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RED MEAT OUTLOOK: CATTLE & BEEF

Prices in the US cattle and beef complex held mostly steady during the month of October. The Choice cutout traded in a narrow range between $300 and $306, while the cash cattle market inched up from $183 to $185 over the same period (**Figure 1**). Packer margins were underwater all month long and packers seemed powerless to correct the problem. We calculate packer margins currently near -$70/head, and don't hold much hope that they will improve over the near term. Cattle feeders, on the other hand, are doing quite well, with margins near $300/head (**Figure 2**). In order for packers to reclaim some margin from the feeding sector, they need to take fed slaughter down below 480,000 head per week and hold it there for several weeks. This, however, has proved difficult to achieve and may be even more elusive in November as packers will be needing to fill holiday orders. Thus, they may be forced to keep the kill higher than they would like. Beef buyers seem to be taking a cautious approach to the holidays this year and have not chased the Choice cutout higher as they often do ahead of the holiday season. We don't rule out some holiday-driven appreciation in the beef cutouts over the next few weeks, but at this point it appears as though buyers are waiting to see improving consumer demand before they step forward and commit to large purchases for the holiday season. To some, these steady, sideways markets may seem boring, but they do reflect a situation where supply and demand are in good balance and surprises are few. Forecasters love sedate markets.

> **Cash cattle prices** have been **remarkably stable** over the past several months

SUPPLY PICTURE

October was much like September, with fed kills that averaged around 490,000 head per week. That was a little below the 500,000 head per week that our flow model suggested would become market ready during the month, but it wasn't low enough to give packers the leverage they needed to push cattle prices lower. There has been much speculation on why packers haven't slashed the kill enough to correct their margin problems. We think that the answer lies with packing plant labor utilization, where packers are unwilling to cut hours to a degree that would risk driving workers to find other jobs and thus potentially leaving packers in a labor bind later on. The difficulty of finding workers during the pandemic years is still fresh in their minds. Further, large packing facilities have very steep cost curves and slashing kills tends to drive the per unit cost of production up very rapidly. The uncomfortable truth is that there is too much packing capacity for the number of cattle being produced and until that changes packers will struggle to earn consistent profits.

The flow model suggests that steer and heifer slaughter during November should run in the 500-505,000 head per week range, so if packers keep the kill below that level consistently, they should be able to slowly chip away at cattle feeders' leverage in the cash cattle market. Carcass weights are still increasing seasonally and are tracking very near last year. We expect to see weights make their seasonal top in late November or early December and then start to slowly decline into spring. The de-trended and de-seasonalized carcass weights have been increasing since late summer, but still haven't reached a level that would signal that cattle are starting to back up in feedyards. Further kill restrictions could help achieve that, yet it appears that packers are unwilling or unable to go there.

There could be some help on the way in the form of larger cattle supplies in Q1 as placements during September and October have been large. USDA reported September feedyard placements up over 6% YOY and there is a good chance that when the numbers are revealed in a couple of weeks for October placements, they will be up a similar amount. Those cattle will become market ready in the Feb-Apr timeframe, thus there could be a bulge

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in beef production toward the end of Q1. This is not a permanent fix however, because animals that were placed in Sep/Oct won't be available to be placed in later months and it is inevitable that placements in the future will drop back below year-ago levels at some point. The herd continues to shrink and there are no signs yet that producers are in a mood to rebuild. Thus, beef users need to be prepared for a long, steady decline in animal numbers that will likely keep upward pressure on beef prices for at least another couple of years and maybe longer.

Strong placements in Sep/Oct **should ease supply concerns** next spring

DEMAND SITUATION

US consumers continue to exhibit strong demand for beef, particularly for the high end of the product offering. Our demand indexes for Q3 were up over 5% YOY and the forecast has those demand indexes up over 6% YOY in Q4. That said, there are several reasons to be concerned for the health of beef demand in the near term. We now have war in both Europe and the Middle East and inflation in the US economy is still well above the long-term target of 2% annually. Student loan repayments have been restarted and that is reducing disposable income for many borrowers. The US House of Representatives has been in disarray and there is potential government shutdown looming in just a few weeks. On the other side of the coin, consumers are still spending at a strong clip, even as they are having to rely more on credit and savings to do so, and GDP was reported up nearly 5% during Q3. The unemployment rate is creeping up but is still very low by historical standards at 3.9%. So, the US economy appears to be very strong at the moment, but consumers don't seem to be appreciating it very much due to the geopolitical turmoil and continuing price inflation that dominates the news these days. For now, domestic beef demand is humming along, but the risk that it softens is significant. Beef buyers seem to sense this and have not been aggressively building beef inventories ahead of the holidays this year. No one wants to get caught with more beef than they can merchandise this holiday season if the consumer's mood turns sour. However, with more buyers entering the holidays short bought, it raises the risk of a last-minute spike in prices as they rush to get coverage should demand exceed their expectations.

