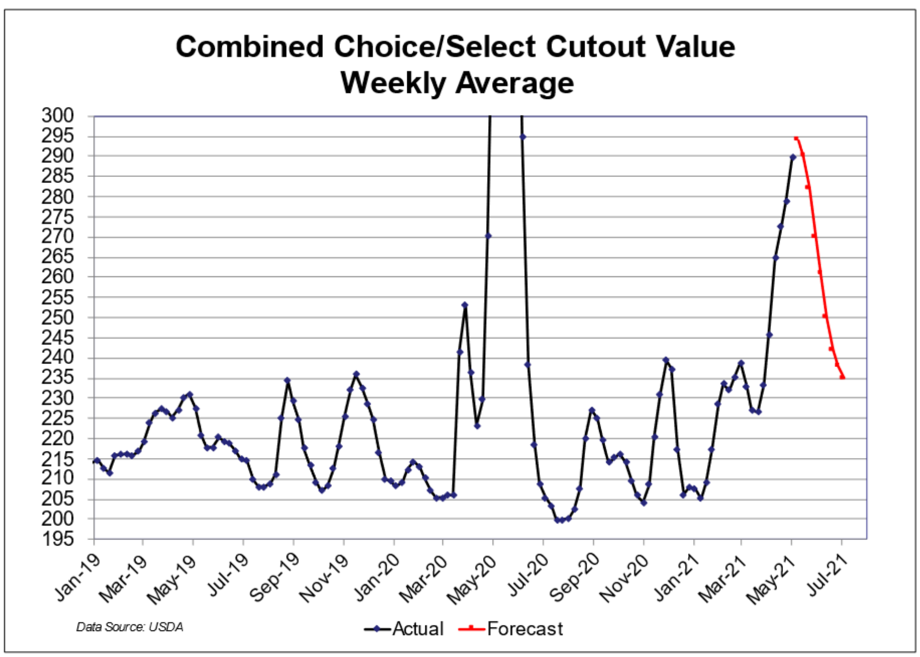
MEAT MARKETS
UNDER A MICROSCOPE

A perspective on the red meat markets by Kevin Bost...sometimes wrong, usually scientific, but always candid

