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WEEK ENDING MAY 21, 2021

THE BEEF WRAP

Cash cattle prices were essentially unchanged from last week, averaging $119.71 on the week. The cutouts, however, kept pushing higher, with the Choice adding a little over $9 and the Select up about $4.60. There are many who are expecting a sharp retracement in the cutouts now that all of the Memorial Day business is wrapped up, but I'm not one of them. I think we could see a little softness in the middles, but keep in mind that Father's Day follows closely on the heels of Memorial Day and that is also a big middle meat holiday.

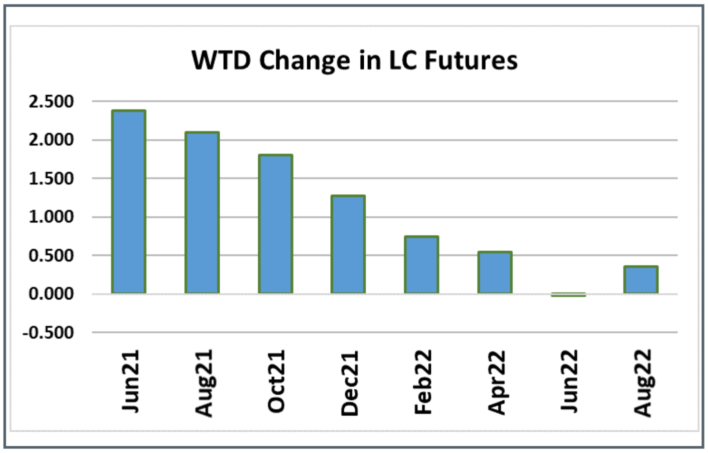
Whatever it is that has driven the end cuts to such high levels is almost certainly not related to Memorial Day and thus it doesn't seem reasonable to expect a big collapse there just because the holiday has passed. I think that buyers had just better get used to paying a lot more for beef on an ongoing basis. The labor shortage in packing plants means that beef production will not be able to expand much beyond current levels and that situation is likely to persist for a long time. Some say that once the additional unemployment benefits expire, that will force more workers back to the job. I don't really think that the unemployment benefits are playing as big of a role as people think. Instead, I believe the pandemic forced workers to look for alternative employment and many located work in other areas that they found more enjoyable than their old jobs. I guess almost any job on the planet would be more enjoyable that working in a packing plant. The same applies to those who used to work in foodservice, except that the jobs they found weren't necessarily more enjoyable, but they paid better. So, bottom line is that the pandemic caused a huge re-think in careers for many people, leaving packing plants and restaurants out in the cold when it comes to the cheap labor they had enjoyed for decades.

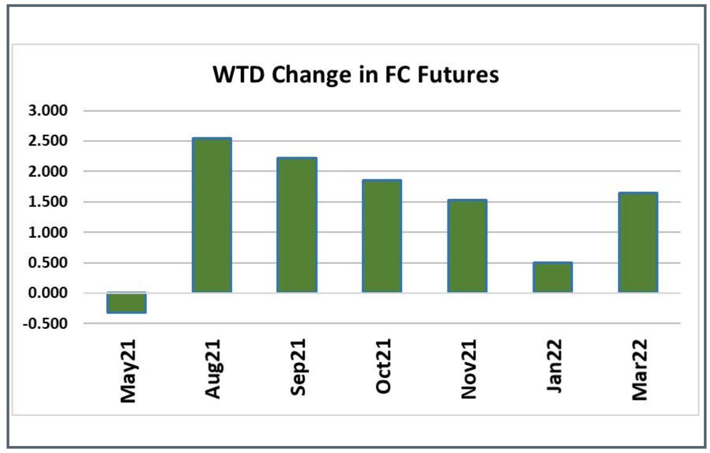
There is only one solution to that problem and that means raising wages to attract people back into these jobs. When industries pay their workers more, they have to charge more for their products. That means more expensive beef coming out of packing plants and more expensive meals at restaurants. When the price of goods or services rise, people consume less of them, so this also means a smaller beef industry and a smaller restaurant industry is the likely long-run result of this labor pinch. Because the beef industry is comprised of many stages (cow-calf, stocker, feedyards, packers, retailers, etc), coordination between the stages is accomplished via price signals. So, right now the packing segment is having a labor problem and it is trying to send the price signal downstream to the feedyards and cow-calf sectors to slow down the flow of cattle. Today's COF report makes it look like cattle feeders have not yet heeded that signal because placements came in well above expectations and that just sets the stage for more financial pain in the feeding sector over the next 6 months or so. Hopefully, those cattle feeders that did place heavily also hedged by selling the deferred futures. Anyway, the bottom line is that we have a supply chain here that is not very well coordinated at the moment and that means resources will not be used efficiently and also likely increases the price volatility within the supply chain.

