

David Peters examines how changes in average cattle slaughter weight have affected US hides and the challenges of winter hide production. He also reports on a strong year for the US meat industry.

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Woulda, coulda, shoulda

Just because everything looks good and auto sales are strong, complacency should not rule the day. At a recent meeting of automotive dealerships, the key note speaker, Don Flow, chairman and CEO of Flow Automotive, suggested that the US automotive industry needed to create consumer value and lower its costs. These are interesting comments at a time when light vehicle sales are robust and the outlook for business remains positive.

By comparison, when the hide market was rushing towards historic highs and leather was prolific (for the bull market, 2010 to 2014), there were few initiatives and little was done to enhance or offer suggestions for the future of the hide and leather industry. Fast forward to 2017 and it appears we could have used some guidance for the future.

Markets move in cycles and hide prices are currently in the low range of the rotation. Any firmness or gains in levels achieved are short-term sales opportunities; the ability of sellers to sustain improved levels will be muffled victories without a solid, consistent and believable foundation of respectable shoe leather business.

Bigger isn't always better

An article entitled "Unintended consequences of the quest for efficiency in beef cattle: When bigger isn't better" recently appeared in scientific journal *Food Policy*. It detailed how over the last 40 years the average slaughter weight for cattle has increased 330 pounds per head. Likewise, the average hide weight has also substantially increased; steers on a brine-cured, trimmed and fleshed basis have gone from +/- 56/58 pounds to +/- 66/68 pounds. Bigger, thicker hides, together with a concentration in breeds and the general elimination of sex breaks, have changed the historical character of the US hide. Tanners, meanwhile, have had to adjust their products and tanneries to handle these changes.

The incentive to create bigger carcasses through improved breeding techniques and increased feed conversion was to extract more meat per animal produced. As a result of these increased slaughter weights, beef products, such as steaks, became larger. It has been suggested that the producer is no longer fighting for the centre of the plate, but, more accurately, for the centre of the table.

Restaurants and supermarkets are offering increasingly larger portion sizes, but, according to Food Policy, larger steak

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sizes make it "more difficult to fabricate consistent sized retail cuts and profitability to meet the expectation of foodservices and retail consumers". In many cases, the consumer has a preference for thicker meat cuts rather than larger surface area. Overall, the evolution to bigger beef portions, whether thicker or larger, has contributed to higher consumer spending on beef.

Changes in the air

The trend now appears to have changed. With increases in cattle inventory and beef demand remaining strong, packers are slaughtering lighter weight cattle. Gains in carcass weights have stopped, with reports over recent months of decreases in year-over-year weights. Meat is being packaged in more reasonable sizes and the trend for larger portions has abated.

The by-product markets have not been immune to these tendencies. Producers of ground beef and tallow were content with increased supplies, but this situation is also changing. Increased slaughter, combined with the adjustment in cattle weights have had a negative impact on some of these by-product supplies, the notable exception being hides. We are also sensing a change in the size and structure of the hides, corresponding to the increased production and lighter weight cattle.



Gender separation

The gains in cattle weight had a material effect on how hides were marketed. From the beginning of the 21st century, hide weights were constantly increasing, which resulted in producers offering jumbo selections and even super jumbo ones. The historic differences between steers and heifers were altered to simply reflect weight differences and not grain or hide structure characteristics.

For example, a 1,300-pound animal, whether male or female, produced a hide. The seller was incentivised to market heavier hides irrespective of gender and the tanner accepted on the assumption that bigger hides produced better yields. With live weights dropping we could easily witness an adjustment in hide size, thereby setting the stage for gender separation and the potential of premiums being paid for super jumbo selections. Similar to the fate of the 747, we could see fewer jumbos during 2018.

Winter hide challenges

The winter is fast approaching and at certain producer domains has already arrived. Moisture and temperature play a central role in the quality, or lack thereof, of winter hide production. If producers back off removing extraneous flesh to minimise or avoid the creation of manure ball damage, then the tanner should be entitled to an allowance.

Compensating the buyers before receiving the complaint for poorly fleshed hides is a proactive posture that producers should be obligated to provide. Fleshing hides correctly under winter conditions often increases the amount of Number Three hides, which are then heavily discounted.

The pricing differential between a conventional hide and a correctly fleshed hide is not apparent when looking at offerings of winter hides. Poorly fleshed hides leave the tanner with heavier weight product which increases the tanner's waste stream and lowers their yields. Doing what is right counts more than shipping out of spec product. Providing tanners with a reasonable value proposition during the winter season is a long overdue idea. Fleshing hides after curing is another solution

for winter hides. Both options would be a step in the right direction to improving product deliveries and customer service and to changing the existing winter paradigm.

New Chinese standards

What goes around comes around as it now appears that the Chinese government appreciated the branding programme concept a lot more when compared to the negative views of certain members of the US hide industry. Discussions are underway to implement Decree 159, which is their version of source verification. This will essentially create a list of approved US facilities that will be allowed to ship hides to China.