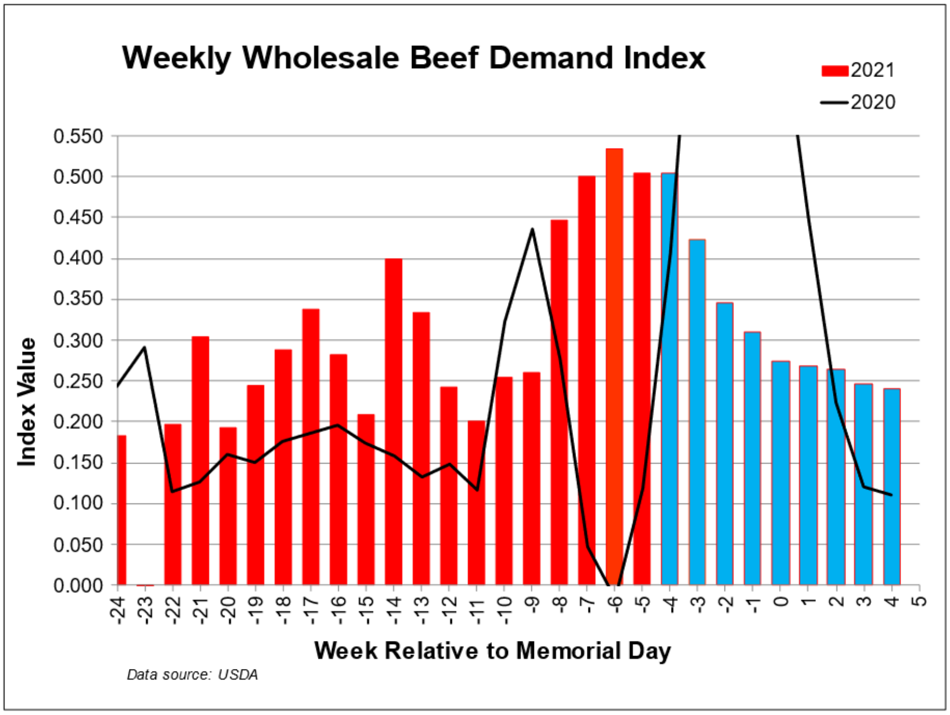
May 2, 2021

I am impressed by the U.S. Commerce Department's statistics showing a 21% leap in disposable household income from February to March (the March numbers were released just last week and are the most recent available). Disposable household income includes, among other things, after-tax wages, *investment gains, and unemployment benefits*. It was the biggest monthly jump since these records have been kept. Normally I just take a glance at these reports and make note, but in this case, the timing is curious….and it could go a long way toward explaining how beef and pork prices have suddenly become so high.

There will surely be a price to pay for the gargantuan COVID-19 relief bill passed in March, but for the time being, there are considerably more dollars chasing an essentially steady supply of meat (I'm speaking in broad terms here)….leading to meat price inflation, right out of the textbook. In the last two months, consumers as a whole have been willing to pay higher prices for beef, pork, and chicken without significantly reducing the volumes being purchased. And so maybe it's time for me to wake up and accept the notion that the seasonally adjusted wholesale demand indices are now operating on a higher plane and will remain elevated indefinitely.

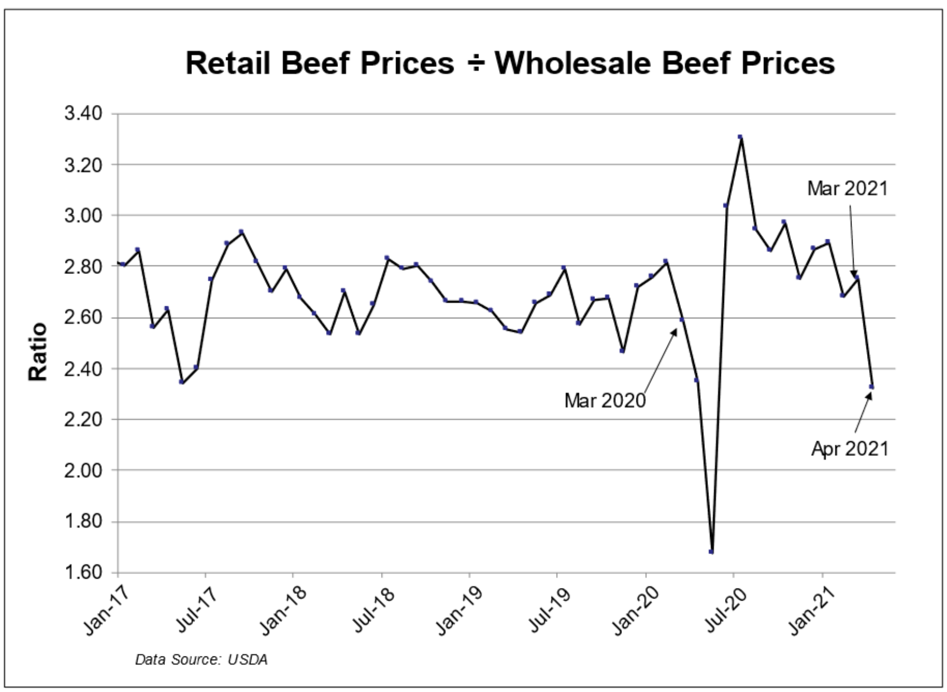


Against that backdrop, I realize how ridiculous my forecast of weekly beef cutout values probably looks. [If you think so, tell me—you won't be the first.] A $60 per cwt decline between now and the end of June? Seriously? Well, this is how it will unfold if the weekly beef demand index merely returns to where it stood in March, as I show in the picture on the next page.



I am assuming that steer and heifer slaughter will maintain between 525,000 and 530,000 from now through June (excluding the holiday week), which I suspect is the industry's sustainable capacity at the moment.

