VOLUME 4, ISSUE 11
EN | FR | ES

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THE MONTHLY
RED MEAT OUTLOOK: CATTLE & BEEF

NOVEMBER 2021

After almost two months of trending lower, the beef market stabilized in late October and is now gaining value, largely thanks to renewed interest in middle meats ahead of the holiday season. To be sure, this holiday middle meat rally is getting started much later than normal and the magnitude of the price gains may be muted compared to other years, given the high price level from which the rally began. However, COVID-19 infections are falling rapidly in the US and that is giving consumers confidence to do more things away from home, so at-home food preparation is declining. That means demand for beef at retail will also likely decline in the weeks ahead and that could also be a headwind that keeps beef prices from advancing too much heading into the end of the year. Beef production is currently relatively stable and likely to remain that way until the end-of-year holidays, so most of the price action in the complex will reflect changes in demand. Another big headwind for beef demand at retail is the fact that retailers have pushed their beef pricing to all-time highs in response to super-strong pricing in the wholesale market back in August. That should curtail consumer interest somewhat, especially now that the covid situation has improved and thus other activities are competing for consumer's dollars. The cattle market's disconnection from the beef market remains, caused by the ongoing labor bottleneck in packing plants. In the two months from late August to late October, when the Choice cutout lost 20% of its value, cash cattle prices were essentially unchanged. Even at the recent lows in beef pricing, packer profit margins were still more than $700/head, so there was little reason for them to exert pressure on the cattle market.

> The **labor bottleneck has kept** packer margins above **$700/head**

SUPPLY PICTURE

Feedyard placements were below last year during May, June and July and we are now in the period when those cattle should be coming to market. That implies that packers might find it a little more difficult to fill their slaughter schedules than they did last summer. Fed kills have averaged around 510,000 head in recent weeks and that fits well with what our flow model projected. Packers seem to be more concerned with finding the cattle that will grade well than simply just finding cattle. Consumers strongly registered their preference for Choice beef during the pandemic and packers have sold forward a lot of Choice product for delivery in November and December that they now must find a way to deliver. So, cattle producers with quality cattle that have plenty of days on feed are getting significant premiums over run-of-the-mill cattle. That dynamic is likely to remain in place until the end of the year. As we move into January, the consumer's focus should shift away from high quality middle meats and more toward end meats and grinds.

One of the reasons that a weekly fed kill of only 510,000 head is sufficient to meet the market's needs is because carcass weights are increasing and approaching annual highs. Last week, USDA reported steer carcass weights at 922 pounds, only about six pounds below the elevated level witnessed in 2020. So far, fall weather in cattle feeding country has been conducive to strong weight gains and that is adding to beef production. Recently, the de-trended and de-seasonalized carcass weights have been rising and that is normally a sign that cattle feeders are getting behind on marketings. We know that kills during August and September were a little below what the flow model projected and so perhaps some cattle were pushed forward, adding to the October and November supply. We are expecting a modest increase in cash cattle prices during November, perhaps into the $127-128 range. That is when the flow model points to the tightest feedyard inventories. The increase in carcass weights may thwart that however, and keep cattle prices mired in the mid $120s.

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As long as the labor bottleneck remains in packing plants, cattle feeders will have a difficult time capturing more of the huge margins that have been afforded to packers by very strong domestic demand. They can either wait for packers to solve the labor riddle or they can slash placements so that their leverage eventually improves. It seems like they are leaning toward the first option, since we haven't seen a big shift in placements. USDA reported September placements down 2.9% from last year's big number, but it looks like October placements could be up as much as 5%. Cattle feeders may have to wait a long time for packers to fix their labor shortages since almost every other low-wage sector in the economy is experiencing the same problem and they are all chasing after the same set of potential workers.

DEMAND SITUATION

Retail margins were squeezed this spring and summer by a wholesale market that rose much faster than prices to consumers. The retailers have been busy trying to correct that situation by raising retail prices sharply in the past few months (see **Figure 1**). USDA's all-fresh beef retail price is now at an all-time high. While higher prices per se don't affect the demand curve, they will affect the quantity of beef demanded and thus we expect movement at retail to slow in the next couple of months. Retail prices always lag movements in wholesale prices by a couple of months, so even if wholesale beef prices retreat, it is a good bet that the high retail price environment will persist for some time. Further, COVID-19 infections are declining and vaccination rates are rising. That makes consumers feel better about doing activities outside of the home and will likely reduce demand for at-home meal preparation. There has also been a reduction in the amount of money the government is providing to consumers in the name of pandemic relief. All of these things should work together to slowly erode domestic beef demand from the insanely-high level it has been at for most of 2021. In the very near-term, there will likely be improved demand for ribs and tenders heading into the holidays. Most of that demand comes from foodservice, not retail. Other portions of the carcass are likely to see softer demand, although constrained production may be sufficient to limit significant price declines from current levels.