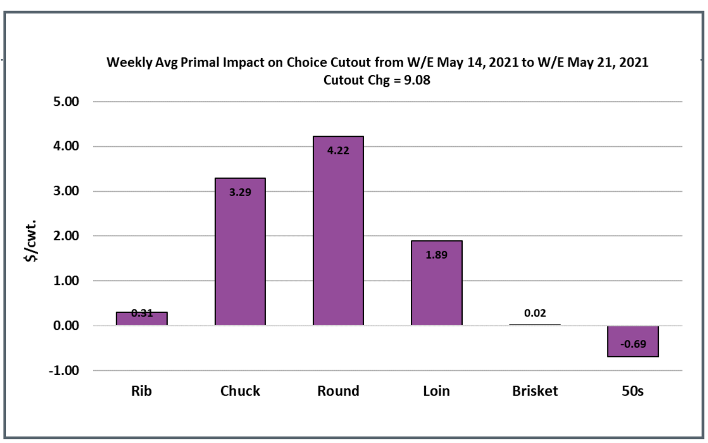
Packer margins this week clocked in at $928/head, up about $50/head from last week. Packers responded by putting together a very large Saturday kill by current standards and the weekly total steer and heifer slaughter came in at 533k. I'd say that represents a practical upper bound on how many fed animals packers can kill in a week under current conditions. That big kill may be enough to cool down the cutouts next week, especially now that Memorial Day purchasing is done. Cutouts may soften a bit, but I wouldn't expect them to show huge declines. Corn prices are well off their highs now and the weather looks favorable for growing in the near-term. Hopefully, that will take some of the "commodity supercycle" buying out of the meat markets in the next few weeks.

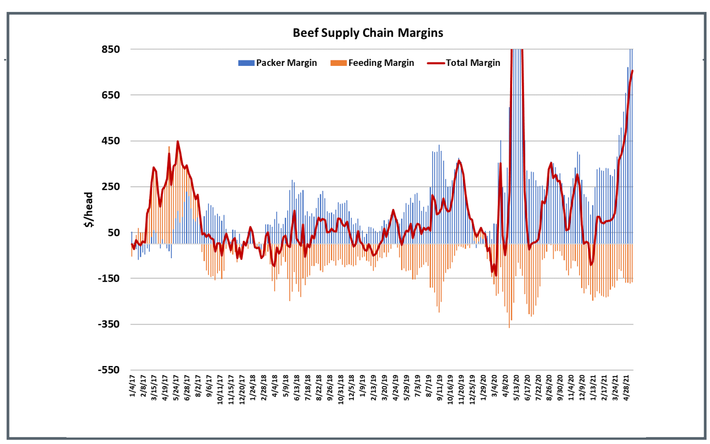
Carcass weights do not look very good at present. Steer weights were reported up 5 pounds this week and they should be declining seasonally. The DTDS is at high levels. All of this suggests cattle are not getting marketed on time and thus some backlog is beginning to develop. The demand side of the beef market continues to look very robust and the combined margin chart below indicates that we are still in the upward phase of this very strong demand cycle. Life is rapidly getting back to normal in the US and people want to celebrate. Beef is naturally a part of that and they are buying it with both hands, regardless of the price. This "back to normal" boost in beef demand will fade at some point, but may last through most of the summer.

