

Black Ink Fooled Again?

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Choice beef is worth more than Select grade. That's because consumers prefer higher quality, and have been willing to pay more for it. So, why did Select beef sell for more than Choice for a few days this spring?

Was it an April Fools market? You could look at it that way – it sure wasn't because consumers wanted more Select beef. Historically, any time Select beef trades even with Choice, something strange is going on.

A couple of years ago, we'd think it wild fantasy to read about corn above \$6 a bushel, beans in the teens and wheat that went to the moon on northern spot markets before settling back into mere earth orbit. Unfortunately for livestock producers, this is reality today.

Hay and pasture acres are being plowed under to make room for grain. Yet, we have increased supplies of pork and poultry that rely entirely on grain. Finished cattle this spring came in at record heavy weights. Nobody really knows why quality grade improved along with yield grade.

With a U.S. recession looming, softer demand for beef could be no surprise. It has struggled since 2004, as retail beef prices climbed but average quality remained about the same.

The point is, a lot of unexpected factors came together as the carcass beef prices neared its expected \$1.50-per-pound market ceiling. The unexpected will shake up a commodity market, and most beef is a commodity.

Today's big food companies and purveyors manage risk by locking in beef purchases in the price dips. They aren't going to run up the price when they see all the signs pointing lower. In some respects, the recurring \$1.50 ceiling is a self-fulfilling market prophecy.

With orders locked in, those big players were unable to take advantage of the 10 percent increase in Choice beef this spring. Nor could pur-

veyors find new customers overnight for beef that had been predictably scarce. The short-term narrow Choice-Select spread shows us that our market is not so nimble as to reflect true value all the time.

Regardless of the how and why, cattle producers were seeing red, and doubly so if they counted on premiums for Choice beef this spring. In their disgust, some of them were seeing this April Fools market as a new reality. They wonder why anybody should try to produce quality at a discount to the traditional floor price of Select.

They think back to the rock anthem of their youth and vow, "We Won't Get Fooled Again!"

Before we get to Roger Daltrey's rallying scream for revolution, cool it for a moment. Don't read too much into this market, because it is already settling back into more familiar, although lower trends. If Abraham Lincoln was right, then each of us can be fooled some of the time, so take care.

There are challenging days ahead, but let's not compound the stress by shifting so much into a survival mode that we set ourselves up for failure with consumers. The surest way to get fooled again would be to assume that, suddenly, consumers no longer prefer the taste of well-marbled beef.

Our key market indicator, the Choice-Select spread, is becoming less reliable. Ten years ago, commodity Choice beef included much more of the upper two-thirds share of the grade than today. Now that an estimated 85 percent of Choice is from the lower third, there is less value difference between it and Select beef.

Even with that narrowing advantage, the long-term trend still favors Choice. The growing rewards for quality are more obvious in the market history of premium Choice and Prime beef brands. As an industry, we need to bring all of our ingenuity and technology to bear on producing high quality beef efficiently and profitably. Δ

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