The Weekly Beef Episode May

Market Facts:
Kill – Last week 625,000 head slaughtered /This week prediction 630,000

General Beef Market Notes – The protein market has been a roller coaster over the past year with more extreme highs than lows. In the past 30-45 days set historical figures have been set that have baffled most analysts. There are many factors that have put this beef market in this position and the reference "perfect storm" applies.
#1 – Covid snapback – the most obvious and blanket factor. We all knew that the country would eventually open and the stir-crazed masses would bust out of their houses and flood our industry but planning for this comes with a lot of unknowns to plan for. Covid is responsible of starting and driving all the other factors that have overwhelmed supply, ballooned demand, and increased all our protein prices. The 3rd covid stimulus check that was signed into law on March 15th had a great impact on most beef items, as we saw increases on most beef cuts start on March 21st and they haven't stopped increasing since.
#2 – Labor – There is not an industry in the country that is not affected by the labor issues currently. There are simply not enough workers willing to work to handle demand, and this is deeply impacting the foodservice industry, meat plants, further processing plants, transportation…we could go on and on with naming positions that are affected, it's simply everything. In the beef plants, they have enough labor to keep the plants open and processing, but not enough to achieve the slaughter level that we need to match supply to current demand.
#3 – Beef Supply and Demand – The number of cattle slaughtered each week is one of the main figures to monitor, because it directly impacts the supply to demand ratio. To meet current demand levels, we need the beef industry to get up to the 670,000-680,000 head kill range and maintain. One issue that we've had over the past 6 weeks is that the beef packing plants have fallen short slaughtering enough cattle each week. Labor, winter weather, and scheduled plant maintenance have been just a few of the reasons why kills have been lagging. A few packers have indicated that they were caught off guard with the demand surge at the end of end March and into April. This caused the scheduled maintenance to interfere with the production level that the market needed. In order to see a market correction, we believe we would need 3 to 4 weeks of 670K-680K head killed to get this market back in line. This would not solve all the issues, but it would be very favorable for the food service industry if this were to happen. A demand retraction would also send the market downward. Given these two scenarios, "more kills" is more likely to occur under the current market conditions.

#4 – <u>Retail vs Food Service market share</u> – Last year when Covid shuttered restaurants and retail stepped up to feed the country, the market share shifted into their favor. Slowly, as we reopen, this market share is creeping back into the food service arena. Retail is not willing to give up market share without a fight. We are amidst a string of holidays that each will battle for foot traffic and traditions will be challenged as to whether it's a food service holiday or retail holiday. Retail has also been very aggressive to buy red meat at any cost and bury the losses into the rest of the consumer spend. Retail seems to be more concerned with assured supply, rather than price.

#5 – <u>Corn prices</u> –This country runs off corn and other countries run off corn, and with other countries failing in the production of corn, it has pushed the price of our corn to an 8-year high and growing. US Farmers are planting like crazy right now to try to take advantage of these favorable market conditions at harvest. They are slightly behind last year in planting but are catching up quickly. Demand is much higher than expected and China demand should be strong into the fall. With higher corn prices comes higher feed prices and it all gets passed down the line from what the packers pay for the animal to what it costs to serve it on a plate. This will not just affect beef, all proteins will feel this as corn is such a large driver in animal diets.

#6 – <u>Consumer Spending</u> – Consumers are out in masses and spending on goods and services. Personal income is up 20% and personal spending is up 5%. A chunk of this spending is being deposited into food service and the inflation in prices hasn't stopped the spending. All industries are adjusting menus and ads to capture the additional spending to stay profitable.

<u>Grade:</u> Select has surpassed Prime for the first time in many weeks.

Prime – 11.91%
Choice – 72.42%
Select – 12.41%
Other – 3.26%

<u>Key sub-primal:</u>

Briskets –The brisket season started early this year with a quick run up that started March 21st. Food service ran into large retail ads and pricing jumped $1.30 in a month with the hot demand. Traditionally briskets are a hot item for the Memorial Day time period, so demand will strong at least until that has passed. Pricing should start to decline in June and into July, but to what degree we are not sure.

Chuck Rolls – After a strong start to the calendar year, the chuck roll decreased in value to end March. Over the past couple of weeks, it regained some value due to grinding and export interest, but not to the level we saw to start 2021. This market should remain rather stable over the next 30 days and decline in July. It may be some time before we see a USDA Choice or Select chuck roll be valued less than $3/lb.

CAB Lipon Ribeye – Demand is incredibly strong for premium ribeye's. This market has surpassed the extreme lows from Spring of 2020 (5/10/2020) and is nearing the records that were set for the holidays in 2020 (12/6/2020). It doesn't feel like we're done with the increases yet. Premium ribeye will continue to grow in value until we surpass Father's Day. Demand will continue to be strong through 2021.

Choice Lipon ribeye – Same story as above with the CAB rib eyes, but these should start to decline a little sooner in June and the value will slide more dramatically. Demand will stay strong though for 2021 and the spread will be more significant between heavy and light Choice Lipons.

Choice or higher Strips –Strips have been slowly increasing each week since March 21st. They have flown under the radar due to being overshadowed by other middle meats, mainly the ribeye and the tenderloin. Pricing will continue to increase into grilling season due short loin and bone in strip ads at retail. They should start a slow decline through the Summer and into the Fall.
Tenders – We are a week away from breaking the all-time record for Choice tender pricing of $14.30 set in November 2019… Remember that one? The Tyson plant fire disaster of 2019 has been overshadowed by Covid. Tender demand is off the charts for the weeks leading up to Mother's Day. Typically, prices would decline post Mother's Day, but EXTREME bookings for short loins for Memorial Day will chew up the USDA Choice tender availability the back half of May. They should decline as we enter mid-June and slide until the Fall. As for the pricing in the near term, I've heard many restaurants that are going to remove beef filets off their menu after Mother's Day, and I can't blame them at these current levels.
Top Sirloin Butts – These have been steadily increasing since March 15th and up $1+ since that time. These are a heavy feature for food service for Mother's Day and a feature for retail for Memorial Day, so once we surpass these two events, we'll see some price relief.
Ball Tips – Ball tips are on fire and are up $1.80/lb since March 21st. They continue to climb through May at least. Further processing, food service, retail and grinders are all using this cut, so that is why it has increased in such a sharp upward trend.
Sirloin Flap/Outside Skirts – We have seen HUGE jumps in pricing due to very strong demand from food service and retail since Mid-March. Records are being set for all grades of both cuts, and I don't see this trend changing prior to July. I would suggest testing alternatives at this price level. Pectoral, rib lifter, flank, etc…all these alternatives are higher currently than normal but still many dollars below the value of sirloin flap and skirts.
Flank – Huge spike in demand and pricing since March 21st with pricing up $1.20 since that time. We should be near the top of this market for these and then pricing will level out for a few weeks before declining.
Inside Rounds – As many of the items above these have also been steadily climbing since March 21st and have increased $.45/lb since then. Supply remains somewhat tight not as bad as other cuts, we should be near the top of this market in the next 30 days and slow decline will follow into the summer.
Knuckles – Surprise! These have been increasing each week since March 21st, but only up $.30/lb since that time period and pales in comparison to many of the other cuts above. Knuckles have been finding their way into the grinder as whole knuckles to produce ground sirloin partnered with an uptick in food service business. We should start to see a decline in pricing in late June or July.
Grinds - Ground beef is definitely the best value on the animal when compared to the rest of the cuts. They have been slowly increasing since March 28th, up $.25 since that date. They will increase into Impendence Day but should remain a value.

.