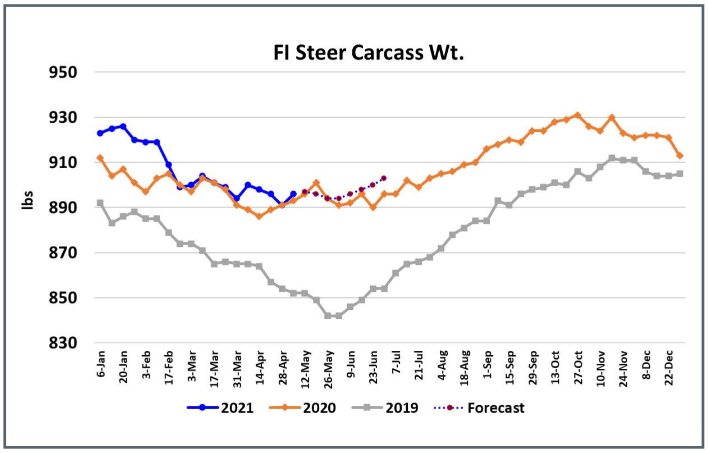
Retailers are rapidly raising beef prices, but that doesn't seem to matter in the current euphoria. Keep in mind that retail prices are very sticky–they don't come down nearly as fast as they go up and so if demand falters once we get retails up to very high levels, we could see problems moving product. I think that day is at least 2 months down the road, but it is probably coming at some point. Next week, watch for a modest softening in the cutouts led by the middle meats and keep an eye on those carcass weights because they are looking ominous once again.

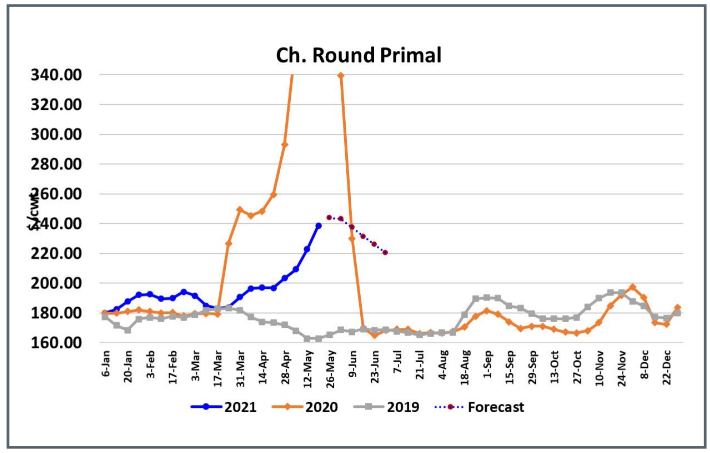

WTD Change in LC Futures
2.500
2.000
1.500
1.000
0.500
0.000
-0.500
Jun21
Aug21
Oct21
Dec21
Feb22
Apr22
Jun22
Aug22

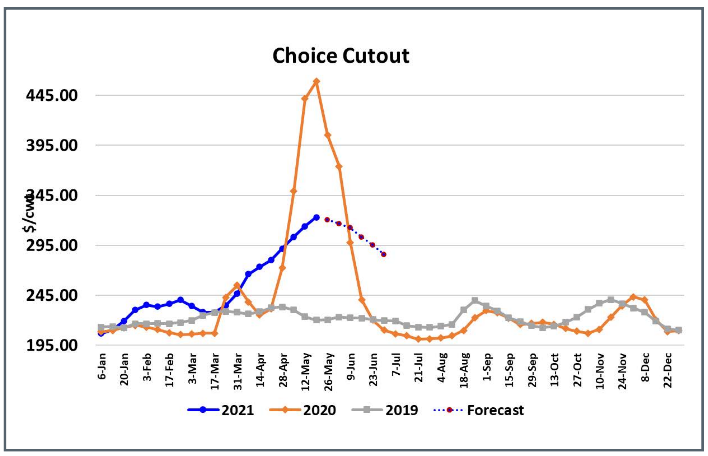

WTD Change in FC Futures
3.000
2.500
2.000
1.500
1.000
0.500
0.000
-0.500
May21
Aug21
Sep21
Oct21
Nov21
Jan22
Mar22


Weekly Avg Primal Impact on Choice Cutout from W/E May 14, 2021 to W/E May 21, 2021
Cutout Chg = 9.08
$/cwt.
5.00
4.00
3.00
2.00
1.00
0.00
-1.00
0.31
3.29
4.22
1.89
0.02
-0.69
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
850
650
450
250
50
-150
-350
-550







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Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.