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RED MEAT OUTLOOK: CATTLE & BEEF

The COVID-related absenteeism that plagued the packing industry during January is now largely resolved. By the end of February, fed plants were routinely handling weekday slaughter in the 121-123k range. That increase in capacity caused packers to search a little harder for cattle to process and cash cattle prices advanced from around $137 at the end of January to about $143 last week. However, as cattle prices were moving higher, beef prices were heading south. The Choice cutout lost almost $30/cwt during February, moving from the $290 area down to $260. That pressured packer margins to below $300/head at the end of February, resulting in the smallest packer margin in over a year. In fact, packer margins are now slightly below where they were last year at this time. February is well known for poor packer margins however, so this really shouldn't be much of a surprise. Now that March is upon us, it is reasonable to expect some seasonal improvement in beef demand as consumers in the Southern US start to experience milder temperatures and look to fire up their grills. Easter comes a little later than normal this year however, and the passage of Easter is typically considered the official start of grilling season. Stronger demand should help lift packer margins off their annual low, but it is not necessarily a given that beef demand will turn higher on cue this year. That is because the COVID pandemic is fading very fast and consumers are likely to resume a less restrictive lifestyle that includes more time away from home and away from the backyard grill that has been the focal point for the past two summers. There are demand headwinds that must be overcome. Consumers are facing strong price inflation throughout the economy and that is almost sure to make them feel poorer. When consumers feel poor, beef demand typically suffers. Also, when consumers do go looking for beef in the grocery store, they are going to be greeted with some of the strongest beef pricing on record and that certainly won't promote a high level of consumption. Finally, the recent invasion of Ukraine by Russian forces has roiled global equity markets and sent energy prices shooting higher. Oil is now trading close to $100/barrel. That too, will likely crimp beef demand moving forward.

> Falling beef prices and rising cattle prices have pushed **packer margins below $300/head**

SUPPLY PICTURE

Steer and heifer slaughter during February averaged 505,000 head per week, which was about 20,000 head stronger than what we saw last February. To be sure, there was some catching up to do since some cattle went un-processed during January when plants were experiencing high rates of worker absenteeism. The boost in slaughter rates almost certainly helped clear up any cattle that were backlogged from January and allowed cattle feeders to push cash cattle prices higher. However, that extra beef production didn't do any favors for the cutouts which trended solidly lower throughout February. March should see fed kills average just a tad above February, perhaps on the order of 510,000 head per week. There should be plenty of cattle to fuel those kills as feedyard inventories were record large as of March 1. In fact, fed cattle supplies are expected to remain plentiful right into summer. Non-fed slaughter (cows and bulls) continues to run very strong, averaging around 149,000 head per week in February (see **Figure 1**). Drought in the Western US is helping to push cows to slaughter that might otherwise have remained productive in the herd. The strong rate of non-fed slaughter has been noticed by futures traders who surmise that it will quickly reduce the US herd to a level that will require that females be held back to replenish the breeding stock and thus create a much tighter fed beef supply. That is the direction the herd is headed, but we think the herd rebuilding effort is further out than what the futures currently imply.

The weather throughout the cattle feeding areas of the US has been relatively benign this winter and that has helped cattle to perform well. Carcass weights were slow to top last fall and they have been slow to retreat in normal seasonal fashion here in early 2022. Last week's data from USDA out of federally-inspected beef plants showed steer carcass weights at 918 pounds, down one pound from the same week last year. The de-trended and de-seasonalized carcass weights that we watch have surged into the 15-20 pound range and we see that as a huge red flag that either cattle are finishing ahead of schedule or feedyards are falling behind in their marketings. So far, that hasn't been enough to stop cash cattle prices from advancing but could soon prove to be a stumbling block.

Data was just released last week that showed feedyard placements during January down 1.2% from last year, but that comes on the heels of a 4% YOY increase in placements during the last quarter of 2021. As a result, the number of cattle on feed as of March 1 is record large. The inventory is a bit back-end loaded, with more cattle targeted to become market ready in the May-July time frame than prior to that. Still, it looks as though cattle supplies are ample and now that the labor situation in packing plants has improved, it should allow for relatively stronger beef production over the next few months. Whether or not the market is ready to handle that improved production is another question.

The **number of cattle on feed** as of March 1 is **record large**.

DEMAND SITUATION

As expected, the omicron wave of COVID-19 is fading very fast and many communities across the US have lifted all pandemic restrictions. There is a strong sense that things are getting back to normal. Consumers are eager to resume activities that were curtailed by the pandemic like travel and going to big events. In the months ahead, they will be less focused on food preparation at home and that likely means softer beef demand that what we have become accustomed to during the pandemic. One item that benefitted greatly from consumers being in stay-at-home mode over the past year has been briskets. Sales of grills designed for smoking meats soared during the pandemic and consumer demand for briskets soared right along with it. It seems like brisket demand might be an indicator for the degree to which beef demand is returning to normal as the pandemic fades. The Choice brisket primal value was close to $295/cwt at the beginning of 2022, but has since followed a steep downward trajectory and is now priced close to $220/cwt (see **Figure 2**). That amounts to a 25% loss in value over just eight weeks. Those new smoker grills sitting on consumer's patios won't go completely unused in 2022, but they should be used to a lesser degree than in 2021. As consumers travel more, foodservice demand should improve and thus we should see relatively firm pricing on items with a strong foodservice presence like grinds. One thing that could limit the growth in foodservice demand is that staffing levels in many restaurants are still relatively low and the service is not what consumers were used to prior to the pandemic. Price levels in restaurants have also gone up considerably. There will be a certain segment of consumers that are likely to decide that the price/value relationship in restaurants isn't good enough to warrant patronage. In general, we see beef demand slowly fading as 2022 progresses and consumers shift their focus away from "food at home as a source of entertainment" that prevailed throughout the pandemic.

