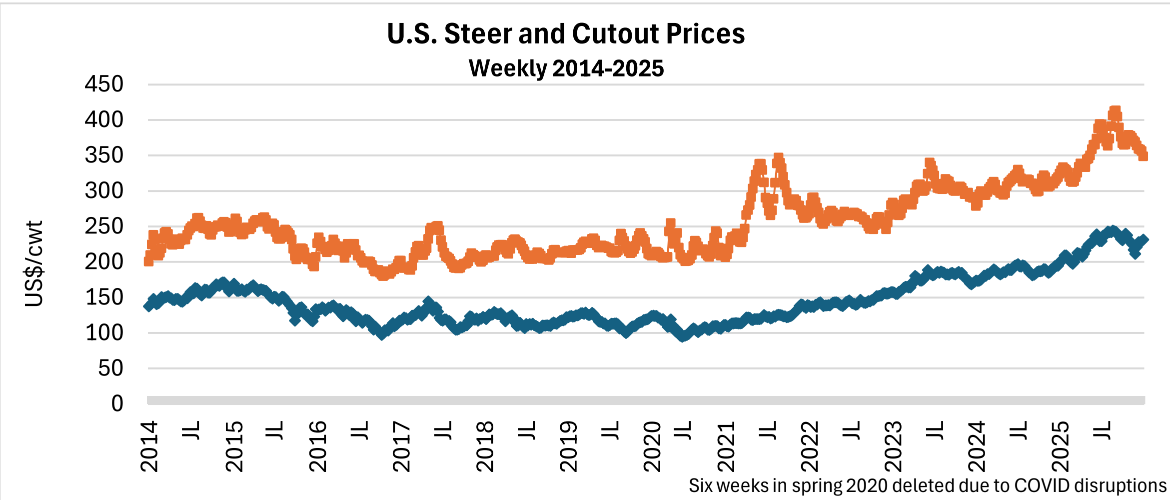
Make Informed Decisions

KevinGrier
Market Analysis and Consulting Inc.

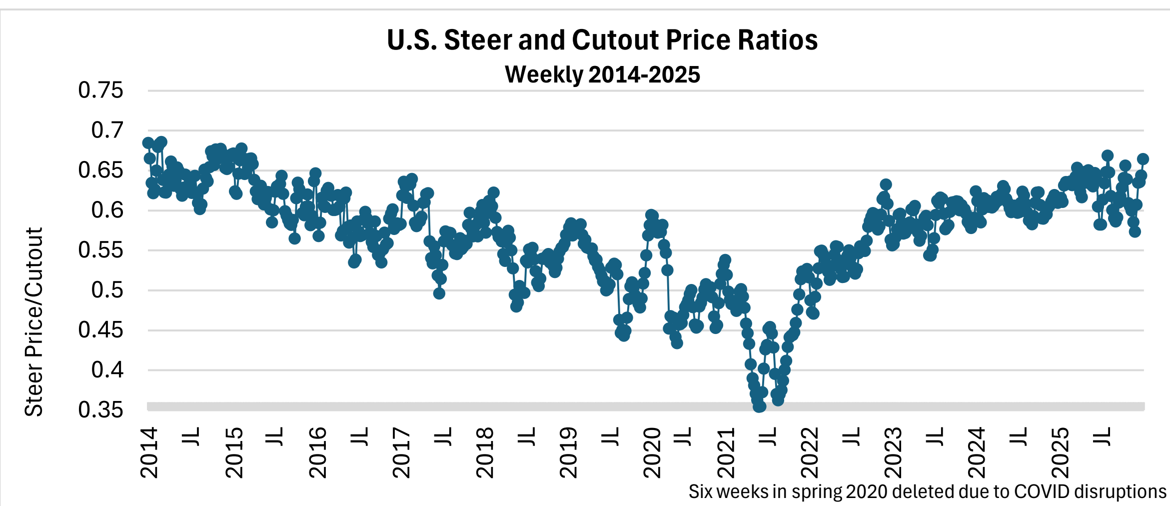
# Cutouts and Cattle Price Relationships

Over the course of the first month of 2014 through the last month of 2025, the U.S. national live steer price gained 60% and the USDA Choice cutout gained 62% in the U.S. Given the passage of 12 years, those two rates of gain represent a reasonably stable relationship. That big picture outcome, however, masks a great deal of volatility in the relationship between the cutout and the live cattle price.




## Wide Variation Over Time

The first point of note is the ratio of the live price to the cutout. The higher the ratio, the greater the cattle price relative to the beef. Over that 2014-2025 period (ignoring six weeks in 2020 due to covid disruptions) the ratio of the live price to the cutout averaged 57%. Within that average, however, the ratio varied from a high of .69 in early 2014 to a low of 35% in mid-2021. There were also periods of a very high ratio in 2025.

