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# RED MEAT OUTLOOK: CATTLE & BEEF

After moving strongly higher during August, the beef market turned lower in early September and is still working lower. The softer pricing in the beef complex can be almost solely attributed to weaker demand, since beef availability has been largely unchanged. Cattle feeders didn't benefit when beef prices were skyrocketing and they haven't been hurt by falling beef prices. There is still a big disconnect between the beef and cattle markets that is the result of labor shortages that are limiting the slaughter capacity of packing plants. Packer margins swelled to over $1000/head in early September but have slowly retreated and are now just below $800/head. With margins that large, there is no reason for packers to press the cash cattle market lower as beef prices retreat. Thus, cash cattle prices remain stuck in the mid-to-low $120s and likely will remain there until the labor situation improves. The beef market will still move up and down, but likely average a lot higher than it has historically because packers will need to recoup their increased labor costs. One of the big questions facing beef buyers right now is how the middle meats will perform heading into the holiday season. In normal years, it would be a given that middle meat prices would increase substantially from early October until early December, but this year they are already so high that it is hard to imagine them rallying even further for the holidays. Part of the reason that middle meat prices got so high in late summer is likely related to end users trying to get ahead of the normal fall rally by purchasing product and putting it into deep chill storage. Those buyers won't need to be in the spot market this fall so perhaps that will limit middle meat gains as the holidays approach. I am currently forecasting ribs to work lower over the next two weeks but then turn modestly higher into mid-November. However, I recognize that there is a substantial risk that I might be wrong on that and prices could soar even higher than they did this summer.

> Beef packing margins remain **extremely elevated**, near **$800/head**

## SUPPLY PICTURE

Fed steer and heifer slaughter was plagued during September by holidays, plant maintenance and even a fire in the rendering area of JBS's Grand Island plant. As a result, steer and heifer slaughter only averaged about 510,000 head per week. That was about 5-10,000 head per week below the number of market-ready cattle according to my flow model and thus it means that between 20-40,000 head will be pushed from September into October. Fortunately, the flow model is showing much smaller numbers of market-ready cattle in October, so the industry might very well be able to accommodate the cattle from September that went un-slaughtered. If the fed kill can average only 500,000 head per week, that should be sufficient to account for all of the cattle that are ready for slaughter. Non-fed slaughter continues to run very strong, up over 11% YOY during August and September. I don't see any reason why the YOY gain should fade anytime soon and cow slaughter has a strong seasonal tendency to increase in the fall, so October and November are likely to see very strong non-fed slaughter as well.

Carcass weights rose rapidly during September—probably as a result of the issues mentioned above which restricted steer and heifer slaughter. The blended steer and heifer carcass gained nearly 10 pounds in September and is now starting to challenge last year's very heavy carcass weights (see **Figure 1**). In normal times that would be an ominous sign for cash cattle prices, but since packers have very little incentive to push cash cattle prices lower, it probably won't have much of an impact this fall. The rise in carcass weights is actually a good thing for beef buyers since it allows more beef production from the same number of animals. The labor problems in plants will constrain the number of animals that can be slaughtered, so getting a little more beef out of each one will help expand beef availability this fall.



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Even though carcass weights increased rapidly in September, they are not yet to the point where they signal a massive backup of cattle in the supply chain.

With cash cattle prices stuck in the mid $120s, cattle feeding margins have been negative for all of 2021 so far. That is very frustrating to cattle feeders who have not been able to benefit from the extremely strong consumer demand environment over the past year and who have watched packers reap margins in excess of $1000/head at times. The problem is the labor bottleneck in packing plants and the only way that cattle feeders can return themselves to profitability is to scale back the number of cattle on feed so that it better aligns with the lower capacity of packing plants. They don't seem to be getting that message because August placements were 2.3% above last year and for 2021 year-to-date, placements are 3.5% greater than last year. For beef buyers, the only way out of this situation is for packers to find more labor and bring plants back up to full capacity. That would benefit cattle feeders also, but cattle feeders could take control of their own destiny by sharply curtailing placements. However, because packers are holding the cash cattle price just a little below breakeven, the financial pain in the cattle feeding industry has not been great enough to bring about the placement reductions necessary to correct the situation. It appears to be a very shrewd move on the part of packers.

## DEMAND SITUATION

Domestic beef demand has been slowly softening since early September, resulting in lower cutout values. In the four years prior to the pandemic (2016-2019), the Choice cutout averaged $202 during October. This year it looks like it might be on track to average $285 or higher. Beef buyers have been shell-shocked by the prices they've been asked to pay this year, but they find very few complaints when they pass those increased costs along to their customers. Money from the government in all the various forms has had a huge impact on consumer incomes this year (see **Figure 2**) and that has been a big driver of beef demand. That source of income is now tapering down, but it will remain above previous years for the balance of 2021 because families are getting advance payments of about $300 per month for every child due to the Child Tax Credit program. In addition, USDA recently increased the SNAP benefit (the food stamp program) by 21%, effective October 1. That money is going to some of the lowest income households and those households are likely to seek to improve their diets with the additional money. Beef fits nicely into that plan. So, it is reasonable to expect beef demand to stay relatively strong through the balance of the year, but probably not as strong as this spring when the government was dumping buckets of money on US households. Buyers need to be prepared for higher beef prices in general over the next few years. Packers will be forced to increase wages substantially to attract the labor they need and those costs will be passed on in the form of higher beef prices.

