

## Daily Livestock Report

**Add one more unprecedented occurrence to the list: The Choice-Select spread for carcass beef went NEGATIVE for the week that ended April 4.** Now there is a chance this has happened before but it has not happened within the scope of our data set that goes back to January 1999. And recent conversations with some old hands suggest that the flirtations with zero in previous weeks were highly unusual. That's true in spades for an actual weekly average spread below zero.

For readers who may not be familiar with the terminology, USDA grades the quality of beef carcasses. It is a voluntary process and not all carcasses are graded. The maturity of the animal (as evidenced by the degree of cartilage calcification), the color and texture of the exposed ribeye muscle and the amount of marbling (small flecks of fat that provide flavor and juiciness to high quality beef) in that muscle determine whether the carcass is graded Prime, Choice or Select. There are also grades of Standard for lower-quality immature animals and Commercial and Utility for older animals but they are not used nearly as much as the top three grades. Prime is the best in terms of flavor but prime carcasses are rather rare and often come with a high degree of fat cover or "finish" that is expensive to put on the animal (it costs more to make fat than to make lean) and expensive to take off since fat trim is of relatively low value.

Choice is pretty much the gold standard. It represents an excellent product from an eating quality standpoint that is economical to make and sell at a competitive price. Select product is often acceptable, too, and is in fact used in many retail outlets. In past years, the cutout value of Select carcasses has been from \$7 to \$15 lower than the cutout value of Choice carcasses. But last year and this year have been dramatically different. Why? Well, since we are economists, we'll say supply and demand.

As the bottom chart shows, the supply of Choice carcasses has increased over the past two years and the proportion of all carcasses grading Choice has set records this year. This increase is NOT due to mechanized optical grading systems as those are only used for yield (ie. cutability or fat-to-lean content) grading at present. One reason for the increase is changes in the way USDA's grading service does business. Graders are better trained and better managed in order to get consistent grades both within and across plants. Our sources tell us that USDA is simply doing a better job of quality control for its graders and it has shown up as more Choice carcasses. Another reason, especially applicable this year, is that cattle have been older and bigger when placed on feed, factors that many believe lead to higher Choice grading percentages. Lower corn prices have likely shifted rations back toward higher corn inclusion, which could also be driving grading percentages this year. And finally, the cattle have gotten better. That is a variable that changes slowly but specific selection for marbling and higher Angus influence have both contributed to a higher potential for Choice-grade carcasses.

And that brings us to demand. Sixteen straight months of low restaurant performance according to the National Restaurant Association is manifesting itself in lower demand for Choice beef. A shift of consumer purchasing to supermarkets suggests higher demand for Select beef that comprises much of many chains' offerings. Does the similarity of the 2008 and 2009 patterns suggest an entirely new seasonality for the spread?

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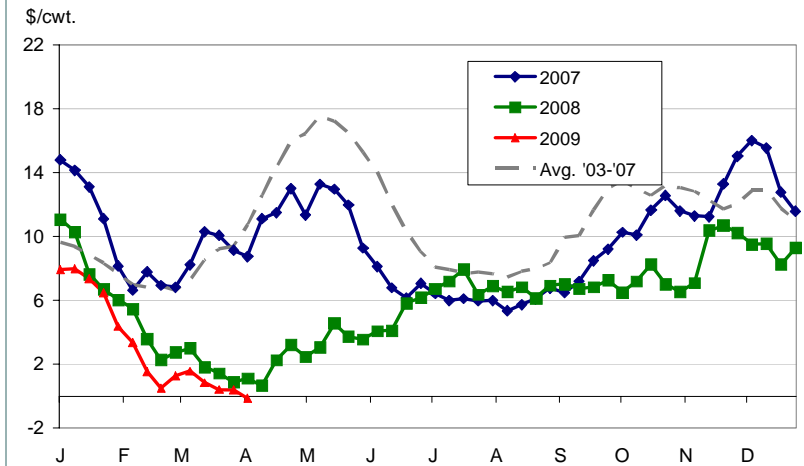
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E-Livestock Volume	4/8/09	4/7/09	4/1/09
LE (E-Live Cattle):	9,660	9,382	10,955
GF (E-Feeder Cattle):	2,059	1,554	1,148
HE (E-Lean Hogs):	12,015	13,534	13,588

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