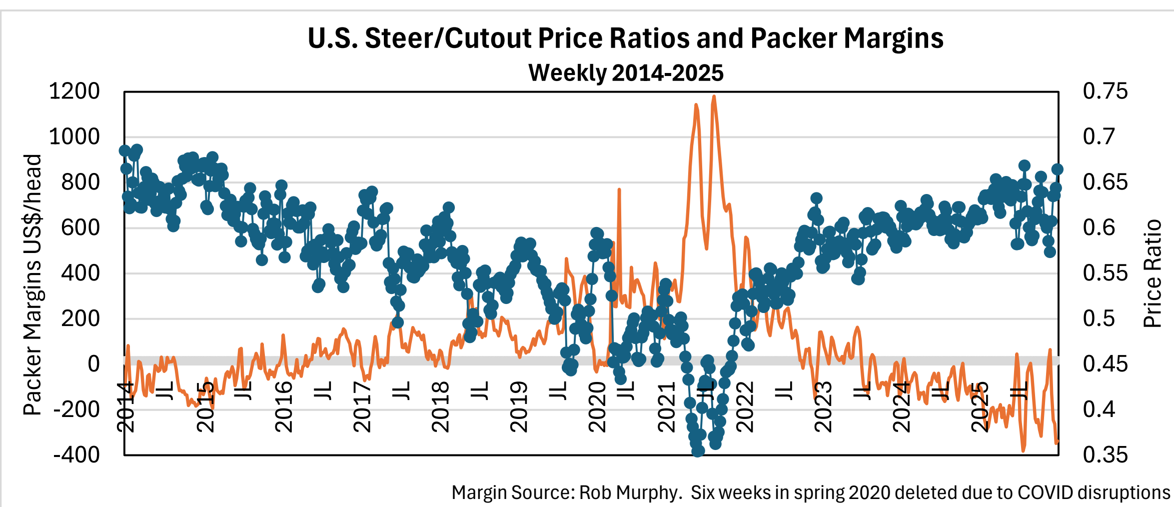


The periods in which the ratio is high would be those in which the demand and supply of cattle generate a much higher live price relative to the cutout. When the ratio is low, the demand and supply of cattle generate a much lower live price relative to the cutout. A higher ratio indicates market conditions favoring the cattle feeder. A low ratio indicates supply demand conditions favoring the packer.

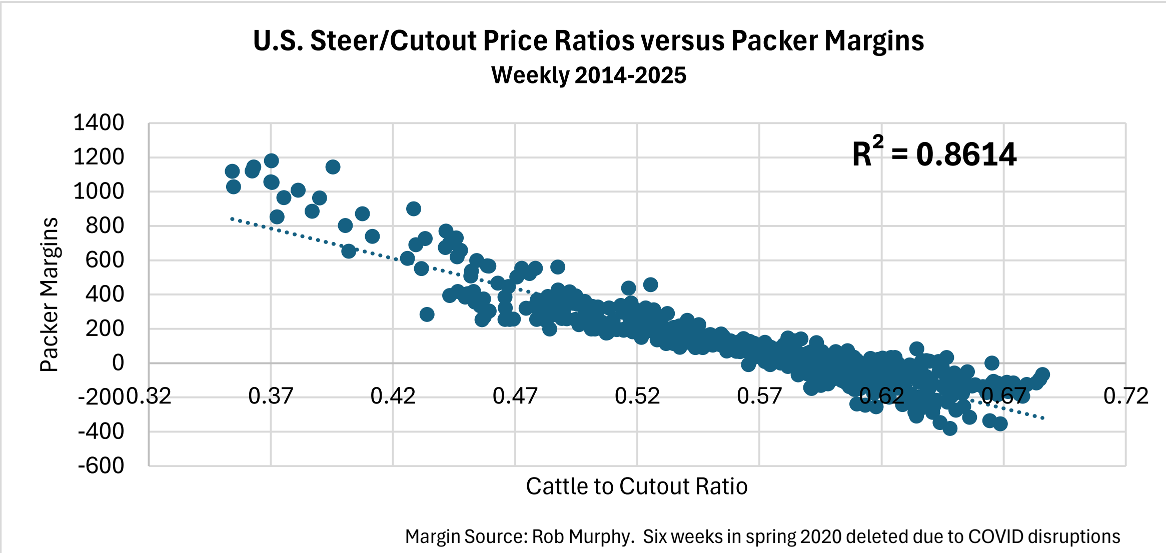
For example, when the ratio hit lows in 2021-2022 as shown on the graph above, that was the period in which the inventory of slaughter steers and heifers were at the cattle cycle high. Weekly slaughter often was bumping up against weekly capacity. The weeks in 2014 and 2025 when the ratio was the highest, are also the period in which cattle inventories are at cycle lows relative to packer capacity.