International demand for US beef has been red-hot for most of 2021, but it looks like that too may be cooling down. USDA reported beef exports up 21% in August and our reading of the weekly data suggests that the September total will be up a similar amount. However, the weekly data indicated softer beef exports during October and forward sales commitments are pointing to even softer exports in November and December. After two very robust quarters of beef exports in Q2 and Q3, we look for Q4 exports to be only about even with last year (see **Figure 2**). Keep in mind that last year's Q4 exports were very large in a historical context. So, while exports appear to be pulling back from the torrid pace posted earlier this year, they are still very good compared to years past. For 2021 as a whole, JSF forecasts beef exports to be up a little over 15%. China is still taking large quantities of US beef and that could increase now that China has banned beef imports from Brazil due to the finding of two BSE cases in that country a few months ago. However, there are significant quality differences between US beef and Brazilian beef and price differences as well, so we don't expect China to turn fully to North America in its attempt to source product that no longer flows out of Brazil.

> Strong international demand in 2021 has total beef exports **on track for a 15% YOY gain**

SUMMARY

Beef demand is in the process of cooling from the red-hot levels seen earlier this year, but that will likely pause for a bit while buyers finish up their middle meat orders for the holidays. The strength in rib and tenderloin prices should be supportive to the cutout over the next month or so, but once that business is complete look for the cutouts to soften once again. Cattle supplies are tighter now than they were back in late summer/early fall, but that might only result in a small increase in cash cattle prices, if any, because the labor bottleneck in packing plants remains. Cattle feeders don't seem to be interested in cutting back dramatically on placements in order to better align future supply with the reduced capacity of packing plants, so they will need to wait until packers solve their labor shortages before seeing any substantial improvement in cattle prices. This is the time of year when buyers need to be on alert for winter storms that could potentially create a weather market and thus send the price of beef sharply higher. So far, there are no signs of that. Retailers, stung by rapidly rising wholesale prices this spring and summer, have now jacked up retail beef prices to all-time highs and probably won't reduce them much in the next couple of months. That could slow movement at retail and create some significant pressure on cuts that are primarily merchandised through the retail channel. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: USDA Retail "All Fresh" Beef Price, 2017-2021

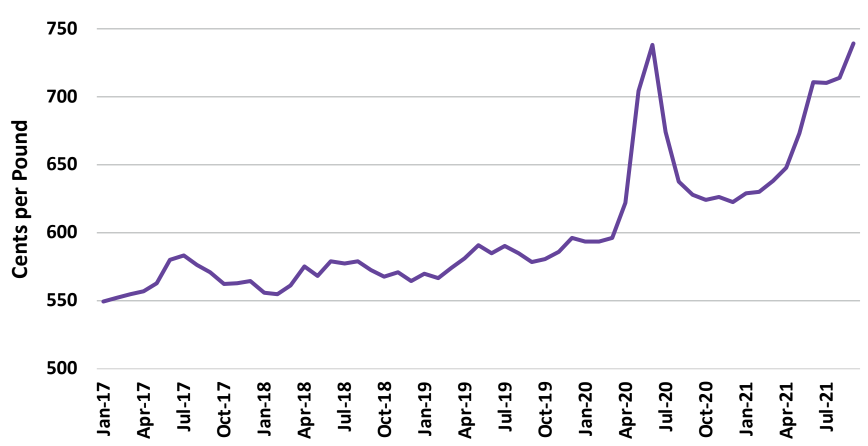

Figure 2: US Beef Exports, 2019-2021

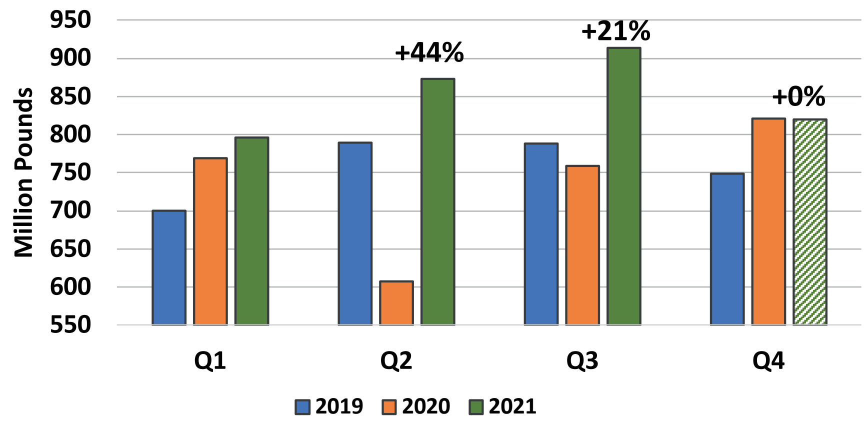

Table 1: JSF Cattle and Beef Price Forecasts

	10-Nov	17-Nov	24-Nov	1-Dec	8-Dec	15-Dec
Choice Cutout	292.1	293.6	289.9	282.7	276.2	267.7
Select Cutout	264.3	262.2	257.8	251.2	244.2	237.9
Choice Rib Primal	521.0	528.9	524.2	507.7	492.0	467.7
Choice Chuck Primal	241.0	244.1	242.0	235.4	228.7	221.3
Choice Round Primal	261.3	263.5	261.4	254.7	247.2	239.8
Choice Loin Primal	350.9	348.9	342.0	336.4	333.0	326.9
Choice Brisket Primal	255.1	251.4	245.8	241.1	233.5	226.9
Cash Cattle	127.4	128.6	128.3	126.4	125.8	126.1

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