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RED MEAT OUTLOOK: CATTLE & BEEF

Mother Nature exerted her influence during February as winter storms cascaded across both the Northern and Southern feeding areas. That resulted in muddy feedyards and reduced cattle performance which slowed gains and shifted the balance of power in the cash cattle market toward cattle feeders. Unfortunately, these weather events came at a time of year when market-ready cattle supplies were already relatively tight due to past placement patterns. The weather came too late to officially qualify as a traditional "weather market", but it did help put cattle prices back on an upward trajectory after they had softened in January. Beef buyers seemed to be caught by surprise and as they rushed to get coverage, beef prices also pushed sharply higher. The Choice cutout added $22/cwt during February, moving from roughly $266/cwt at the beginning of the month to around $288/cwt at month's end. That was a pretty unusual price pattern for February, which is normally considered one of the weakest demand periods of the year. While demand may register a little stronger than expected, we think that it was mostly the supply-side issues that propelled the market higher. Now that March has arrived, the weather should be much less of an issue, but it will still take several weeks for feedyards to dry and cattle performance to get back on track. Under those conditions, cattle feeders don't feel much urgency to move cattle quickly and thus further advances in the cash cattle market cannot be ruled out. Last week cash cattle prices averaged $165/cwt, which is only a few dollars shy of the all-time record high cash cattle price of $171/cwt that was set back in November 2014.

Winter weather plagued feedyards in February, **sending both cattle and beef prices higher**

SUPPLY PICTURE

Cattle feeders have come to expect that beef demand will be soft in February and thus they time their placements in order to assure that there won't be a large supply of beef coming to market at a time when demand is soft. Steer and heifer slaughter during February averaged 486,000 head per week, not too far off what our flow model suggested. Things don't get much better in March or April, where the flow model projects weekly fed kills to average around 490,000 head per week. May and June should see much better availability, but demand is also a lot stronger in those months.

The weather problems that arose in February were an unfortunate blow to both cattle and beef buyers and it seems that many hadn't taken into account some shrinkage in the number of animals available for slaughter. As a result of the sloppy weather, carcass weights dropped faster than seasonal and are now about 15 pounds, or 1.6%, below last year at this time (**Figure 1**). When we combine that sharp drop in carcass weights with slaughter numbers that have been down 4% or more YOY, it is easy to see why beef availability has been so tight recently and why prices escalated so quickly. If the weather eases in cattle country as expected during March, carcass weights could slow their decent, thus helping the supply side marginally.

USDA recently reported that feedyard placements during January were down 3.6% from last year and that comes on the heels of four consecutive months of YOY placement declines at the end of 2022. As a result, on February 1 total cattle on feed were estimated to be down 4.1% YOY. We are likely to continue to see long strings of YOY declines in feedyard inventories over the next 2-3 years as the US cattle herd continues to shrink. Cattle feeders will have to bid more aggressively for feeder cattle in order to fill their pens and those sharply higher feeder cattle prices will be the economic signal that prompts cow-calf producers to begin rebuilding their herds by holding back females rather than sending them to slaughter. We think that large-scale female retention is at least a year away, and possibly two years away, but when it gets rolling, beef availability will get exceptionally tight and prices will get exceptionally high. Buyers are forewarned and would be wise to develop their forward pricing programs and other risk management techniques in anticipation of the stronger market on the horizon.

DEMAND SITUATION

Because beef prices shot higher in February, one might be inclined to think that beef demand surged, but our demand index calculations show that domestic demand in February was actually a little softer than in January. It was largely the supply constriction that generated the price increases. As a result of the rapid increase in wholesale prices, retailers are likely to begin raising the retail prices that consumers see through March and April and that should help to cool down the consumer pull through the retail channel. Another factor that should have a significant impact on demand is the reduction in food stamp benefits for the poorest consumers that started on March 1. When the pandemic struck, Congress allocated additional food stamp benefits to help the poorest consumers cope. Those "emergency allocation" benefits have now expired and millions of low-income households will lose an average of $95 per person per month in food stamps. That will be a significant blow to the spending power of those at the bottom of the income pyramid and could have a substantial negative impact on their ability to purchase beef and other proteins. The effect is likely to be felt the most in the lower-priced beef items like ground beef. At the other end of the income spectrum, well-off consumers seem to be continuing their love affair with beef middle meats. **Figure 2** shows how prices for each of the major primals compared to its most recent five-year average during February. Middle meats, the rib and loin primals, are showing much more relative pricing strength that the end cuts from the chuck and round primals. We see this as evidence of a bifurcation in demand where high quality middle meats continue to enjoy strong demand while the lower quality end cuts are seeing less interest. This creates a quandary for packers because if they kill aggressively to meet strong demand for middle meats, they also create a large quantity of lesser-valued end cuts. Another potential problem for beef demand in coming months stems from the fact that, while US consumers are still spending at a strong rate, they are now relying more on credit cards or drawing down savings in order to do so. That can't go on indefinitely and ultimately may result in consumers having to sharply curtail spending.

