CATTLE BUYERS WEEKLY

MARKETING AND BUSINESS NEWS FOR THE BEEF INDUSTRY

May 30, 2022

Market Needs Memorial Day Magic

THE live cattle and wholesale beef markets are hoping that strong retail beef sales over the Memorial Day holiday will give the markets a much-needed boost in June. But the chances of this occurring are less likely than in previous years. Retailers until now have not featured beef as aggressively as expected, given that wholesale beef prices were much lower in May than last year. Feature activity for the week leading up to the holiday (May 30) were again notable for their scarcity and lack of aggressive pricing. Analysts say retailers are continuing to maximize their beef margins and are comfortable with the volume they are selling. Retailers also note that consumers are being increasingly impacted by food inflation and are buying more chicken as a result.

The pressure on wholesale beef prices eased both last week and the week before. The prior week saw the comprehensive boxed beef cutout increase $1.82 per cwt from the prior week. This stopped a four-week slide of $15.61 per cwt. But the average of $259.06 per cwt was still 16.3% below the average of the same week last year. The daily cutouts showed some strength on Monday last week, declined somewhat Tuesday and Wednesday but rose again on Thursday. The Choice cutout the first four days increased $1.80 per cwt to $263.97 per cwt and the Select cutout increased $1.41 per cwt to $244.43 per cwt.

Rebound Will Be Short-Lived

Any rebound in beef cutout values should be short-lived, says Andrew Gottschalk, HedgersEdge.com. Beef demand continues to be an increasing concern as real wages get squeezed by inflation. As an example, he compares current average gasoline prices versus a year ago. Consumers are now spending an additional $529M per day while an additional $283M is being spent per day for diesel. This is shocking but true, he says. Gottschalk says beef features in Denver last week included King Soopers and Safeway ads for Choice T-bones at $5.47 per lb and $5.77 per lb, respectively. King Soopers also had 80% lean ground beef at $2.47 per lb for card holders. Ads on retail fliers in northern California, where CBW is based, were also light. Safeway offered a Choice boneless tri-tip at $3.88 per lb (member price). But the ad was small and at the bottom right of the front page of its flier. Its only other beef ads were burger patties at $7.99 per lb and a Prime boneless New York steak at $16.99 per lb. Both were member prices. Regional chain RaleyÃƒÂ¢Ã¢â€šÂ¬Ã¢â€?Â¢s offered a Choice untrimmed tri-tip at $3.77 per lb and Choice top sirloin steaks at $4.79 per lb. Its 80% lean burgers were offered at $8.99 per lb.

Cash and futures live cattle prices meanwhile move lower for the third week in a row. The 5-area steer average prices the week before last were $140.25 per cwt live and $225.80 per cwt dressed. These were down $2.19 per cwt and $3.02 per cwt, respectively, from the prior week. Prices peaked at the start of May and now look likely to continue to decline into the summer months. The extent of the decline will depend on how strong beef demand is in June and into July and on the size of weekly steer and heifer slaughter.

The week before last saw an estimated slaughter total of 680,000 head, the largest weekly tally of the year. Steer and heifer slaughter was an estimated 534,000 head, also the largest of the year. But last week's slaughter total was much smaller at an estimated 644,000 head and this week will have a holiday-shortened harvest. The cash live cattle trade again developed early last week. Tuesday saw cattle sell up north in a light trade at $138-144 per cwt live or $224-227 per cwt dressed. An active trade down south saw nearly 20,000 head sell at $137 per cwt live, down $1 per cwt from the prior week. Wednesday saw a more active trade up north, with prices averaging $140 per cwt live or $223-224 per cwt dressed. Kansas saw a cleanup trade at $137 per cwt live.

COF Total Remains Record Large

THE number of cattle on feed remains record large for the month for the fourth month in a row. The May 1 total of 11.967M head was up 2.0% or 276,000 head from a year ago and was the highest May 1 inventory since the data series began in 1996. Drought continues to push more cattle into feedlots than expected. Placements in April totaled 1.809M head, down only 0.9% from last year.

They were 2.6% above analysts' average forecast. The futures market appeared to ignore this last Monday as all live cattle contract closed higher. The number of cattle marketed in April totaled 1.893M head, down 2.5% from last year. This was positive as this April had one less slaughter day than April last year.

Regarding placement weights, the under 600 lb category saw 25,000 fewer cattle placed than last year (355,000 head). The 600-699 lb category saw 20,000 more cattle placed (270,000 head). The 700-799 lb category saw 5000 fewer cattle placed (415,000 head), the 800-899 lb category saw 4000 fewer cattle placed (489,000 head), the 900-999 lb category saw 10,000 fewer cattle placed (210,000 head) and the 1000 lbs plus category saw the same number of cattle placed (70,000 head).