My premise is that even with their new-found wealth, most consumers are not immune to an escalation in retail prices. There is a point at which they—*in the main*—will decide that the sticker price on the package is not such a good value, and trade down to something a bit less expensive. In some cases the supermarket will facilitate a reduction in product movement by downsizing the portions, thereby reducing the cost of the package. The result is still a slowdown in demand at the wholesale level.

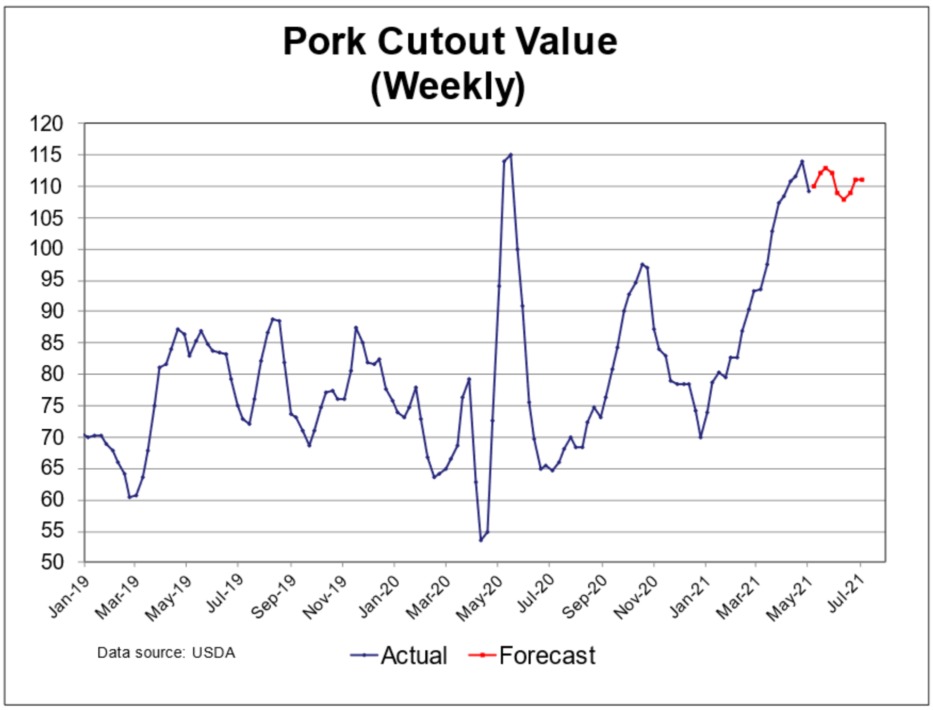


Of course, I don't know exactly how close we are to that point, but it is likely that retail beef prices are in the midst of a sharp increase. They were already on their way upward by February, and the rate of increase has probably accelerated. It appears that, in percentage terms, gross retail margins are getting crushed. In the picture to the left, the final data point compares April wholesale prices with March retail prices.

A similar sort of thing happened at about this time last year, only to a more intense degree. The explosion in product costs in April and May drove retail prices into the stratosphere, and you can see in the graph on the first page the impact on wholesale demand and prices during June and July.

Finally, I have to remind myself that not long ago, a combined Choice/Select cutout value of $235 per cwt was considered expensive.

I'm not sure that the foregoing discussion applies to pork loins, butts, or even ribs—at least not to the same degree. Whereas Choice boneless ribeyes have skyrocketed from $9.90 to $12.25 per pound since April1; and strips from $8.40 to $9.50; and short loins from $7.00 to $9.00; and tenderloins from $12.00 to $15.25; bone-in pork loins have merely nudged upward to $1.10 per pound. Strap-on boneless loins have gained roughly 15¢ per pound to $1.30, and butts have moved from $1.07 to $1.15. This pales in comparison to what the beef market has done. A pretty good case can be made for another leg up in pork loin and butt prices during May.

