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Rabobank: Permanent shift of carcass valuation

By [Michael Fielding](#) on 1/21/2013



In a new research report on the increased demand for animal by-products in the global meat industry, Rabobank predicts that the shift in carcass valuation will be permanent.

In the report authored by Rabobank's global Food & Agribusiness Research and Advisory department, the bank looks at how the valuation of the animal carcass has shifted over the last few years from prime cuts to processing cuts and fifth quarter products, driven by changing consumer preference for processed products, fast-rising economic welfare and preference for animal by-products in Asia, new applications for animal by-products and lower availability of sow meat.

Rabobank suggests that this trend will be permanent and will affect the business models of almost all players in the global meat industry.

"The impact of this shift in carcass valuation will be different for slaughterhouses, the further processing industry, and dedicated companies active in the different parts of the by-product industry," Rabobank analyst Albert Vernooij said in a news release. "For slaughterhouses, the focus will increasingly move towards capturing the value of fifth quarter products, which might lead to forward integration in these activities."

Despite the fact that prime meat cuts typically have the highest sales prices and value, the rising price of processing cuts and by-products of cattle and hogs show that animal carcass valuation has been shifting since 2009. This is due to five main developments:

- Growing economies in developing countries including the opening of the Chinese market for imports

- The economic crisis, which has caused consumers to trade down to cheaper products
- Growth of convenience products with more women entering the workforce, consumers having less time to cook, and increased grazing
- The growing number of applications for animal by-products in the pharmaceutical and cosmetic industries and
- The decline in the sow herd in both the U.S. and the EU, which resulted in processed meat producers increasingly sourcing their raw material from market hogs.

Rabobank says that the further processing industry could be forced to change its raw material sourcing to other products or enter into long-term supplier contracts to safeguard supply. For the dedicated processors of by-products, the bank says that competition will increase, which may force companies to strengthen their positions in the value chain.

Historically, the direct consumption of animal by-products has declined in line with increasing wealth due to consumer ability to afford higher priced prime meat cuts. In light of that, Rabobank analysts estimate that consumption of animal by-products in Asia should start to slow in the coming decade.

However, most animal by-products are considered a delicacy in Asia, which will support continued strong demand for these products in the long term. Coupled with the growing number of applications for fifth quarter products, Rabobank believes this will result in continued strong demand and a permanent shift in carcass valuation.