## Clear Impact on Packer Margins

It is no surprise that the relationship of the live price to the cutout is closely linked to packer margins. The higher the ratio of the steer price to the cutout, the lower the margins and vice versa. The extreme low cattle price relative to the cutout during the 2021-2022 translated into extreme, historically strong packer margins at the same time. Meanwhile the very high price of cattle relative to the cutout in recent months (and 2014) translated into historically poor packer margins.



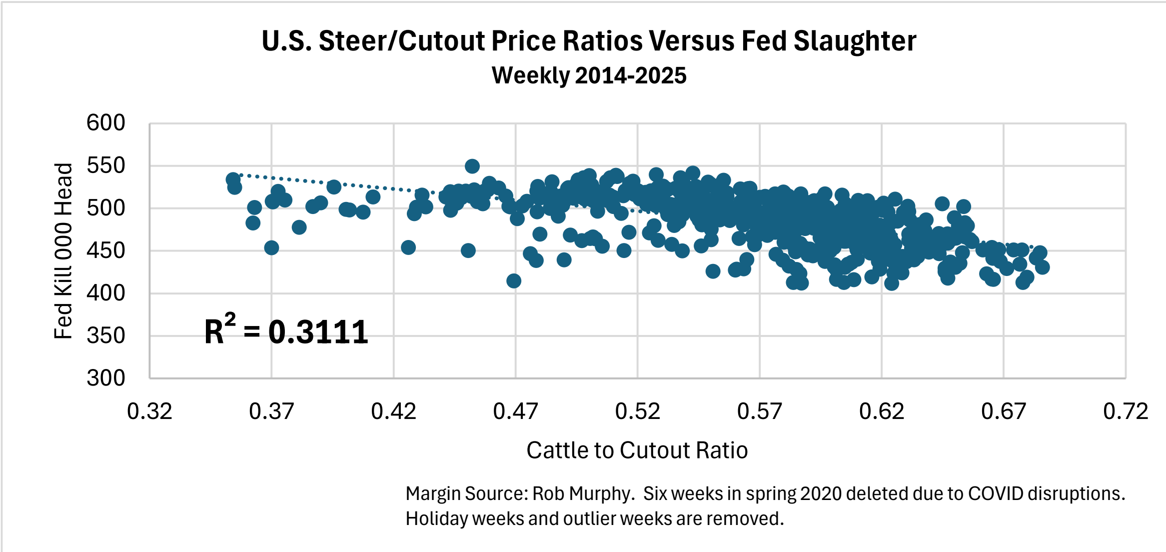
There is a close statistical relationship between the steer price/cutout ratio and packer margins. The live price/cutout ratio is a proxy for packer margins.




## Margins and Kills

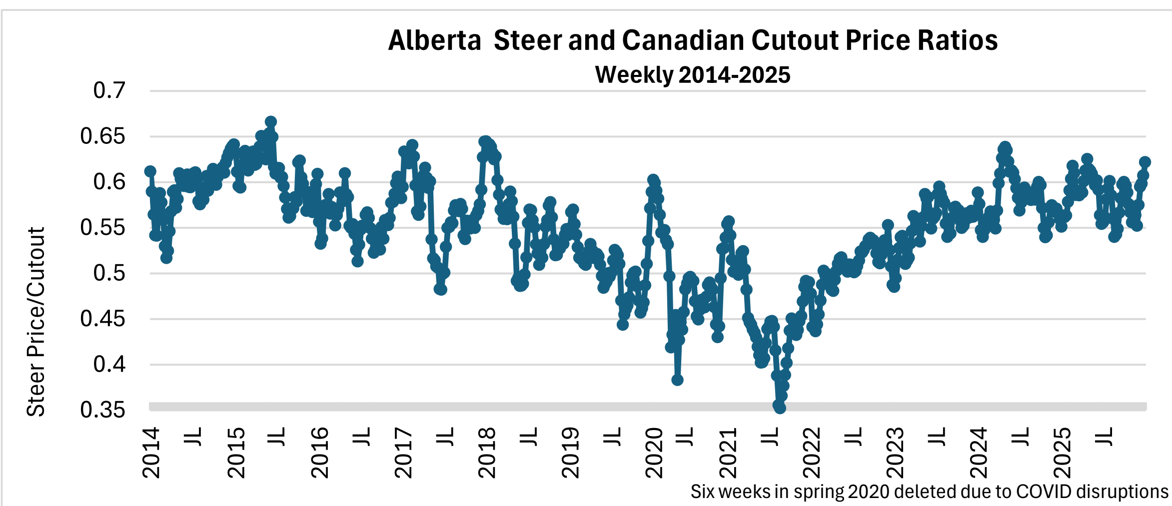
It is always expected that when margins are poor, packers will cut kills and when margins are good, packers will increase kills. In some respects, that relationship is self-evident, or self-reinforcing. When cattle supplies are ample, margins are often good as a result and kills are also ample. When cattle supplies are tight, margins are often weak and as a result kills are also light. In other words, kills are higher or lower not just due to margins, but due to whether supply is available, or not. From a big picture perspective, packer strategy or intent is only a part of that actual kill impact. Poor margins don't cause low kills, low kills are caused by low supplies. With that said, the packer strategy of cutting kills due to poor margins will reinforce the kill impact.

