

Daily Livestock Report

USDA's beef grading system, begun in 1923, facilitates communication between sellers and buyers regarding the value of beef carcasses. The system is voluntary — packers choose whether or not to grade carcasses and pay USDA for the grading service. Most packers participate to some degree. The grading program has two components: Quality Grades that indicate the flavor, texture and, ideally, tenderness of the meat in a beef carcass and Yield Grades that indicate the amount of closely trimmed retail cuts that a carcass contains. Quality grades use the words Prime, Choice, Select and Standard for carcasses from less mature animals (generally less than 2-3 years of age) and Commercial, Utility, Cutter and Canner for carcasses from older animals, primarily cows. Yield Grades use numerical grades from 1 (leanest, heaviest muscled, highest yielding) to 5 (fattest, lightest muscled, lowest yielding) to describe carcass "cutability". Some such system is absolutely necessary where individual carcass inspection by buyers is impossible because of the mismatch in locations of buyers and packing plants and food-safety issues that limit access to packing plants. Accurate descriptions of carcasses or the beef that come from those carcasses are imperative for the market to function well. Readers can find more information on the system at the USDA Agricultural Marketing Service's website (<http://www.ams.usda.gov/AMSv1.0/>) under Grading, Certification and Verification.

Most U.S. fed beef will fall into USDA Prime, Choice or Select grades. Some packers have "no-roll" programs (meaning that no grade is applied to the carcass with the graders' roller) that forego the USDA grades in favor of customer-defined grades that might include, for example, carcasses that would normally go in the Select grade. Generally, cuts from USDA Prime carcasses and cuts go to high-end restaurants or full-service meat counters in butcher shops or grocery stores. USDA Choice product is used in many mid-level steak houses and family restaurants and is available in many retail outlets. USDA Select or store-brand product using cattle with Select-grade characteristics is widely carried in supermarkets. Of course, there are many exceptions to these general distribution channels for each grade.

One measure of beef market conditions is the spread between the price of USDA Choice beef and USDA Select beef — the Choice-Select spread. Comparing the prices of the two grades provides a feel for the "currentness" of feedyards (ie. whether cattle are being sold on schedule or are being held longer), the strongest source of beef demand (ie. foodservice vs. retail) and other factors. It also reflects, to some degree, the nature of the cattle placed over the past few months. For instance, lighter-weight placements suggest longer feeding periods that may lead to higher percentages of Choice cattle and a lower Choice-Select spread. The Choice-Select price spread has recently fallen to the lowest level since our data set began in 1999. It should be no surprise that this reduction in the spread has happened at the same time that the percentage of carcasses grading Choice has risen to its highest level since 1999. We believe this is partly due to slaughter weights that are at record levels for January and February and still very near October's normal seasonal highs. In addition, the slowdown in restaurant traffic that we have noted would suggest lower demand for Choice beef. It appears that Choice beef is a "buy" for consumers at these levels — provided they still spending money for beef.

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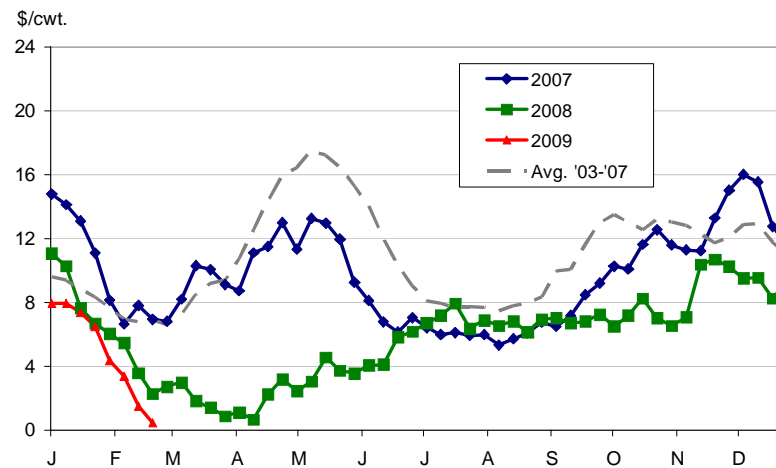
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E-Livestock Volume	2/25/09	2/24/09	2/18/09
LE (E-Live Cattle):	12,021	16,253	12,498
GF (E-Feeder Cattle):	857	2,131	1,664
HE (E-Lean Hogs):	11,815	11,957	9,861

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