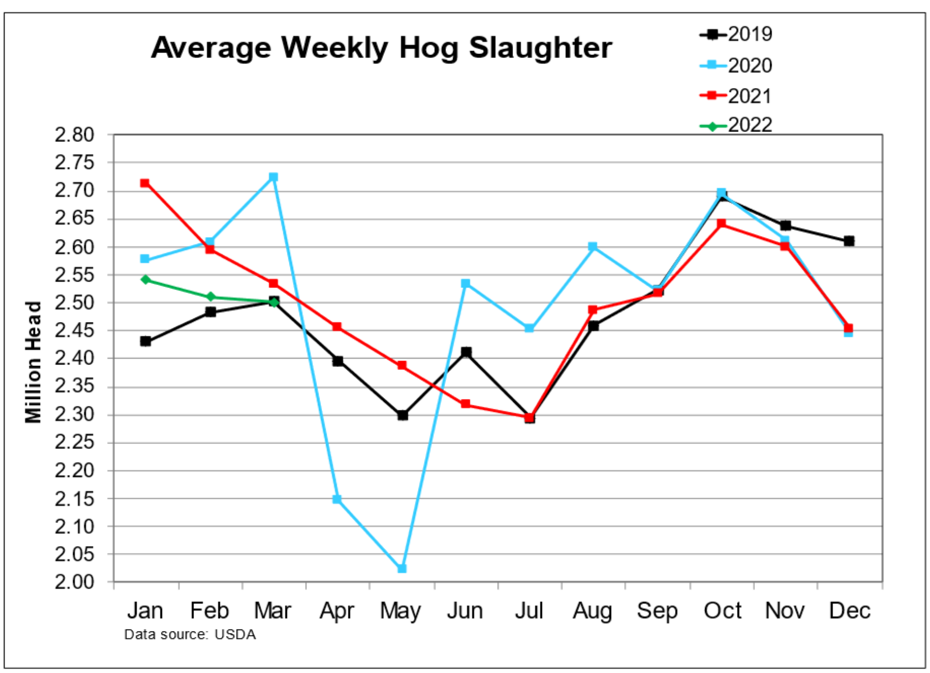
# MEAT MARKETS
# *UNDER A MICROSCOPE*

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

June 28, 2021

**It turns out that the spring pig crop was not as big as most of us analyst types had thought, and so we have to lower our sights for pork production in the fall.** This is not a game-changer by any means, but it does look as though fourth quarter hog slaughter will be the smallest for that period since 2018. More importantly, the trend in the number of sows farrowing confirms that we are in the midst of a cyclical downswing in hog supplies: they were down 0.9% from a year earlier during December-February; down 2.6% during March-May; and farrowing intentions for June-August were down 4.4%.

I want to pause for a moment to offer a “big picture” observation. We have just witnessed one of the steepest increases in pork prices in history. If you recall, the huge climb in futures prices got started in early January, and it was ignited by expectations of tight hog supplies. The prevailing sentiment was that COVID debacle caused more damage to the hog production industry than most people realized, and the supply prospects were made even worse by exceptionally pervasive outbreaks of Porcine Reproductive and Respiratory Syndrome. Some of the Good Heads in this business were convinced that USDA’s pig crop numbers were overstated. Well, as it turns out, there *was* no shortage of hog supplies in the first half of 2021; through the first 25 weeks, hog slaughter was record large. Long after the rocket ship launched, it became apparent that the real reason for the rally was strong demand; it had nothing to do with hog supplies. Oops.