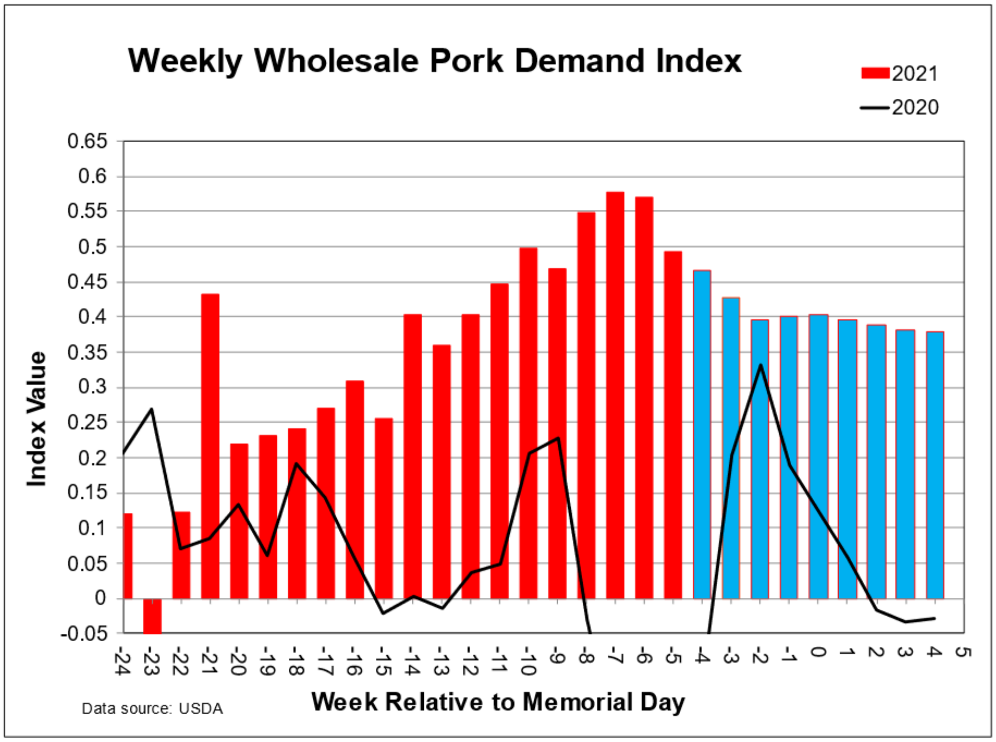


Overall, though, the pork market has struck a balance between supply and demand, at least for the time being. Friday's cutout value quote was the same as it was on March 24, and it would be fair to say that the trend has shifted from upward to sideways.

Of course, the bellies and trimmings have been largely responsible for the change in trend, but the point still stands. Pork bellies needed to "reboot" in order to generate forward sales through the summer, and they have done so in a big way—dropping from $2.00 to $1.50 per pound in the past two weeks. Prices are now situated between the previous support level of $1.60 and the next support level on the chart at $1.30. My perception is that belly prices do not really need to drop much further in order to accomplish their mission, but they *do* need to remain subdued for another few weeks.

My forecast of weekly pork cutout values assumes that the weekly demand index will recede back to where it stood in early March. You may view this assumption as a bit pessimistic, but it makes sense that the demand index should decline at least modestly during May. What I'm suggesting is that wholesale demand will remain far above the 15-year average for the month of

May, just not quite as far above average as it was in March and April. Remember that in May, it will be comparing against one of the strongest demand seasons of the year. The bar is raised, so to speak.



One naturally supportive factor in the near-term outlook is that production will take another step downward at this point. However, if hog slaughter continues to align fairly closely with the corresponding pig crop estimate, then slaughter will reach a practical bottom in May. Taking USDA's fall and winter pig crop estimates at face value, my guess is that kills will average 2,370,000 in May, but then rebound to just over 2.4 million in June. There would be nothing terribly unusual about that, by the way; in the 15 years prior to 2020, there were six occasions on which hog slaughter in the four weeks after Memorial Day equaled or exceeded the four weeks preceding the holiday.

Meat Markets Under a Microscope is published weekly by Procurement Strategies Inc., 99 Gromer Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523, or visit our website at www.procurementstrategiesinc.com.