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RED MEAT OUTLOOK: CATTLE & BEEF

The beef cutouts finally put in a bottom in early March and then began the normal seasonal progression towards higher prices. Meanwhile, the cattle market dipped back into the high $130s and has held steady there for the past four weeks. There seems to be a sense of normalcy returning to the cattle market after almost three years of disruptive events that began with the Tyson plant fire back in the summer of 2019. Packers seem to have made progress in shoring up their workforce and that will serve them well as larger fed cattle kills are on the horizon. There are some concerns that lately slaughter levels haven't kept pace with the availability of market-ready cattle and thus feedyards may have lost some currentness over the past 30 days. Feeding conditions have been excellent through Q1 and many cattle are finishing several weeks ahead of schedule. Carcass weights are starting to look excessively heavy and the number of cattle in the nation's feedyards is very near all-time highs. All of those things point toward plentiful beef supplies this spring and summer and may make it difficult for cattle feeders to advance cash cattle prices much. The demand side of the market is a lot less certain. Demand is strengthening seasonally, but it doesn't appear to be as strong as it was last spring when the Choice cutout roared up to $340/cwt around Memorial Day. To be fair, last spring the demand environment was exceptional and perhaps the best ever, so the fact that demand this spring is likely to fall short of last year isn't an indication that demand is poor. It is just a little softer than last year's record level. Covid infections in the US have dropped to very low levels and the population is eagerly engaging in all of the things that were difficult to do during the pandemic. This too, has helped promote a feeling of normalcy after so many months where the pandemic dominated almost every aspect of society.

SUPPLY PICTURE

Fed cattle slaughter during March averaged just below 500,000 head per week. That was about 10,000 head per week below what our flow model suggested would become market-ready during March. Packers did a good bit of plant maintenance and cooler cleaning during March as they prepared for bigger kills later this spring. It was almost as though they sensed that if they pushed the kill any higher the cutouts might have struggled. Instead, they seemed to do a good job of matching up supply and demand and that allowed some modest beef price increases in the second half of March. Looking forward, the flow model suggests that fed cattle availability during April won't be much better than March — perhaps 505,000 head per week, but by the time May arrives fed slaughter should be pressing higher and could reach 520-525,000 head per week near Memorial Day.

The weather in the cattle feeding regions this winter was milder and drier than normal, which has allowed cattle to gain weight a bit faster than they might have otherwise. This is starting to show up in carcass weights, with USDA reporting steer weights last week at 916 pounds, a full 15 pounds heavier than last year (see **Figure 1**). Weights are now declining seasonally toward a bottom in early May, but the rate of decline has been much slower than in years past. Corn prices remain very high as global grain traders fret about the ability to get crops planted in Ukraine amid the ongoing conflict there (see **Figure 2**). Normally, high corn prices would discourage feeding to heavy weights, but so far that hasn't been the case this year. We don't look for much relief with respect to grain prices because, in addition to the Ukrainian problem, portions of S. America are expected to experience poor yields due to dry weather and fertilizer prices around the world are extremely high and that will likely result in reduced yields this summer as well. If the high corn price environment stays intact for many more months, then we might expect producers to push cattle to slaughter a little sooner than they would otherwise in order to control feed costs. That would likely hurt grading and thus result in a bit wider Choice-Select spread than typical.

> Carcass weights are excessively heavy, with **steer weights now 15 pounds over last year**

In the most recent *Cattle on Feed* report, USDA pegged February placements up 9.3% from the previous year and the inventory of cattle in feedyards as of March 1 was 1.4% higher than last year. The nation's feedyards are brimming with cattle and those cattle are really heavy. That keeps beef supply concerns to a minimum this spring and raises the possibility that cash cattle prices might move a little lower because cattle feeders will feel a strong need to market cattle at a quick pace this spring. It is likely that cattle feeders, frustrated by poor margins, scaled back placements in March and they may also look to reduce placements in April. That would eventually create some supply tightness, but not until fall. Between now and the end of summer, we expect cattle and beef supplies to be plentiful.

February feedyard placements were up 9.3% YOY, pushing **feedyard inventories to near-record levels**

DEMAND SITUATION

Domestic beef demand is quite strong compared to history, but it is starting to lag behind last year's phenomenal showing. One important reason for this is that retail beef prices are not far off of their all-time highs and more than 15% above last year at this point. That 15%+ YOY increase in beef prices that consumers see is far more than the 8% YOY price inflation that is present in the general economy at present. That makes beef look really expensive compared to other things that consumers might spend their money on and thus consumers are starting to trade down to cheaper proteins. That process is expected to be gradual and ongoing for much of 2022, so the impact on demand is not very pronounced currently, but as the year wears on we look for further softening in domestic beef demand. Of course, there will still be seasonal peaks and valleys in demand, and we are now approaching grilling season, so some improvement in beef demand is likely to occur. The current forecast has the Choice cutout topping around $295/cwt just ahead of Memorial Day. If it happens, that would be about $45/cwt below last year's spring top and most of that is directly attributable to our expectation that domestic demand will be softer this spring. The war in Ukraine has stoked energy prices and that will put a major strain on consumer budgets this summer. It may not limit travel much since the population is eager to resume travel after more than two years in a pandemic. What is more likely is that it will limit funds available to spend in other areas and beef is likely to be a category that sees demand fall as a result. We don't expect that domestic demand is going to fall to really low levels — just that it will be down considerably from the super-strong levels of last year. Beef buyers can relax now, knowing that the crazy high pricing of 2021 is unlikely to be a feature of the market this year.

