U.S. beef packer losses reach record levels - trade

* Expensive choice beef, high cattle prices culprits

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* Devalued beef by-product, hide values play roles

* Packers would likely trim production to stem losses

By Theopolis Waters

CHICAGO, Dec 9 (Reuters) - U.S. beef packers are making record losses as the price they pay for cattle is outstripping what they earn on beef, private data showed on Friday.

Analysts said the losses were record large and could force leading beef producers such as Tyson Foods Inc and JBS USA , a unit of Brazilian company JBS SA , to reduce cattle slaughter and beef production in a bid to lift beef prices.

Spokesman for both companies had not returned phone calls in time for the story.

"We expect packers to cut back kills this week and are looking for them to start trimming plant hours today and a lighter Saturday kill," said Bob Wilson, an analyst with Colorado-based analytics firm HedgersEdge.com.

USDA on Friday estimated this week's beef production to be down 2.1 percent from last week and down 4.2 percent from a year ago.

On Friday, HedgersEdge estimated the average beef packers' bottom line at a negative $101.95 per head of cattle, the worst since the company began keeping such records 22 years ago.

The last time beef packer margins were positive, according to HedgersEdge, was on Sept. 15 at $2.60 per head. Cattle prices were then around $117 per cwt and wholesale choice beef was $185.20 per cwt. Packer margins this year peaked at positive $104.10 on June 2.

Packer margins have since eroded.

Rich Nelson, director of research with Allendale Inc. in McHenry, Ill., blamed the packers' current margin woes on them buying their cattle at higher-than-normal prices for cattle that would produce choice-grade beef, while losing money on cattle graded select.

An usual surge in choice beef demand by restaurants and retailers, most notably Wal-Mart, delayed the typical slowdown that occurs at summer's end when outdoor grilling winds down.

That rush for choice cuts launched cash cattle prices to a record of more that $120 per cwt and sent wholesale beef to all-time highs in the fall.

Beef processors also feverishly tried to keep pace with the needs of foreign beef buyers, especially Asia where Japan ratcheted up U.S. beef imports in the aftermath of the devastating earthquake in March.

China's appetite for U.S. beef also increased to feed its growing middle class and as an alternative to prohibitively high prices for pork - the country's most preferred meat.

This all occurred at a time when fewer U.S. cattle graded choice. Prolonged drought in the U.S. southwest forced younger animals into feedlots for several months earlier this year that produced a lower grade of beef.

"Packers are selling a lot of choice beef to the export and domestic markets and there are more packers than there are cattle. They are literally fighting over the cattle by bidding against each other for several weeks, and that's why margins have gotten away from them," said Dennis Smith, an analyst with Archer Financial Services in Chicago.

HIDES LOSING VALUE

Another sore spot for beef packers is the deflated drop-credit value, or what processors make from the sale of non-beef by-products such as hides, fat, and tallow. The majority of that value is tied to the hides which are shipped outside the United States.

HedgersEdge.com's Wilson estimated the current drop credit value at roughly $170 per head, compared with $185 to $190 per head earlier this year.

Dan Vaught with Vaught Futures Insights in Altus, Ark., said because the hide represents the bulk of the drop, it becomes a prime candidate in lost value. From an export perspective the hides are crucial because of the huge role the dollar plays in how they are priced, he said.

A strong U.S. dollar this year, due in part to a euro weakened by Europe's debt crisis, has hurt overseas hide sales. The strong currency make hides more expensive to foreign buyers.

"The dollar has been up versus its European counterparts in particular, but most of them get shipped to Mexico, China, South Korea. The dollar has strengthened to some extent against the European currencies and the global economy isn't exactly setting the world on fire," said Vaught.