Export demand for US beef remains sluggish and that will likely be the narrative for a long time to come as US supplies shrink and price levels rise. At the same time, high prices in the US and a relatively strong dollar should support strong imports. In fact, imports have exceeded exports since January and that is likely to be a persistent feature of the market for the next couple of years. Imports are largely manufacturing beef; thus they have the potential to provide some supply relief on the low end of the quality spectrum, but do very little to help contain prices for higher quality items. China, which emerged as a major importer of US beef over the past few years, has experienced a significant slowdown in its economy and that has translated into reduced demand for US beef that is likely to persist well into 2024.

Domestic beef demand has been **surprisingly resilient** in 2023

SUMMARY

Cattle and beef prices in the US have been remarkably steady over the past few months and the market seems to be in good supply/demand balance. Cash cattle prices have traded in a narrow range between $180 and $186 since the beginning of summer. Cattle feeders are seeing strong profits while packers continue to struggle with negative margins. In order to change the balance of power between packers and feeders, packers need to reduce slaughter levels beyond what has already been accomplished, yet they seem unwilling or unable to do that. Perhaps they fear losing workers that would be difficult to replace if they reduced the kill too much. Feedyards are slowly losing currentness, but still retain the upper hand in price negotiations with packers. Feedyard placements were unusually strong in September and October, so that is likely to create a supply bubble near the end of Q1 that could help packer margins get back on track. Longer term however, the song remains the same, as the US beef cattle herd continues to shrink and there is no evidence that producers are retaining females in order to expand. Domestic demand remains resilient, but there are potential threats in the offing. Beef buyers should remain vigilant and keep a close eye on consumer attitudes in case a sudden downshift in demand occurs. Those heading into the holidays short-bought on middle meats should be mindful that packer margins are depressed and that could prompt them to slash the kill at any moment leaving the market short and driving prices quickly higher. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: 5-Area Live Steers

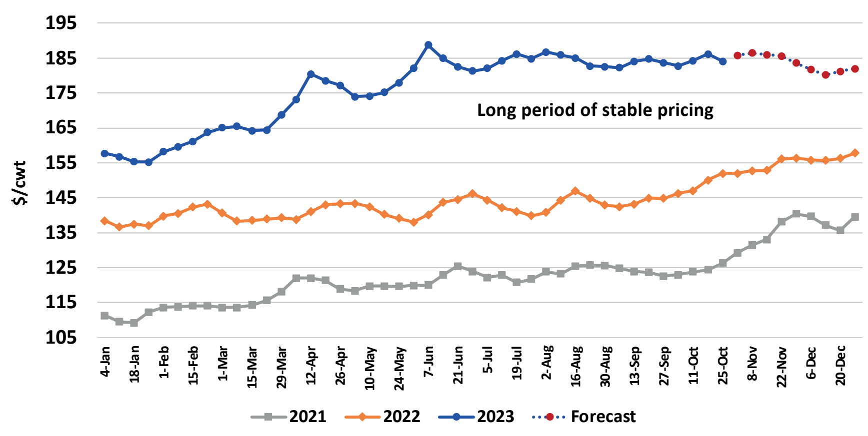

Figure 2: Estimated Packer and Feeder Margins, 2023

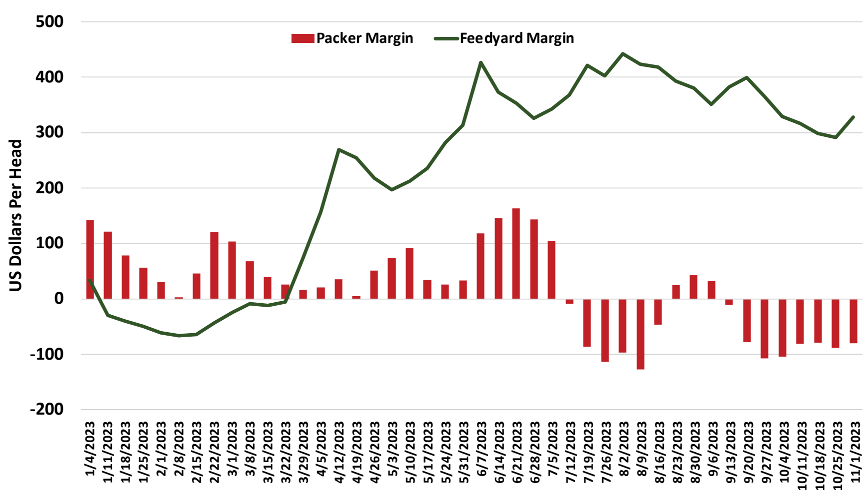

Table 1: JSF Cattle and Beef Price Forecasts

	15-Nov	22-Nov	29-Nov	6-Dec	13-Dec	20-Dec
Choice Cutout	306.5	305.2	303.7	298.7	294.6	290.7
Select Cutout	277.3	277.1	276.1	273.5	270.3	273.9
Choice Rib Primal	553.4	555.0	554.2	548.3	535.1	511.2
Choice Chuck Primal	256.4	255.1	249.3	243.4	242.0	238.9
Choice Round Primal	260.3	258.9	260.5	254.5	249.7	246.4
Choice Loin Primal	380.4	378.6	377.9	373.4	370.3	371.5
Choice Brisket Primal	228.6	225.1	220.8	218.0	214.1	210.0
Cash Cattle	186.0	185.6	183.6	181.7	180.1	181.2

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