> A large swath of **food stamp recipients will lose an average of $95/person** in monthly benefits starting in March

International demand for US beef seems to holding together fairly well. There was another case of BSE detected in Brazil recently and that caused China to temporarily ban beef imports from Brazil. That could cause more Chinese buyers to source more beef from the US in the short run, but our guess is that the ban will be lifted within a few months and trade flows will quickly revert to normal. It will also leave some Brazilian beef looking for a home in the near term, so we could see more of that product imported into the US. All of the trade numbers for 2022 are now in and it shows total beef exports up 2.6% YOY. That pace may be hard to sustain in 2023 as supplies tighten and prices escalate, so we are currently forecasting exports to decline by about 6% YOY.

> **China** has temporarily **banned beef from Brazil** due to a BSE finding

SUMMARY

Weather was the biggest factor driving the US cattle and beef market in February as winter storms muddied feedyards and limited cattle weight gains. That, combined with a reduction in market-ready cattle, pushed both cattle and beef prices rapidly higher. Hopefully the worst of the winter weather is now behind us and March will see improvements in feedyard conditions. Carcass weights are depressed at present and still declining seasonally, but the rate of decline is expected to slow. The US cattle herd is still in contraction mode and that means fewer cattle and smaller beef supplies will be an on-going theme for at least a couple more years. Eventually, cattle prices will get high enough to encourage producers to begin expanding once again, but the long biological lag in beef production means that process will take years to play out. In the interim, beef buyers will need to be on their toes and rely more on forward pricing and other risk management strategies than they may have in the past. So far, consumers have only had a small taste of the price increases that are to come, and it remains to be seen if they will have the purchasing power to keep beef demand on an upward trajectory. Near-term, we see further strengthening in beef prices during March, but the rate of those increases should be much lower that what was seen in February. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Blended S&H Carcass Wt.

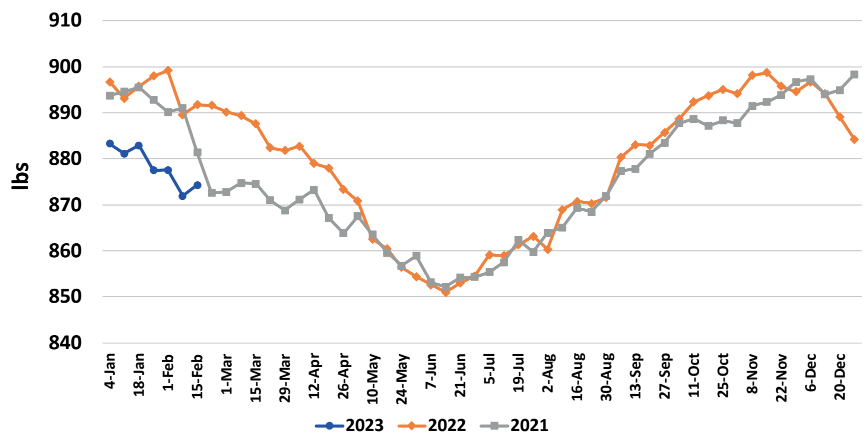

Figure 2: Feb Avg Price Increase over the 5-Year Avg

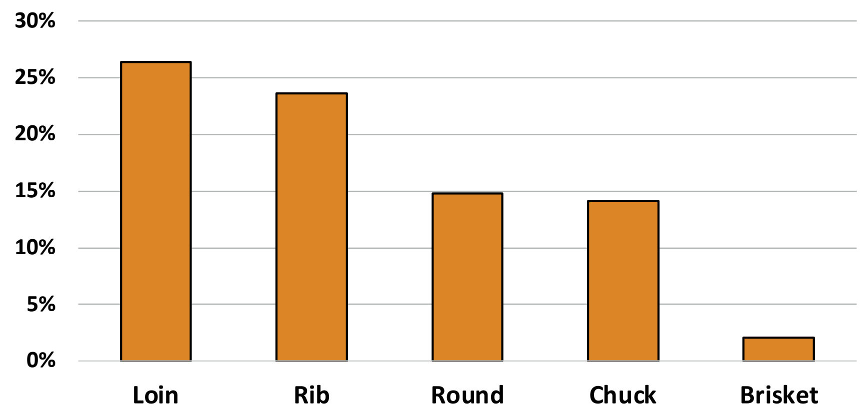

Table 1: JSF Cattle and Beef Price Forecasts

	15-Mar	22-Mar	29-Mar	5-Apr	12-Apr	19-Apr
Choice Cutout	295.0	297.6	295.9	293.3	291.9	291.4
Select Cutout	286.2	286.6	283.1	279.0	275.0	272.9
Choice Rib Primal	475.2	484.3	481.7	484.1	489.0	487.5
Choice Chuck Primal	235.9	233.9	229.6	226.2	221.9	219.6
Choice Round Primal	237.6	240.9	236.5	231.9	228.1	225.3
Choice Loin Primal	411.1	415.9	419.6	417.2	418.7	423.8
Choice Brisket Primal	209.2	212.5	218.8	216.2	218.0	220.6
Cash Cattle	165.7	166.9	165.9	165.9	166.2	166.4

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