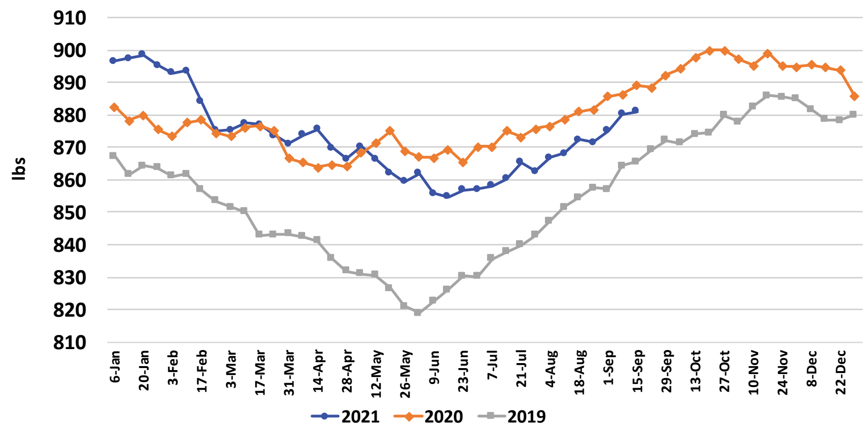
Beef exports have been strong all year long, with exports from January to July up 21% from last year. Now that US beef prices have come well off of their highs, export interest could improve. I think that exports will remain above last year in Q4, but probably by only a few percentage points. That is largely because Mexico will have a difficult time matching last year's numbers due to very strong Q4 shipments in 2020. China continues to have a voracious appetite for US beef even as its appetite for US pork wanes. So far this year, China has accounted for almost 7% of US beef exports. That is a seven-fold increase compared to 2019. One interesting note is that US exports to all of the smaller destinations that fall into the "Other" category have been very strong, up 226% YOY in the Jan-July period.

**Exports to China are up 700%**
**from 2019 levels**

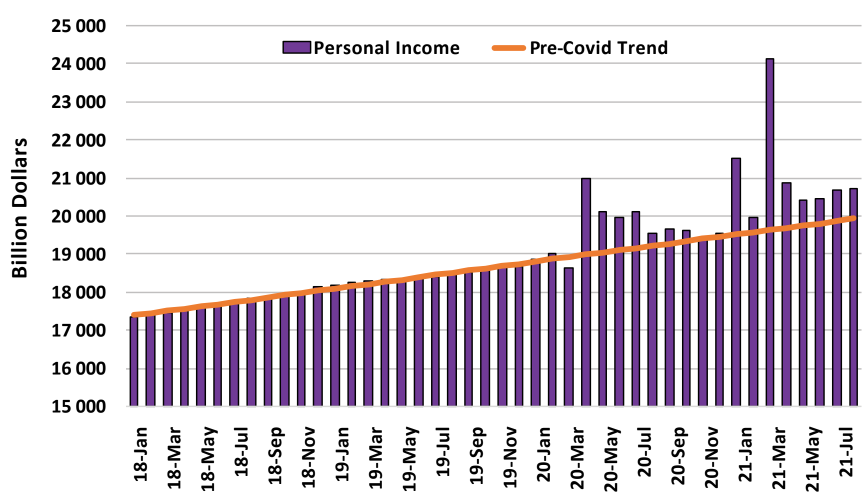
## SUMMARY

Beef prices in the US are trending lower as domestic demand eases from the red-hot levels that were seen in late summer. The biggest unknown is whether or not that downtrend will continue deep into Q4 or if the typical seasonal surge in demand for holiday middle meats will materialize this year and thus turn the cutouts higher as we finish up 2021. Buyers should be working now to take coverage for holiday middle meats in the event that a demand surge does materialize. End meats and grinds are likely to remain on the defensive, so the urgency is not as great there. Beef production continues to be limited by labor shortages in packing plants and that will likely remain a problem for many months to come. Look for packer margins to decline from their current levels, but still remain very rich in a historical context. Cash cattle pricing is likely to remain mired in the low-to-mid $120s for many weeks to come since the supply of cattle is still too large relative to packing capacity. The front-end supply of cattle should become less burdensome in October and November due to smaller placements in previous months, but that might only have the potential to add a few dollars to the cattle price, if any. Packers are likely to remain firmly in control of the market until cattle feeders collectively slash placements to the point where fed cattle supplies better align with labor-constrained packing capacity. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

### Figure 1: Blended S&H Carcass Wt.




### Figure 2: US Monthly Personal Income vs Pre-Covid Trend




### Table 1: JSF Cattle and Beef Price Forecasts

| | 13-Oct | 20-Oct | 27-Oct | 3-Nov | 10-Nov | 17-Nov |
|---|---|---|---|---|---|---|
| Choice Cutout | 291.2 | 289.7 | 289.7 | 290.0 | 285.7 | 281.4 |
| Select Cutout | 258.4 | 253.4 | 248.2 | 249.5 | 241.9 | 236.3 |
| Choice Rib Primal | 526.7 | 529.4 | 545.2 | 559.2 | 557.1 | 555.0 |
| Choice Chuck Primal | 250.3 | 245.0 | 241.0 | 238.6 | 230.1 | 225.0 |
| Choice Round Primal | 253.3 | 249.6 | 244.1 | 238.3 | 231.0 | 224.9 |
| Choice Loin Primal | 338.0 | 341.0 | 344.6 | 349.7 | 353.0 | 351.0 |
| Choice Brisket Primal | 236.2 | 231.0 | 223.3 | 216.1 | 211.2 | 209.9 |
| Cash Cattle | 123.9 | 125.6 | 126.5 | 127.6 | 126.7 | 126.0 |

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