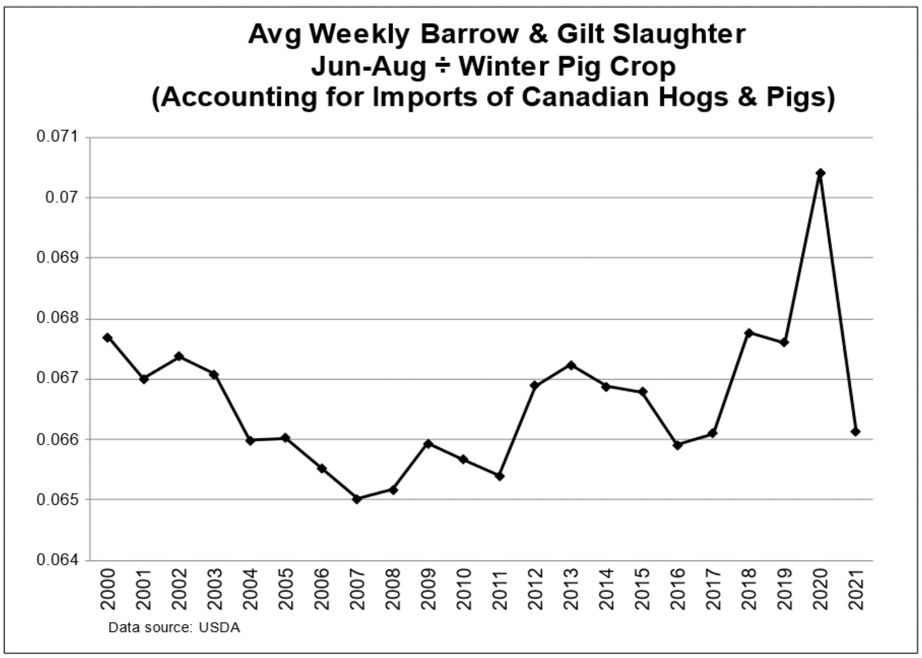



OK, so *now* we’re facing the prospect of shrinking hog supplies for at least the next nine months, and possibly longer, a notion that is legitimized by USDA surveys. This gives us reason to believe that pork prices will remain “elevated”—as long as demand cooperates. I’ll address that subject in a minute.

But let's get back to the slaughter projections.

I find no reason to materially alter my expectations for hog slaughter in the near term. USDA made no revisions to its winter pig crop estimate, and kills here in June are turning out to be in line with that estimate. **If the winter pig crop was indeed counted correctly, then for practical purposes, the seasonal decline in hog slaughter is finished**. *Pork production* should shrink another 2% before it ultimately bottoms in July, with the remaining decline being the result of a final three-pound drop in carcass weights. But I will always contend that the number of animals being processed is a far greater influence on prices than the weight of those animals. [Weights are a more important factor in the beef market because of the prominence of ground beef.]

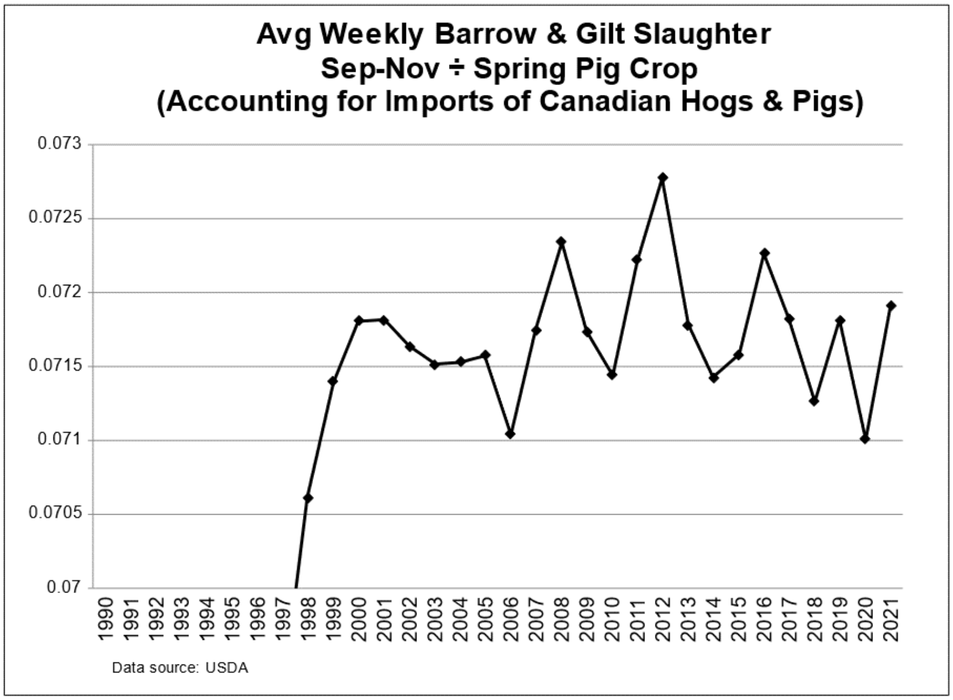
Actually, the projections shown in the preceding picture, with weekly kills averaging 2,368,000 in the three weeks following Independence Day and 2,486,000 during August, would make for a June-August total that is a little on the low side in relation to the winter pig crop. It's not that I think the winter pig crop was at all overstated; it's simply that my projections already skew the distribution of summer hog slaughter toward the back end, and for the sake of objectivity I am hesitant to skew it even more. The only reason I mention this at all is to point out that there is room for somewhat bigger kills in July and August than I am projecting.




