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J.S. FERRARO

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RED MEAT OUTLOOK: CATTLE & BEEF

The reduced harvest levels that surrounded the year-end holidays slowed marketing rates and increased the number of market-ready cattle standing in feedyards. As a result, packers found it easier to pressure the cattle market and prices dropped about $4/cwt. during the month of January. Those same slow harvest levels restricted beef availability in early January and thus cutout values moved higher until about mid-month and then they started tracking lower. One of the most interesting features of the January beef market was that middle meat prices stayed much higher than expected and, although those prices have come down some now, they are still well above historical norms (**Figure 1**).

> **Middle meat pricing has held up**
> exceptionally well after the holidays

Demand for high quality beef seems to be extending well beyond the holidays and that fits with the idea that demand is becoming more segmented, with demand from high earners and high-end restaurants remaining very good while demand from the lower income tier of consumers is not nearly as good. The cutouts are now working lower and February is typically a very soft month for beef demand, so that trend is expected to continue. Packers seem to have a new appreciation for keeping slaughter rates contained, and their margins have benefited as a result. Packer margins in December averaged around -$10/head, but in January margins improved to $100/head (**Figure 2**). As cattle supplies shrink in the coming years, packers will need to become adept at keeping the slaughter pace in line with available cattle supplies or they will risk long stretches of poor profitability.

SUPPLY PICTURE

Steer and heifer slaughter averaged right at 500,000 head per week in the non-holiday weeks of January. That was very close to what our flow model projected and thus was a major factor in keeping packer margins positive. As we move into February, past placement patterns tell us that the available supply of fed cattle is likely to shrink down to about 480,000 head per week. Feedlot operators purposefully plan for lower supplies in February because demand is typically weak and they can help prevent a price collapse by reducing supply. Cow slaughter picked back up in January and is running about 3% above last year. Some of the drought in the Western States has been relieved by winter rainfall and that may encourage producers send fewer cows to slaughter once spring pastures begin to green up.

High corn prices seem to have reduced producer's desire to feed animals to heavier endpoints and carcass weights are now tracking well below last year's level. Blended steer and heifer weights are now running about 16 pounds (-1.8%) under the same week in 2022. That is also playing a significant role in limiting beef supplies. As a result, we expect commercial beef production to be down about 4% YOY in Q1. Beef supplies should be even tighter in Q2, perhaps down as much as 10% YOY, so buyers need to be cognizant of the fact that reduced availability and higher prices will be on the menu this spring. Between now and then, demand softness could keep prices on the defensive during February, but by March prices should be working higher again.

> Beef production during Feb / Mar
> is expected to be **5-6% smaller**
> than last year

USDA released the results of its annual cattle inventory survey last week which showed the total cattle inventory at 89.3 million head, down 3.0% from last year. The beef cow herd was reported down 3.6% at 28.9 million head. Perhaps the most surprising finding in the report was that producers held back 6% fewer heifers as herd replacements. Those numbers are pretty strong evidence that producers are not enthusiastic about re-building their herds, or even holding them static. That could mean that the liquidation phase of this cattle cycle may last longer, and go deeper, than previously envisioned.

USDA found **the US cattle herd 3% smaller YOY** as of January 1st

DEMAND SITUATION

Domestic beef demand is in a period of seasonal softness. Consumers are grappling with their post-holiday credit card bills and not traveling much. This theme is likely to continue in February, but by March we should see stronger demand materializing. Our forecast has the Choice cutout working about $10/cwt. lower before it bottoms later in the month and then moves higher. The macroeconomic picture is a mixed bag. The Federal Reserve is still raising interest rates, but inflation is beginning to subside. Despite many predictions that the US economy will enter a recession in 2023, we haven't seen much solid evidence of that so far. Q4 GDP was reported to be up 2.9% YOY and unemployment remains below 4%. Equity markets have turned higher in the new year as traders are beginning to have more confidence that the Federal Reserve can tame inflation without causing a recession. Hourly wages continue to rise, but consumers are increasingly having to take on credit card debt in order to feed their spending habits. From a beef demand perspective, a deep recession would be very detrimental, but it is our sense that the economy will avoid that outcome in 2023. A very mild recession or perhaps no recession at all are more likely scenarios. All of that said, there is probably no way that domestic beef demand will be as strong this year as it was in 2022 or 2021. That was off-the-charts strong demand driven by pandemic factors that are unlikely to repeat. Retail beef prices have come down slowly, but retailers are wary of reducing them in a big way as long as the cattle herd appears to be in liquidation mode. That means that consumers often won't receive the benefits of lower pricing in the wholesale markets as retailers work to keep more margin for themselves.

International demand for US beef seems to be in fairly good shape. Post-holiday export volumes have been close to early-December levels and Mexico has been a particularly strong buyer. America's newest major market, China, continues to source product out of the US at rates a little above last year. It remains to be seen if that will continue into spring and summer, but for now, Chinese demand appears to be on pretty good footing. The US dollar has weakened considerably against other currencies in the past couple of months and that has led to a slowing of imports. With exports remaining strong and imports declining, the trade balance has worked to reduce beef availability in the US.