Further to that, as noted above, the steer price/cutout ratio is a proxy for margins. There is a relationship between kills and margins, but it is weak.



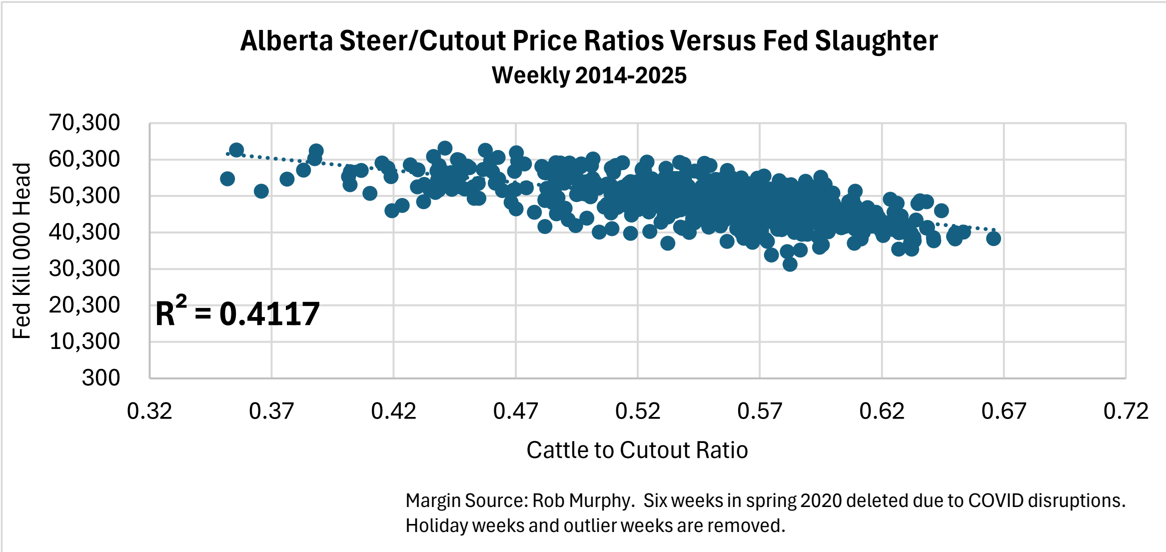

## The Same but Different in Canada

As noted here often, for a wide array of reasons, the US cutout is an excellent representation of the Canadian cutout. The Canadian cutout can vary from the USDA sheet from week to week but all in all, the USDA cutout is going to be very close to the Canadian trades at any given time. It is no surprise, therefore, that the relationship between the Canadian cutout and the Alberta steer price is like that of the U.S.




With that said, due to the erosion of the value of the Canadian dollar, the Alberta steer price more than doubled over the 2014-2025 period. That compared to the 60% gain in the U.S. steer. The relationship of the Alberta steer price to the cutout has averaged about 55% over that time, compared to 57% in the U.S. In Alberta the ratio was only 58% in 2025 compared to 62.5% in the U.S. That reflects the very week Canfax cash price this year.

It is of note that there is a stronger relationship between the steer price/cutout ratio and the kill level in Canada compared to the U.S.




The main message for Canadian cattle feeders is that there is a high probability that the ratio is going to stay high and hence packer margins low through 2026. That will be in large measure due to tight cattle supplies causing low Canadian kills and producing the poor packer margins. Conversely, there will be plenty of weeks that Canadian poor packer margins are going to cause low kills.

***A version of this note was in the January 12, 2026 edition of the Canadian Cattle Market Report. If you would like a free, three month trial to that report, email Kevin@KevinGrier.com.***

Kevin Grier

January 2026