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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

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At the beginning of August, packer margins were more than $100/head in the red and thus packers undertook an effort to improve margins by restricting the kill. For the first three weeks, that effort had little market impact, but by late in the month the cutouts had started to rise and the cash cattle market weakened a little. Now we sit on the brink of September with the Choice cutout trading close to $315/cwt. and last week's cash cattle market averaging close to $183/cwt. That leaves packer margins about $30/head in the black. Packer's margin improvement efforts should get another little boost next week as the Labor Day holiday curtails the weekly kill. After that, there could be significant temptation to expand the kill again and thus capitalize on the improved margin situation. It will require significant discipline on the part of packers to refrain from increasing the kill and perhaps sending margins back into negative territory. Cattle feeding profitability has been phenomenal all summer long and in spite of the reduced kill, feeding margins were still averaging close to $400/head at the end of August. This is all part of the economic adjustment process that will eventually result in expansion of the cattle herd. Right now, the herd is contracting, and the margin baton has been passed along the supply chain from packers to feeders. The next step will involve feeders passing the margin baton to cow-calf operators in the form of extremely high prices for feeder animals. Once that has occurred, there will then be financial incentive for cow-calf operators to begin retaining females to rebuild their herds. It is a slow process and may take a year or more before the first signs of herd rebuilding appear. In the meantime, all prices within the complex are likely to remain on an upward trajectory as cattle supplies continue to shrink.

SUPPLY PICTURE

Fed cattle slaughter during August averaged about 483,000 head per week. That was well below the 500-510,000 per week that the flow model suggested would be available. The last time we saw the fed kill that small during August was back in 2016 (**Figure 1**). Packers were clearly restricting the kill in an effort to raise beef prices and lower cattle prices. As a result, some cattle that probably should have been slaughtered in August were likely pushed into September, thus we should see kills rise a bit once the holiday is behind us.

Slaughter reductions by packers are finally having a **positive impact** on their margins

However, the US experienced a brief, but intense, heat wave that affected much of the cattle feeding regions at the end of August and that might have slowed cattle performance enough so that the build-up of un-slaughtered cattle is manageable. The effect of that heat wave has yet to show up in the carcass weight data because that data is reported with a two-week delay. There may have also been a measurable increase in death loss as a result of the heat. The de-trended and de-seasonalized carcass weights remain at very low levels, which suggests that feedyards remain relatively current. Further evidence of that can be seen in the difficulty that packers have had in reducing cash cattle prices in recent weeks. It has been a huge struggle for them to reduce prices by just a dollar or two. If packers are hoping for a total collapse in cattle prices, they will likely be disappointed.

By now everyone is aware that the cattle industry is in the liquidation phase of the cattle cycle and that means cattle availability continues to decrease as time goes by. USDA reported feedyard placements during July to be down 8.3% YOY and those

Feedyard placements in July were **down 8.3% YOY**

are cattle that will be marketed in December. Although there were a couple of months this summer where placements were larger than last year, those should be seen as outliers and the new normal for the next couple of years is likely to be persistent YOY placement declines. US beef production in August looks like it was down close to 7% from the previous year and September could see a similar result, especially if packers remain vigilant in constraining the kill to protect margins. Past placement patterns make it likely that the YOY reduction in Q4 beef production will be less than what we saw this summer, perhaps only 2-3%.

DEMAND SITUATION

Domestic beef demand held up quite well during August. Our demand index calculation suggests that demand was stronger than in July and also stronger than August of 2022. That is a big reason why the Choice cutout has remained above $300/cwt. here in late summer. However, there are some concerns about demand going forward. Consumers have nearly worked through all of their pandemic savings and in October student loan repayments will resume. The delinquency rate on credit card debt recently returned to pre-pandemic norms after tracking at unusually low levels in the past three years. That is a pretty strong signal that the sugar rush created by all of the pandemic-inspired stimulus has finally worn off and thus we should probably be prepared for a downward reset in beef demand over the next year or so. The Federal Reserve Board is still concerned about price inflation in the economy and has signaled that they will continue to raise interest rates if necessary. Equity markets have softened recently as investors begin to prepare for what looks like a less rosy economic environment ahead. So, there are likely some macro headwinds that could strengthen later in the year. Seasonally, September is normally not a great beef demand month as consumers are grappling with back-to-school expenses and summer vacation bills. End meats and grinds tend to fare the best in September. However, by the end of the month or early October, we expect to see demand start to improve seasonally as end users begin to prepare for the holidays. This tends to favor middle meats, particularly ribs and tenderloins. Availability will be tighter this year compared to last and thus buyers would be wise to use any price weakness that develops in September to cover their end-of-year middle meat needs.

Beef exports haven't performed very well in 2023, with volumes down about 11% year-to-date. The remainder of 2023 will likely see continued YOY declines in exports, with the net result being an 8-9% annual decline. There are signs that consumers in other countries are getting stretched financially, which won't help US beef exports. China, which has emerged as a major buyer of US beef since the Phase One agreement, seems to be less interested in US beef these days. That is probably tied to rising unemployment within China and slowing GDP growth. Last week's FAS export data showed movement to China down almost 60% YOY (**Figure 2**). Shipments to other Asian trading partners are down significantly as well. Cheaper beef from Brazil and Australia is likely displacing more-expensive US beef in these markets. As the US herd continues to shrink over the next couple of years and prices rise, it is reasonable to expect that exports will continue to struggle.

