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J.S. FERRARO

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RED MEAT OUTLOOK: CATTLE & BEEF

> The **cash cattle market surged $15/cwt.** over a three-week period in April

The cash cattle market caught fire in April, surging close to $15/cwt. in just three weeks (**Figure 1**). Exactly what drove the sharp gain is an open question, but it appeared to be related to a vigorous fight between packers for high quality cattle in the northern feeding regions. Packers probably overkilled the available supply of cattle in late March and, when demand improved in April, they tussled over a tighter-than-expected cattle supply. Prices have since eased a little, but our flow model suggests that the number of market-ready cattle is likely to remain relatively tight right through May, so that could limit the downside risk in the next few weeks. As soon as it became apparent that cattle prices were moving rapidly higher, the packer's sales desk was on the phone asking for higher beef prices from their customers. Those that were caught short had to pay up and over a three-week interval the Choice cutout moved from the $280 area to over $310/cwt. recently. We have thought for some time

> The **Choice cutout** recently **passed $310/cwt.** and may advance further during May

that the spring market would have the potential to be relatively strong, but this move was well beyond what we had envisioned. It is probable that the sharp increase in cattle and beef prices even surprised packers. They are now being more judicious with slaughter levels to prevent another cash cattle price run-up, but unfortunately for beef buyers, this comes at a time of year when beef demand is typically very strong. That makes us think that current strong beef pricing will have staying power throughout much of May. By June, the available supply of cattle should increase moderately and perhaps demand will have cooled a bit also, but between now and then, exceptionally strong beef pricing is likely to be a key characteristic of this market.

SUPPLY PICTURE

The pattern of feedyard placements over the past six months has been pointing to relatively tight supplies of market-ready cattle this spring. During the month of April, steer and heifer slaughter was down about 6% year-over-year. For May, slaughter levels are expected to be down 4-5% from the same period last year. It doesn't help that feedyards in the Northern Plains were hit by nasty winter weather late in the season and that has slowed cattle performance in that region and put those animals behind schedule for slaughter. The weather has cleared up considerably, but it will take several more weeks before the cattle get fully "caught-up".

The last reported federally inspected carcass weights pegged steer weights down 12 pounds from the same period a year ago. A good part of that deficit is likely related to the weather problems in the North. So, not only are animal numbers tight, each carcass weighs less, and that further restricts the available beef supply. Carcass weights are still declining seasonally and probably won't reach their annual low point until late May or early June. Thus, the supply side of the market looks like it will remain tight over the next few weeks and buyers with immediate needs may find themselves at the mercy of packers when it comes to beef pricing.

The recent surge in cattle pricing has greatly improved feedyard margins. We estimate the cattle feeders are now generating a profit margin close to $225 per head (**Figure 2**). The last time

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

margins approached this level was back in November ahead of the Christmas holidays when packers were desperately searching for cattle that would yield high quality middle meats to fill holiday orders. These strong margins are encouraging cattle feeders to pay a lot more for the feeder animals that they are currently placing into feedyards. By our calculation, cash cattle prices may need to be as high as $175/cwt. this fall in order for feedyards to breakeven on the high-priced feeder animals they are putting on feed today. Right now, the October live cattle futures are only suggesting cash cattle prices in the mid-to-high $160s this fall, so there is significant risk that cattle feeding margins will sink into negative territory later in the year.

Beef availability should remain **tight through May**, then expand modestly in June

DEMAND SITUATION

Consumers react to the prices that they see in retail supermarkets and those prices are relatively slow to change. At present, the full impact of the surge in wholesale beef prices has not yet been incorporated into retail beef pricing. That means consumers are seeing prices that are well below what they "should be" if the full increase in the cutouts had been passed along. Thus, domestic beef consumption should remain strong and could keep demand relatively strong in the wholesale market as well. By the time June or July rolls around, retailers will have raised retail prices considerably and we could then start to see some cooling of wholesale beef demand. Another important part of the demand picture lies in the fact that wholesale pork prices are very cheap compared to beef. Normally, we might expect retailers to shift the focus of their feature activity away from beef and towards pork. However, retailers are less likely to make that move at this point in the calendar when grilling season is cranking up and consumers are often looking for a quality beef item to put on the grill. Eventually a shift from beef to much cheaper pork is likely, but that might not come until after Memorial Day. The demand strength this spring is probably more concentrated in the higher income consumers because lower income consumers are disproportionately affected by inflation, which is down from its peak level, but still high enough to cause problems for those consumers on a tight budget. Media news programs have been telling the public that a recession is coming later this year and if that gets repeated often enough it might also cause a dent in beef demand as consumers prepare for the worst. Again, it would likely be the lower-income segment where this would have the greatest impact. For now however, grilling season takes precedence and consumer demand is likely to stay relatively strong through Memorial Day. The risk of demand stumbling increases the deeper we move into summer.