As for the fourth quarter projection, the volumes I am showing you align closely with the downwardly revised spring pig crop estimate. That is, the assumed ratio of September-November slaughter to the spring pig crop is almost precisely equal to the 2000-2019 average. This picture is shown at the top of the next page.

Otherwise, there are no obscure details in last week's *Hogs and Pigs* report that draw my attention. The change in the breeding herd from March to June was right in the middle of the 15-year average, signifying neither an acceleration of herd liquidation nor a reversal toward expansion during the spring. Farrowings and farrowing intentions fall within a normal range in relation to the March 1 and June 1 breeding inventories.

**The weekly wholesale pork demand index showed a big drop over the last two weeks, taking it back down to where it stood in the first week of March**. Pork prices, in general, finally reached the point at which supply exceeded demand—in the short term, anyway.



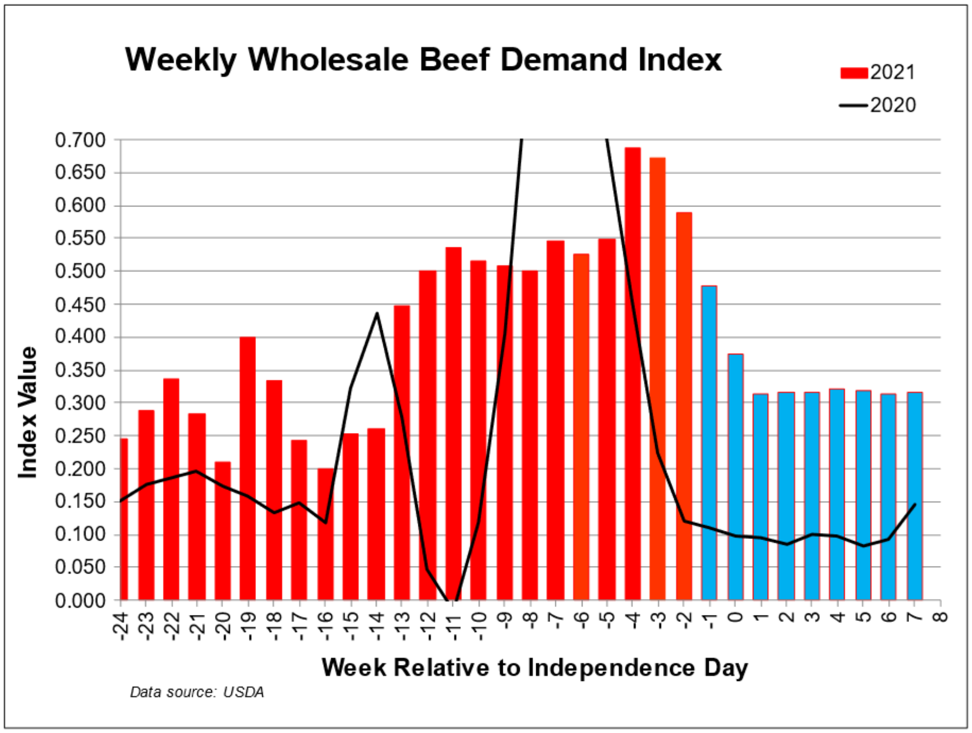

Now that the demand index has “rebooted”, my assumption is that it will remain flat for the next nine weeks. In other words, I am assuming that from this point forward, wholesale pork demand will follow a typical seasonal pattern. What else can I do? If this is to be the case, then the pork cutout value will level out in the $107-$110 per cwt range through July, and then begin another leg downward once production starts to increase seasonally in early August.