SUMMARY

Cattle feedyards lost some currentness over the end-of-year holidays and that allowed packers to ease cash cattle prices lower during January and thus bring their margins back into positive territory. There could be some further small declines in the cattle market during February, but shrinking numbers of market-ready fed cattle will make it difficult for packers to bring about any big price reductions. The beef market is expected to continue lower for most of February, but should be on the mend by the time March arrives. Carcass weights are well below last year and the number of animals available for slaughter this spring could be down 8-10% from a year ago. Buyers should be using the price softness here in February to book spring needs before it becomes clear to the wider market just how tight beef availability will be, particularly in the May/June timeframe. Longer-term, buyers need to develop a strong forward-buying plan and use it often because recent data confirmed that the US beef herd continues to shrink at a fairly quick clip. For the next 2-3, or maybe even 4 years, beef availability is likely to trend lower. High quality beef is expected to be particularly sought after in ensuing years, while demand for lower quality items is likely to suffer. Expect prices on Choice+ middle meats to track well above historical norms. Retailers are aware of the longer-term trend toward smaller beef production and will likely remain resistant to making big reductions in retail beef prices. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

jsferraro.com | 130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5 | 416.306.8788

Figure 1: Choice Rib Primal

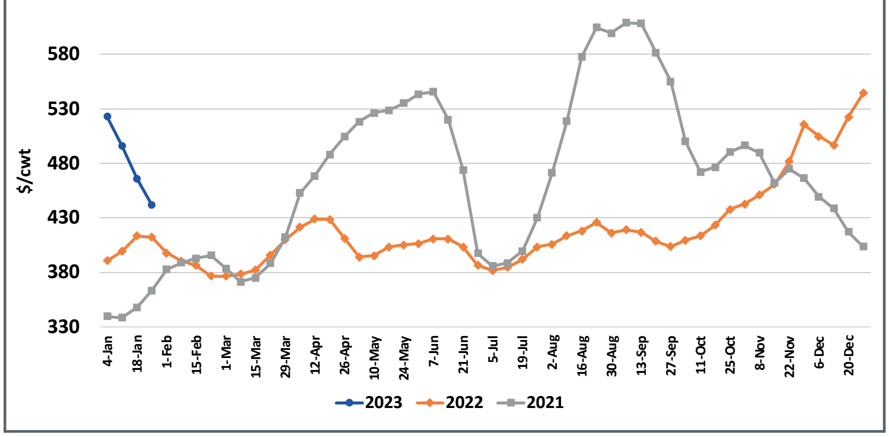

Figure 2: Monthly Average Packer Margins

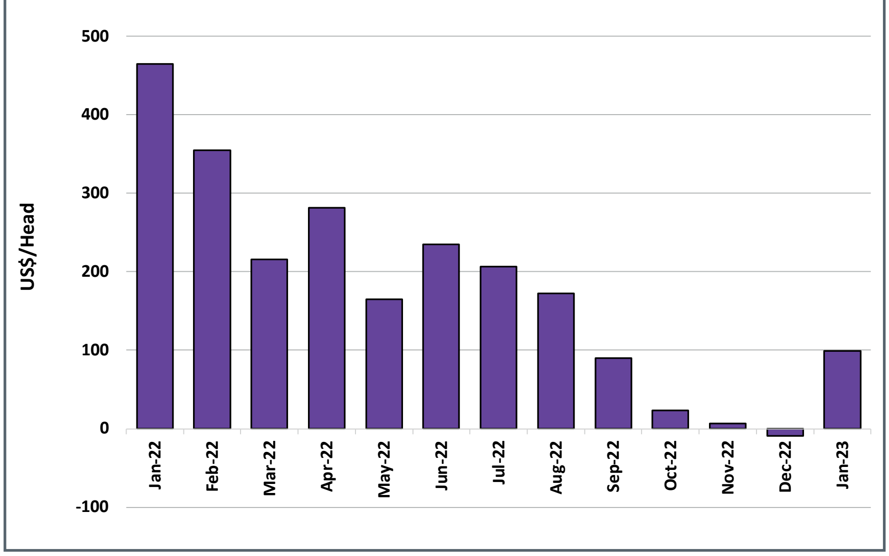

Table 1: JSF Cattle and Beef Price Forecasts

	15-Feb	22-Feb	1-Mar	8-Mar	15-Mar	22-Mar
Choice Cutout	259.0	260.4	261.9	262.0	264.6	268.5
Select Cutout	244.6	246.5	246.5	249.4	252.8	254.5
Choice Rib Primal	421.4	426.1	429.4	433.0	442.4	451.5
Choice Chuck Primal	209.0	206.6	204.7	202.5	202.2	204.9
Choice Round Primal	205.0	207.5	208.2	206.4	207.0	209.7
Choice Loin Primal	361.2	365.0	371.5	374.3	379.1	383.9
Choice Brisket Primal	185.7	188.4	190.1	189.9	192.8	196.1
Cash Cattle	156.2	156.2	157.0	158.2	159.6	158.7

DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

Dr. Rob Murphy is an agricultural economist and business leader with over 32 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.