Three states, Iowa, Minnesota and South Dakota, had fewer cattle on feed than a year ago. Texas had the most cattle on feed with 2.900M head, with its total up 80,000 head from a year ago. Nebraska was second with 2.650M head, up 120,000 head, and Kansas was third with 2.480M head, up 10,000 head. Five states, Idaho, Iowa, Kansas (down 1.1%), South Dakota and Texas (down 3.7%) placed fewer cattle in April than last year. Only Arizona, Idaho and Kansas (up 3.4%) marketed more cattle in April than last year.

Digging into the report indicates some news that was more positive than at first blush, says David Anderson, Texas A&M University. Noting the one less slaughter day, daily average slaughter and marketings were higher. Cattle were processed at a faster rate, about 2100 head per day more. While April placements were below a year ago for three of the four months this year, it was a relatively large number. For the January-April period, 7.65M head were placed. This is the second largest number, behind only 2019, in the last 20 years, he says. More important, it was the largest number of placements as a percentage of January 1 cattle outside feedlots. So far this year, placements have totaled 30% of the January 1 feeder cattle supplies. This is more evidence of pulling feeder cattle ahead and it implies tighter supplies of feeder cattle as the year goes on, he says. The next COF report will have more evidence of heifers on feed. Given the rate of placements of available feeder cattle, heifers as a percentage of total cattle on feed should remain large, meaning continued herd contraction from the replacement side as well as the cow side, he says.

Alberta Numbers Are Largest Since 2002

The number of cattle on feed in Alberta on May 1 was up 9% year-over-year and was the largest May 1 COF number since 2002. It also appears feeders have work to do on marketing, says analyst Kevin Grier of Kevin Grier and Associates. This is the time of year when the number of cattle on feed 150 days or more typically peaks. This year however has the largest count of cattle on feed over 150 days other than in May 2020. Placements were markedly lower from November 2021 through February 2022, he says. This was after the torrid placement pace of last summer and early fall. Those lower placements gave some cattle feeders hope for tighter availability this summer. However, placements were up sharply again in March and April. This worked to fill up any tightness window that might have existed. All this means that fed cattle numbers are going to remain ample through September at least, he says.

Meanwhile, USDA reports that drought is playing a significant role in the cattle cycle and in feedlot placements. Two years of drought have deteriorated pasture and forage conditions, and the pastureland condition index for 2022 is off to its worst start for the grazing season since the series began in 1995. This is pushing calves into feedlots at a faster pace, which will likely quicken the pace of fed cattle slaughter in 2022. This though will leave fewer supplies of cattle available for slaughter in late 2022 and 2023, says USDA's Economic Research Service (ERS).

Drought Encourages Rapid Culling

Drought conditions and higher operating costs encouraged the rapid culling of beef cows in the first quarter of 2022 to levels not seen in decades, says ERS. April also showed the highest number of beef cows slaughtered for the month since 1996, yet there were over 5M more beef cows on January 1 1996 than on January 1 this year. Subsequently, the outlook weakens for the potential calf crops in 2022 and 2023, further reducing potential cattle placements year-over-year in late 2022 and early 2023, says ERS.

As more calves are placed in feedlots sooner than normally expected due to drought conditions, marketings in 2022 will be pulled forward into the second and third quarters, partially offsetting an expected decline in marketings in late 2022, says ERS. However, its forecast for cow and bull slaughter is higher than last month, more than offsetting the net decline in fed cattle marketings in 2022. As a result, it has raised its forecast for 2022 beef production 132M lbs to 27.8 billion lbs. Based on anticipated tight supplies of cattle, 2023 beef production is projected to decline 6.8% from 2022 to 26.0 billion lbs. It will mark a second year of lower production following the record set in 2021, although the decline from 2021 to 2022 is fractional at this point in the forecast cycle. It will be the lowest production level since 2016. With lower expected beef production contributing to higher expected prices in 2023, aggregate domestic beef disappearance next year is expected to decline almost 7% to the retail equivalent of 55.1 lbs per capita, compared with 59.0 lbs in 2022. This will be its lowest level since 2015, says ERS.

Less Beef Means More Chicken

LESS beef in the next year or so means that chicken demand will continue to boom. Not only will beef continue to sell at retail prices three times higher than chicken, chicken will continue to win out if food inflation continues. One of the largest impacts on poultry so far in 2022 has been the continued increase in demand, which initially saw a big rise in March of 2020 at the outskirts of the COVID-19 pandemic, says Meat+Poultry.

With the lingering impacts of COVID-19, Tyson Foods continues to see consumers enjoying cooking at home, says Bill Creighton, vp of retail sales for Tyson. The affordability and versatility of chicken creates an opportunity for the growth Tyson is experiencing in retail. From a trend perspective, it has seen the premium segment of its business grow faster than the rest of the market. However, given record high inflation, the company expects consumers and foodservice operators to shift to products delivering comfort and value. Chicken, as an affordable, versatile and healthy option, is well-positioned for continued growth in this environment, he says. Both tray pack fresh poultry and fully cooked, including chicken nuggets and strips, have continued to see strong demand coming out of the pandemic. As consumers look for alternative protein options, chicken has been an economical choice over the past year as consumers continue to want convenient at-home options, he says.