The approval of each hide plant will ultimately allow Chinese tanners to dictate standards and specifications, forcing US shippers to comply or risk losing their establishment licence. Facility certifications will be valid for five years, but could be rescinded over a shorter period of time. If a plant is not on the approved list, shipping to China will be impossible. This is not a good deal for the hide industry in the long term.

Record year for producers

The end of year rally, with steers encouraged by continued auto business and positioning for Chinese year-end shipments, created the impression that prices were firmer. Meanwhile, the spread with cows is becoming too large and buyers are re-examining the advantages. Value markets such as Brazil, Colombia, Mexico and Venezuela are all receiving more attention and a bounce or two is taking place.

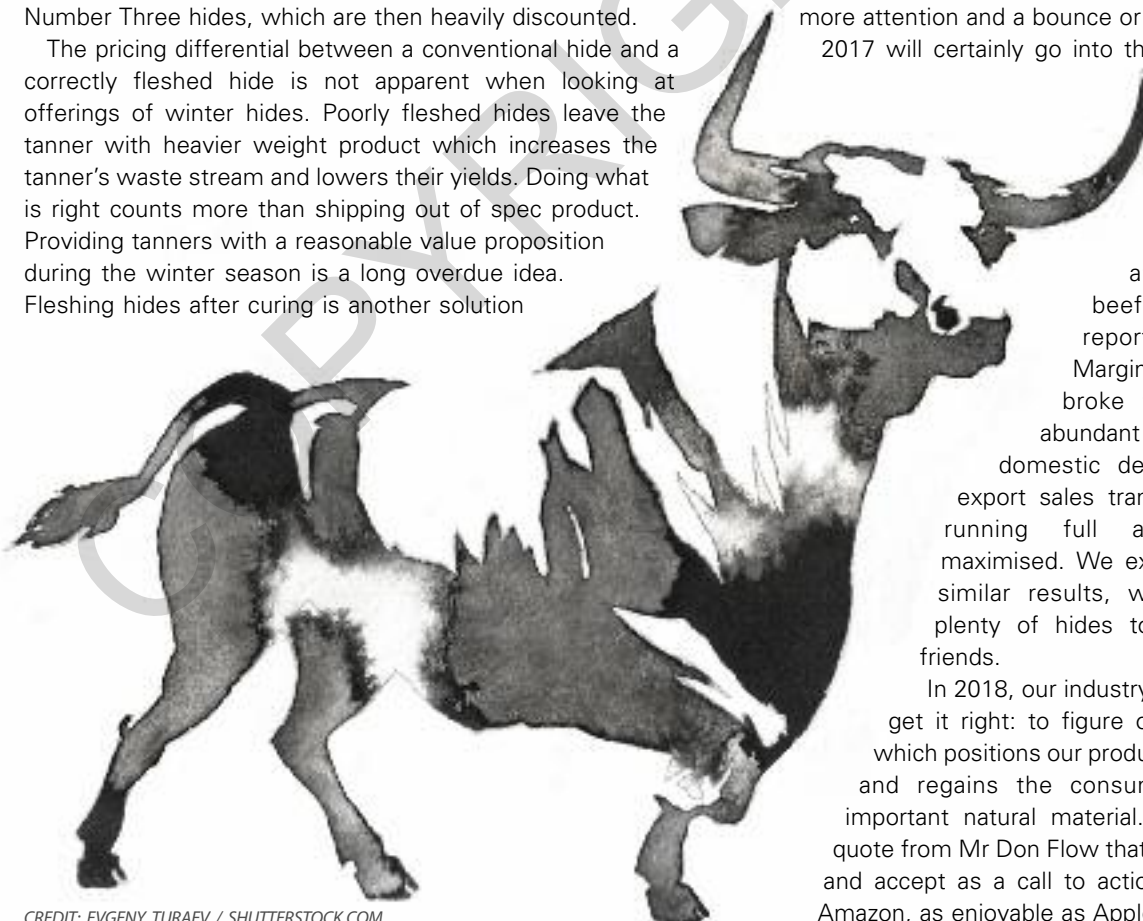
2017 will certainly go into the record books as the

best year of profitability for the US meat industry. Following reports published by Tyson, National Beef, Cargill and JBS, the major US

beef packers have all reported strong results.

Margins for beef processors broke numerous records as abundant cattle supplies, robust domestic demand and growth in export sales translated into operations running full and revenue being maximised. We expect 2018 to produce similar results, with producers having plenty of hides to share with all their friends.

In 2018, our industry has the opportunity to get it right: to figure out an acceptable path which positions our products in a favourable light and regains the consumers' desire for this important natural material. There is an additional quote from Mr Don Flow that we should all embrace and accept as a call to action: "Be as efficient as Amazon, as enjoyable as Apple".



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