Economic weakness in Asia appears to be **hurting US beef exports**

SUMMARY

Packers shifted into margin protection mode during August by restricting the kill. It took a while, but eventually beef prices rose and cattle prices declined a little. Heading into Labor Day, packer margins are back in positive territory, but they could easily shift back into the red if packers don't continue to exercise restraint on slaughter levels. The flow model suggests that fed cattle availability should be sufficient to fuel steer and heifer slaughter close to 510,000 per week, but the actuals are likely to fall short of that. Carcass weights have begun their seasonal ascent but remain relatively low once the trend and seasonal components are accounted for. That suggests that feedyards remain relatively current and packers may continue to struggle in their efforts to induce a meaningful reduction in cash cattle prices. We see some gray clouds forming in the macroeconomy that could temper domestic beef demand later in the year, but it probably won't be enough to offset the positive price impact of reduced beef availability. Now is the time for buyers to begin preparing for the upcoming holiday season by using any price weakness that might develop in September to extend coverage into Q4, particularly for middle meats. Looking further out, we see a very strong pricing environment for 2024 as supplies continue to shrink. Cash cattle prices are projected to exceed $200/cwt. next summer and the Choice cutout could reach the $385/cwt. level or higher. Buyers should prepare a plan for navigating in a very strong pricing environment during 2024 and 2025. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Weekly Avg Fed Slaughter, Month of August

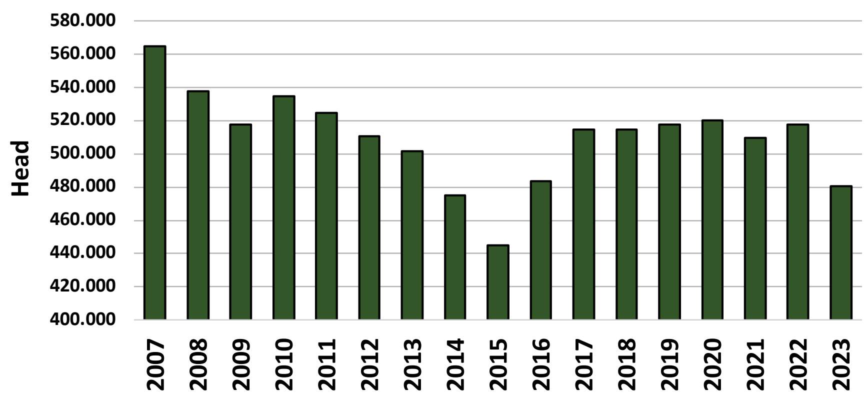

Figure 2: Weekly Beef Exports to China

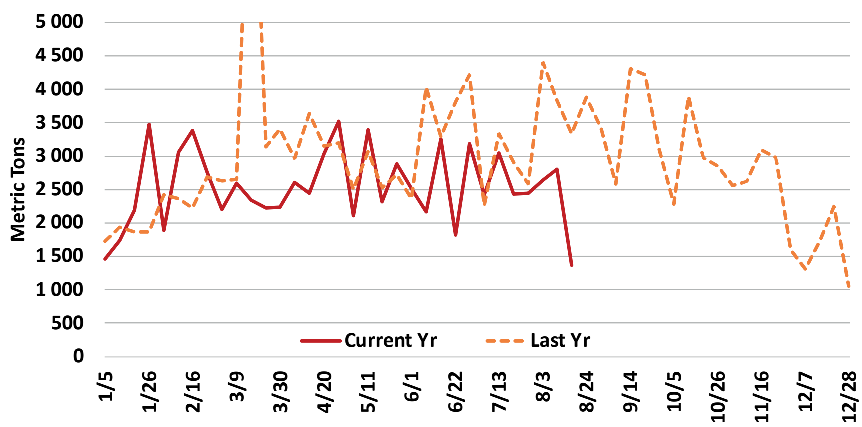

Table 1: JSF Cattle and Beef Price Forecasts

	6-Sep	13-Sep	20-Sep	27-Sep	4-Oct	11-Oct
Choice Cutout	312.2	306.2	301.7	301.0	301.3	304.4
Select Cutout	287.7	280.4	275.7	273.1	275.0	277.2
Choice Rib Primal	497.2	484.7	479.1	491.4	499.2	506.2
Choice Chuck Primal	263.3	258.4	251.1	247.2	244.1	248.9
Choice Round Primal	264.3	259.5	256.7	253.4	256.8	260.2
Choice Loin Primal	398.4	393.6	391.5	392.1	389.4	388.3
Choice Brisket Primal	271.0	263.9	258.2	253.9	253.1	252.4
Cash Cattle	180.9	179.2	178.0	179.1	180.6	182.8

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