



Historically US cutouts converted to Canadian dollars were used as a measure for the Canadian industry due to the integration within the North American beef and cattle industries. However, with the closure of the border in 2003 these two markets diverged and the need for a Canadian Boxed Beef Report arose. The Canadian Boxed Beef model was originally developed in 2003/04. Since then it has been a useful tool for industry in monitoring beef prices. However, carcass cutout composition is something that transitions over time, as packers identify opportunities to improve utilization and increase cutout values through alternative primal usage, new cut development, and expansions in market access that results in changes in demand for certain cuts and therefore the cutouts used by packers.

Since July 2005 the Canadian cutout has been at a premium to the US cutout converted to Canadian dollars for the majority of the time. It has been recognized that the boxed beef model placed heavier weights on higher priced middle meats, inflating the cutout value by approximately \$10/cwt. Consequently the Canadian boxed beef model and report has been reviewed and modified, where necessary, to ensure cutout values generated accurately reflect current cutout compositions and market realities.

Canfax has been working in collaboration with Canadian packing plants and the Canadian Meat Council to collect and compile the appropriate information for the Boxed Beef report. A dozen cuts have been added to the boxed beef report; therefore primal yields have been updated to be consistent with the US report. Since the US is Canada's largest competitor in the production of grain-fed beef, being able to compare cutout values is valuable to evaluate competitiveness and industry performance. It is important to note that there will always be a certain degree of differences when comparing Canadian AAA or AA to US Choice or Select prices due to location relative to major markets, the lack of grade equivalency for Canadian beef in the US market, and differences in composition of products. The new Boxed Beef report has been developed for easy comparison between the two countries.

Since the Kidney, Hanging Tender and KPH (Kidney, Pelvic, and Heart Fat) are included in the US cutout value but are excluded in Canada - the cutout values cannot be accurately compared simply by adjusting for the exchange rate. Therefore in order to compare Canadian and US cutout values in the future the following formula will be used to convert the Canadian cutout to US equivalents in Canadian dollars:

$$\text{Canadian cutout} \times 0.96 + (\text{Canadian credit/value for Hanging Tender, Kidney and KPH}) \\ = \text{Comparable to US Cutout in Canadian dollars}$$

In order for the comparison to be calculated the drop credit for the Hanging Tender, Kidney and KPH must be available in Canada. Consequently, a Canadian by-product report has been developed which provides individual prices for these items. This report estimates the value of the hide and offal from a typical 1275 lb slaughter steer based on the current domestic market for variety meats, rendered products and butt branded steer hides. The weekly by-product value will be reported in the Canfax weekly.

Cutout values give an indication of consumer demand and industry supplies. Changes in cutout values are a good indicator for fed cattle prices with changes in boxed beef values with a correlation of 74% from January 2005 to May 2010. The Boxed Beef model uses average industry cutting yields to calculate each primal. It should be noted that cutouts and primals are based on industry averages which will vary from packer to packer and are continually changing with current market conditions. The full report along with primal yields for the boxed beef report and yield weights for the by-product model can be found on the Canfax website at www.canfax.ca. The revised boxed beef model was implemented starting week ending July 2nd 2010.