Chicken has grown to be a $13.7 billion category at retail and it is still very strong relative to other proteins, according to the latest data from IRI. Even though in the last year, dollar growth flattened by 0.5%, chicken sales are up 14% compared to 2019. Chicken was not all that different from the other proteins during the pandemic, says Chris DuBois, senior vp of protein practice leader for IRI. Protein manufacturers had to deal with so many production issues and overwhelming demand. Over the last 26 four-week periods, meals made at home averaged between 77-83% and IRI believes this percentage will remain elevated.

IRI data also shows that while production issues and supply chain issues hampered everyone, volume basically remains elevated for meat compared to 2019. Consumers have learned to cook and their meat purchase routines have changed. Most Americans are buying a broader assortment of meat cuts than they did prior to the pandemic. Cooking skills are improving and comfort with different cuts and proteins has increased, says DuBois. Chicken breast is still the biggest seller at 58% of total chicken sales but wings and boneless thighs continue to steal the show, IRI data shows. Wings are up again almost 14% to $1.4 billion and that is just in retail. They are also up in foodservice, he says.

Tyson Goes To All No Antibiotics

In response to some notable trends happening in the marketplace, Tyson says it has moved all of its Tyson-branded retail production to No Antibiotics Ever (NAE) and now offers Smart Chicken products with attributes such as Air Chilled and Organic. Across new products and innovations, the Tyson brand has launched on-trend products across both fresh and fully cooked. These products include its Tyson Slow Cooker and Instant Pot Meal Kits and Tyson Air Fried chicken nuggets, strips, and bites, says Creighton.

To help fill the demands experienced by its customers, Tyson Foods is investing in additional capacity, including a new $425M fresh chicken plant in Humboldt, Tenn., and a new $300M fully cooked plant in Danville, Va. The company has also invested aggressively in deboning and labeling automation to help get more nutritious protein on the plates for consumers even more quickly, it says.

As for the best-selling chicken products., boneless thighs have also had strong growth, says IRI. While they are a little smaller than wings in size, boneless thighs have become a must-have category in almost every supermarket. The rise of dark meat has been a huge multi-year trend. The American chicken industry was built on boneless, skinless chicken breasts and dark meat was largely an afterthought. But for the last three or four years, dark meat has been growing much faster than white meat and it might be one of the most important changes across the meat case, says IRI's DuBois. While chicken sales have been relatively flat overall, if a processor is selling organic or NAE chicken, then they likely had a great growth last year. These two types of chicken are leading the growth in chicken sales, he says.

Faux Meat Sales Splutter

SALES of plant-based meat alternatives are spluttering after exploding on to the food scene a few years ago. Manufacturers of these products promised an eventual end to factory farming and a better-for-you and save-the-planet health halo, says Meat+Poultry. Major retailers and foodservice operators added plant-based burgers, sausages, crumbles and other formats to satisfy consumer demand. Consumers bought into the message of plant-based meat alternatives, which was: all of the flavor, texture and nutritional benefits of animal proteins without killing animals.

Total store plant-based meat alternative sales were $760M in 2019, representing an 11.8% growth over the prior year. That is according to the 2022 Power of Meat study presented by Anne-Marie Roerink, principal of 210 Analytics, during a webinar hosted by the North American Meat Institute and FMI-The Food Industry Assn and sponsored by Sealed Air. But the engine driving growth in sales of plant-based meat alternatives seems to have spluttered. The Power of Meat study revealed that plant-based meat alternatives remain mostly an occasional choice, with only 9% of respondents eating them weekly. Meat eaters also prepare plant-based meat alternatives but less often.

Refrigerated and frozen plant-based meat alternative sales hit a plateau in the second quarter of 2021 and started decreasing in the third and fourth quarters, with fewer trips (minus 3.6%) and lower spend per trip (minus 1.1%), the study said, citing data from IRI. Roerink noted that meat department sales were close to $82 billion in 2021, compared with roughly $500M in sales of refrigerated meat alternatives. "We have gotten used to those double- and triple digit growth rates," she said. "But what we saw throughout 2021 was a decline, a deceleration of those growth rates and they actually started to go negative as of the third quarter of 2021." IRI saw an additional 28% in the number of items the year before, whereas 2021 only benefited from about a 5% increase in items. Plant-based meats also did not have the inflation that occurred on the conventional meat side and a much greater share of plant-based items was sold on promotion. These are some of the reasons why IRI is starting to see a deceleration, if not a decrease, in growth rates year over year, she said.

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