International demand for US beef appears to be in good shape presently, but the same pattern of softening consumer demand that is expected in the US is also likely to take hold in other countries. That means that beef exports will likely struggle to match last year's strong numbers. We see Q1 exports down about 1.5% from last year and that could grow to about a 4% deficit in Q2. Much will depend on the pricing environment in the US. If cutouts can move back below $250/cwt and stay there for an extended period, then exports may exceed our forecasts. China remains a strong buyer of US beef and that is expected to be a long-term trend. Exports to Mexico have been well below last year so far in 2022, but price levels have also been a lot higher than Q1 last year and thus it is not surprising that a price-sensitive buyer like Mexico would take smaller volumes. Price inflation is not confined to the US, it is present all around the globe and that will strain consumer budgets in other countries similar to what we are seeing in the US. As a result, the phenomenal growth in international demand for US beef that we saw last year is expected to cool modestly in 2022.

SUMMARY

Packers are seeing improved labor availability now that the omicron wave has run its course. More cattle are being processed and that has improved beef availability at a time when consumers are less interested in home meal preparation. As a result, we have seen beef price levels trend downward for several weeks. However, the normal seasonal improvement in beef demand that comes as grilling season approaches is likely to soon turn beef prices higher. We don't expect pricing this spring to exceed last year for most items, but there almost certainly will be stronger pricing as

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Figure 1: Weekly Average Non-Fed Slaughter

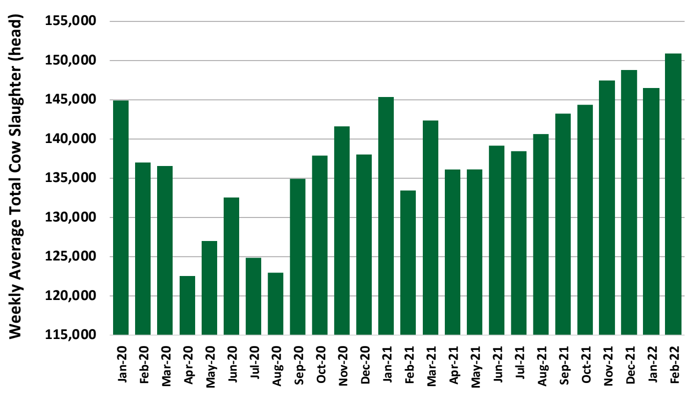

Figure 2: Ch. Brisket Primal

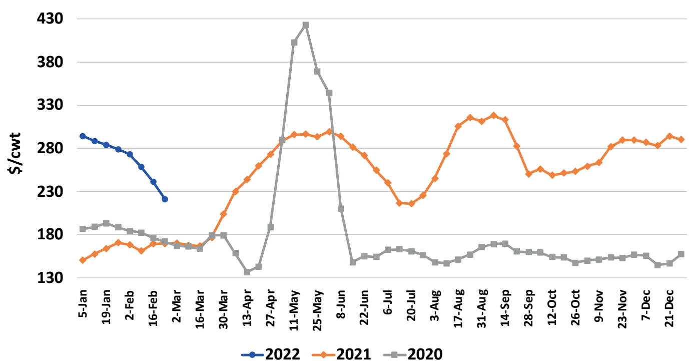

Table 1: JSF Cattle and Beef Price Forecasts

	9-Mar	16-Mar	23-Mar	30-Mar	6-Apr	13-Apr
Choice Cutout	253.4	257.1	262.9	265.3	267.2	267.3
Select Cutout	247.9	250.4	255.3	256.4	257.7	257.0
Choice Rib Primal	377.1	389.0	402.0	413.5	427.3	439.7
Choice Chuck Primal	219.5	216.6	216.9	213.2	208.5	200.8
Choice Round Primal	215.4	216.1	217.9	213.8	209.4	203.7
Choice Loin Primal	333.1	345.2	359.1	372.2	385.0	394.6
Choice Brisket Primal	213.0	217.6	225.0	232.8	240.1	252.0
Cash Cattle	140.1	140.3	141.6	141.7	141.4	139.3

spring approaches and the weather warms. Cattle prices have been on the rise and that has pushed packer margins back down to their lowest point in a year. However, cattle weights are heavy at present and that creates some potential downside risk in cash cattle prices should packer margins continue to compress. Contrary to popular impressions, cattle supplies appear to be more than adequate at present and feedyard inventories are at their highest level ever for this time of year. The supply side of the market looks modestly bearish over the next few months and demand isn't likely to live up to what was seen last year. Seasonal improvement in demand is likely to occur just has it has in grilling seasons past, and buyers should prepare for that, but the need not worry that price levels are going to surpass last spring's very strong level. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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