animal. Rather, the packer will look to recover the premium paid from those cuts for which there is demand of such attributes. Other cuts or grinds may simply be marketed at regular commodity price.

USDA also reports non carcass merit premiums for cattle. The chart to the right shows the trend in those premiums for what are called ''NHTC' cattle. NHTC stands for non-hormone treated cattle and beef from these animals is eligible to go into markets such as China and EU provided all other certification steps have been completed. While there is a range in terms of the premiums paid for these types of cattle, the average premium last week was $19.88/cwt on a dressed carcass basis. Last year the premium was quoted at an average of $18.63. Robust demand and higher prices in export markets have helped support the premiums. The hope was that the opening of the Chinese market last year would underpin values for NHTC cattle but higher tariffs will limit demand from that market in the short term. The premium for 'all-natural' cattle remains around $31/cwt. The premium is paid for cattle that have not been treated with hormones or antibiotics. But just because the packer pays 15-20% more for the carcass this does not mean that the price of beef will increase by a similar amount. Rather, the packer will assess demand for various cuts/grinds and assess premiums in a way that allow them to recover the extra expense.

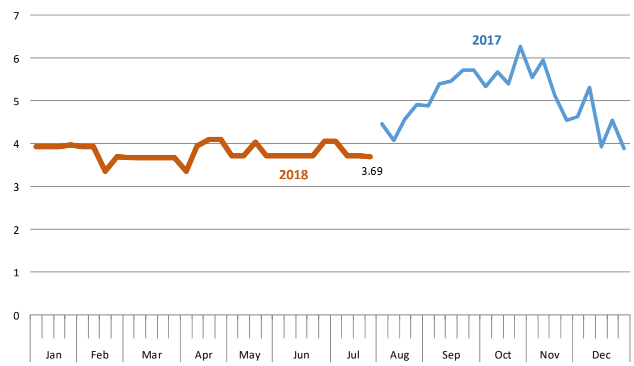
Hog Non-Carcass Merit Premiums: Beta Agonist Free ($/cwt carcass)

Data Source: USDA-AMS. Analysis by Steiner Consulting



Hog Non-Carcass Merit Premiums: Other *** ($/cwt carcass)

Data Source: USDA-AMS. Analysis by Steiner Consulting



*** Includes premiums for animal welfare, antibiotic free, diet/feed, genetics, meat quality, process verified program, sow housing

Fed Cattle Non-Carcass Merit Premiums: NHTC ($/cwt carcass)

Data Source: USDA-AMS. Analysis by Steiner Consulting