High US beef prices are starting to become a hinderance to international demand. Data from USDA's Foreign Agricultural Service for the first three weeks of April showed beef exports running 16% smaller than a year ago. Part of that big gap is due to last year's numbers being particularly strong, but some of it is probably due to the international buyers pausing after the recent sharp increase in US prices. Mexico is the one bright spot, taking about 27% more beef tonnage than last year. The weakness seems to be centered on the Asian nations, with Japan, South Korea, and China all posting YOY declines. As the US cattle herd continues to shrink cyclically over the next couple of years, it is likely that export demand from overseas will shrink as well.

SUMMARY

Increasing competition between beef packers for a smaller supply market-ready cattle caused prices to surge higher in April. The markets have paused here in early May, but could very well advance further as orders for Memorial Day and Father's Day come in. We don't expect a significant increase in the cattle supply until June and even then the increase will be modest. Retail margins have been squeezed by rapidly rising wholesale beef prices, but soon retailers will begin to raise prices to consumers, and by early summer we may see those higher prices temper consumption. For now however, it is full-on grilling season demand as consumers break out their grills to celebrate the return of warmer weather. Cheap pork poses a threat to beef demand, but we don't see that happening before Memorial Day. USDA recently reported feedyard inventories down 4.4% YOY and that gap is likely to grow wider as we move into the second half of the year. So far, packers have been able to maintain a slim positive margin by raising beef prices as their cattle cost increased, but there is a real risk that packer margins will slip into negative territory within a few weeks. Buyers who go into the summer months without some forward coverage are playing a risky game. Spot price levels may retreat some during June and July as cattle availability improves, but probably not as much as the futures market is currently projecting, so extending coverage through midsummer could prove to be a wise move. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: 5-Area Live Steers

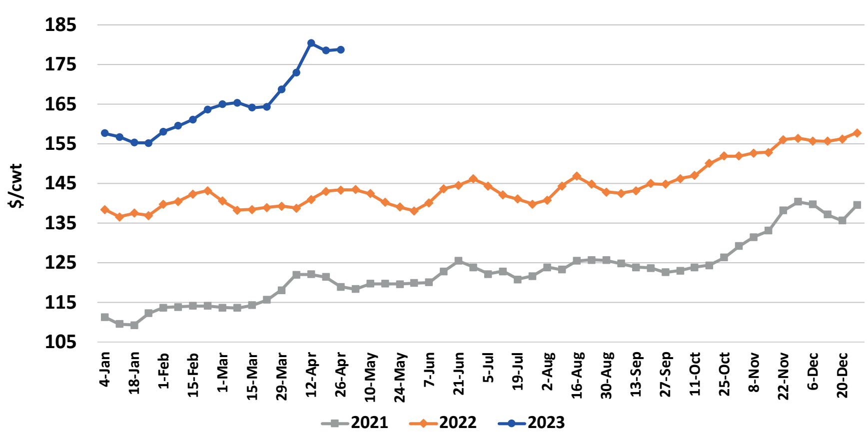

Figure 2: Estimated Cattle Feeding Margins, 2022-Present

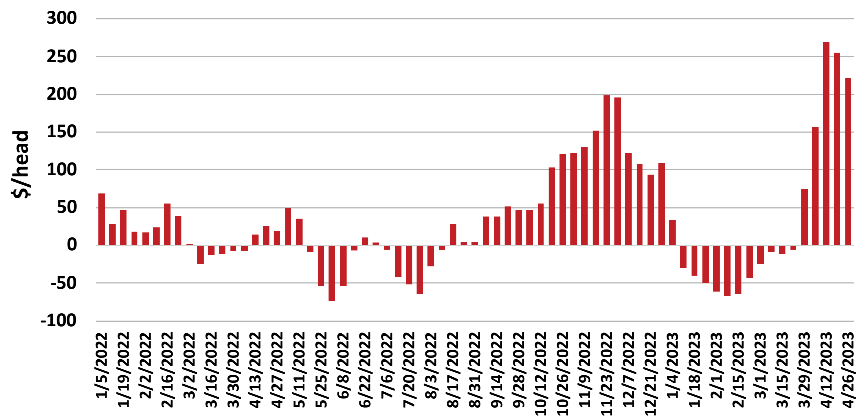

Table 1: JSF Cattle and Beef Price Forecasts

	10-May	17-May	24-May	31-May	7-Jun	14-Jun
Choice Cutout	311.5	309.6	306.5	303.2	299.5	297.8
Select Cutout	287.3	282.1	278.7	277.5	272.5	268.2
Choice Rib Primal	496.8	505.9	502.7	494.9	489.1	487.3
Choice Chuck Primal	249.9	243.3	239.7	236.1	235.5	236.3
Choice Round Primal	233.4	229.6	227.5	224.3	220.0	219.4
Choice Loin Primal	440.2	441.6	438.1	436.8	431.0	426.9
Choice Brisket Primal	238.6	236.1	237.7	239.2	236.5	231.1
Cash Cattle	180.0	179.2	176.9	174.1	172.0	170.0

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.