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In The Cattle Markets
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By-Product Value and Importance to Fat Cattle Prices

In 2020, the US exported \$7.6 billion in beef and variety meat products (down 6% from 2019); variety meat exports to all partners accounted for 11.8% of that value, down from 12.4% in 2019. When the value for hides and all offal products is added, the total offal value plus hides accounted for 20.7% of the export value in 2020, down from 22% in 2019. Variety meats account for a significant percentage of the export value, so what value do these by-products add to the finished steer?

The Agricultural Marketing Service of the USDA reports the by-product drop value for steer. On February 23, 2021 the hide and offal value from a typical slaughter steer was estimated at \$9.71 per live hundredweight and includes values for cattle hides, variety meats (i.e., cheeks, hearts, tripe, etc.) and tallow. This value equates to \$135.94 for a 1400 lb. steer. This value has been increasing recently and is at a level last seen in May 2018.

Products that add the greatest value to the byproduct value reported by AMS are the hide, tallow, tongue, tripe, oxtail, and cheek meat. International destinations provide markets for products not typically consumed in the US. Japan and Mexico are the leading importers of US variety meats, importing \$369 million and \$228 million worth of variety meats in 2020. Japan is the leading importer of beef tongue, while Mexico leads in beef tripe. As their import levels of variety meats change, so does the value contribution of tongue and tripe change in the overall byproduct value calculation, which ultimately will impact the finished steer price.

Beef and beef by-products are typically produced in nearly fixed proportions; however, when packers experienced line disruption in 2020, many plants changed fabrication methods to keep more whole muscles/primals intact and keep less offal to maximize line speed. The decrease in beef and offal provided less opportunities for exports and by-product values decreased to \$6.79 in May 2020. When these edible offal products are not exported, they will often go into rendering or into pet food and ultimately decrease the overall value of the finished steer.

With the continued recover from COVID disruptions, by-product production has mostly returned to pre-COVID levels; and given the relatively fixed pounds of by-products per 1,4000-pound steer, the by-product drop value contributions have been increasing due primarily to changes in demand. Beef exports are expected to be up almost 6% in 2021. As exports of beef and variety meats rises, additional support to the finished steer price is provided.

The Markets

Old crop corn price continues to increase, while December futures prices remain stable. USDA acreage has provided the recent stability for the December corn price. Corn is currently at the tightest levels in seven years. However, with the recent lack of any new exports, and the attention given to South American markets, prices are not getting any new news to support the high prices. Although the trend is still upward for corn prices, upward trends need new news to continue.

Live cattle prices are facing downward pressure. The February contract will expire on Friday and the bearish cash market will pull the April futures price with it.

The Cold Storage report on February 23, 2021 estimated total pounds of beef in freezers was down 3% from January, but up 6% over 2020.

<i>Data Source: USDA-AMS Market News</i>		Week of 2/19/21	Week of 2/12/21	Week of 2/21/20
5-Area Fed Steer	all grades, live weight, \$/cwt	\$114.07	\$113.83	\$119.71
	all grades, dressed weight, \$/cwt	\$180.57	\$180.10	\$190.07
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$236.56	\$233.77	\$205.71
	Choice-Select Spread, \$/cwt	\$11.67	\$13.06	\$2.72
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$146.71	\$139.24	\$148.21
	Nebraska 7-market, \$/cwt	\$145.20	\$142.67	\$150.82
	Oklahoma 8-market, \$/cwt	\$134.80	\$132.53	\$140.93
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$181.08	\$165.42	\$177.02
	Nebraska 7-market, \$/cwt	\$177.99	\$172.33	\$182.24
	Oklahoma 8-market, \$/cwt	\$158.14	\$158.32	\$177.32
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$5.32	\$5.23	\$3.78
	DDGS, Nebraska, \$/ton	\$230.00	\$225.00	\$140.75