**Meanwhile, the beef market is not losing ground quite as rapidly as I had anticipated, but the “headwinds” will intensify once Fourth of July promotions—such as they are—are shipped and priced….i.e., later this week**. We’re heading into a period during which beef demand usually slows down seasonally, and there is good reason to think that the attendant price decline will be considerably more pronounced this time around.

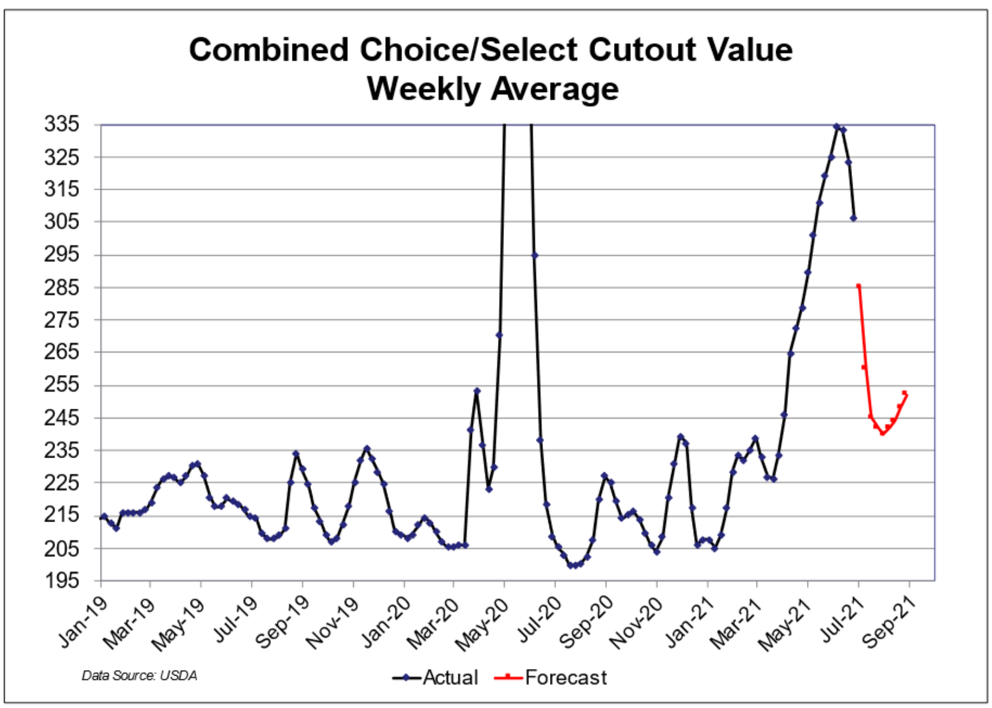
I don’t want to belabor the point, because I have worn out the subject over the past few weeks, but supermarkets are moving quickly to restore their margins in the beef category back to targeted levels. There have been some sharp declines in prices of middle meats and *some* of the chuck and round cuts since the second week of June, and there will be further, sharp declines over the next several weeks. But despite lower wholesale costs, I think we can forget about beef features in July. It’s way too soon for retailers to begin thinking about lowering retail prices, given that their margin recovery quest is in its early stages. My guess is that most supermarkets will single out an item or two to advertise at a decent price (notice that I said “decent”, not “aggressive”), and raise the everyday sticker prices on everything else.

This should make for a long month of July in the beef market. Many times I have waded through July in anticipation of a bottom that seems to take forever to come around, and I don’t know why this year should be any different. Given that the market probably has five weeks to find a bottom, a combined Choice/Select cutout value of $240 per cwt seems within reach. [It was quoted just under $300 on Friday.] You can do the algebra: it would require an average weekly decline of $12 per cwt; last week it lost $17.

There are still a few products on the menu that continue to trade at or near their highs, including ground beef, 50% lean trimmings, and knuckles; I would expect these items to lead the way downward, simply because they appear to have the most room.




Having said all that, the weekly wholesale beef demand index has not fallen off nearly as much as its counterpart on the pork side. As you can see in the chart to the left, I'm guessing that it will decline in earnest over the next two weeks, and then level out through the end of August. If this is combined with weekly steer and heifer kills averaging 515,000 in the three weeks following the holiday, as I am expecting, then the pattern in cutout values will look something like this:



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