Overseas demand for US beef has been quite good lately. The most recent government data on beef exports showed a 17% YOY increase in January. We think the gain will be even larger when the February results are released. China and S. Korea are particularly strong destinations for US beef at the moment. Further, Japan has recently revised its safeguard provision on beef imports from the US and that could result in better movement to that destination in the near future. Eventually however, consumers in other countries will experience the same demand headwinds that are taking place in the US and export demand should soften as the year progresses. We should still end up with a double-digit YOY increase in beef exports for 2022 as a whole, but the total is unlikely to equal or exceed the 17% YOY gain that was experienced last year. A lot will depend on China's appetite for US beef. Last year, shipments to China accounted for almost 16% of US beef exports. In years prior, it wasn't uncommon for exports to China to be less than 1% of the total. If China can match last year's strong showing, then it becomes very likely that US beef exports will post another all-time high in 2022. In any case, strong exports should help partially offset softer domestic beef demand.

SUMMARY

The cattle and beef markets have entered spring feeling a lot more normal than they have in almost three years. Domestic demand seems to have returned to a more seasonal pattern, with lows in February and highs expected in May/June. However, high retail beef prices are starting to pinch consumer budgets and they have begun to trade down to cheaper proteins. Buyers can be relatively confident that middle meat prices won't exceed last spring's tops, but as consumers trade down, ground beef will become increasingly favored and that is likely to keep pricing for grinds relatively strong. There are plenty of cattle in feedyards and the labor situation in packing plants appears to be much improved. That points to relatively good product availability this spring, although strong exports will probably also be a prominent market feature. So far, high corn prices haven't deterred producers from feeding cattle to very heavy weights and good weather has many cattle finishing ahead of schedule. That could keep a cap on cattle price increases this spring and it is likely that packer margins will expand considerably as gains in beef prices exceed any gains in the cash cattle market. US consumers climbed up the protein ladder in 2021 after being showered with stimulus money, but now that inflation has taken hold and the stimulus has dried up, it is a good bet that consumers will start to climb back down that ladder in 2022. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: FI Steer Carcass Wt.

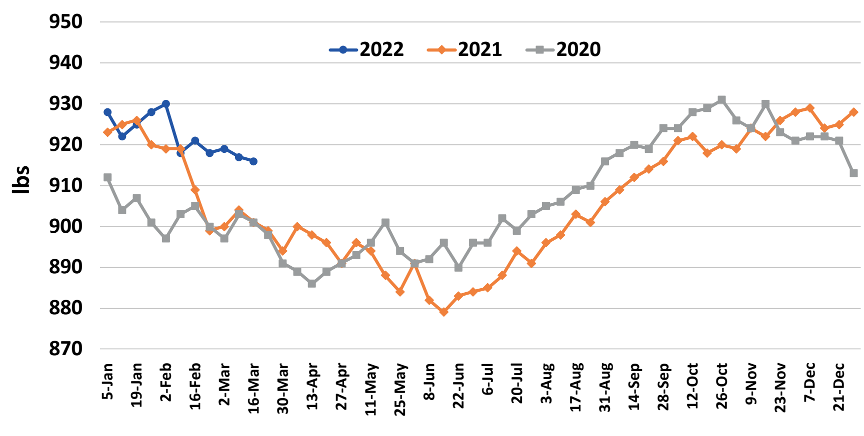

Figure 2: Nearby Corn Futures Price, 2018-Present

Table 1: JSF Cattle and Beef Price Forecasts

	13-Apr	20-Apr	27-Apr	4-May	11-May	18-May
Choice Cutout	273.4	277.0	281.5	287.2	292.7	295.2
Select Cutout	261.2	264.6	267.1	270.0	273.8	275.3
Choice Rib Primal	433.8	442.2	449.2	462.3	473.8	483.5
Choice Chuck Primal	203.3	201.4	202.6	201.6	205.2	207.8
Choice Round Primal	220.1	217.6	218.0	222.3	223.3	220.4
Choice Loin Primal	393.5	409.8	423.2	438.0	450.1	456.6
Choice Brisket Primal	263.5	270.8	274.7	278.4	285.0	289.3
Cash Cattle	140.0	141.0	140.5	141.8	142.0	141.7

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