

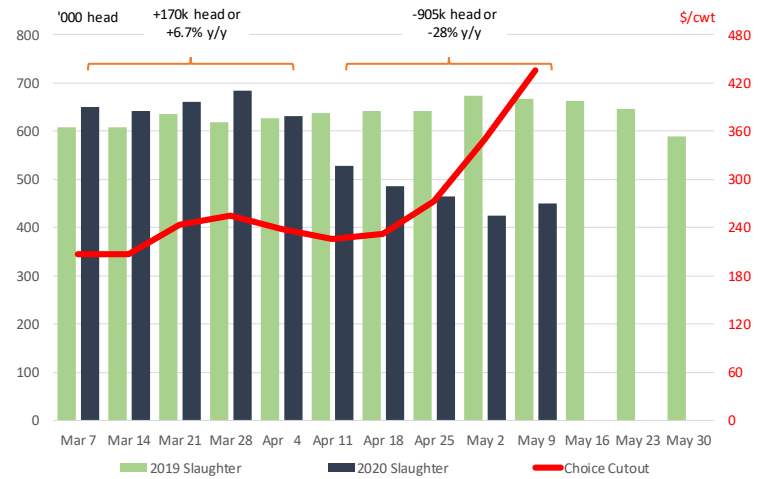
**Short term meat demand can be relatively inelastic and the recent spike in the price of beef and pork is a good reminder of that fact.**

What's inelastic demand? Say you live in an area with only one gas station in a 30 mile area, you work about 20 minutes away and you are expected to show up for work everyday. The price of gas goes from \$2.50 a gallon to \$5.00 a gallon. Economic theory would say that you buy less the higher the price - for a given level of demand. But you need to go to work every day so you bite the bullet and fill up the tank. In the short term your demand is very inelastic. In the long run, if the price of gas stays high you may decide the extra cost justifies you buying a more fuel efficient vehicle, or carpooling with a few buddies or finding work closer to where you live. Now imagine a burger restaurant owner that suddenly gets a price sheet from the distributor, with the price of ground beef double what it was just a month ago. In the short term the choice is to either send everybody home or tell the distributor you will pay the higher price and hope prices settle down. Similarly, a grocery store knows that the only beef item that many customers can afford is ground beef. Running out of ground beef is not an option so you bite the bullet and pay up, at least in the near term. Prices will have to eventually move higher but you can't just double the price overnight. In the short term, you want to make sure you get the deliveries and then worry about the price later. Further complicating things is the fact that large users (be this retailers, processors or foodservice operators) buy on some type of formula. **There is a built in inertia in the system which in the short term makes for a very inelastic demand.**

**Last week, beef production was estimated at 347 million pounds, 218 million pounds or 38.6% lower than what it was at the end of March and 35% lower than a year ago. Pork production for the week was 332 million pounds, 265 million pounds or 44% lower than the last week of March.** The decline in supply has been particularly sharp and sudden, leaving many market participants caught short. This is as much a short covering rally as anything we have seen in recent years. Best comparison that comes to mind is the big jump in the value of the cutout in late spring 2017. In any given week packers have a portion of the supply already committed. This includes product that was sold on a forward basis at some point in the past as well as product that was committed on some type of formula off the quoted USDA market. The decline in supply has been so dramatic that the supply left to trade in the spot market has been minimal. The volume of ground beef traded in the spot market last week was only 71 loads, 36% lower than a year ago. The volume of select beef loads was down 49% and volume of trimming loads was down 37% from a year ago. The number of choice loads was down only 5%, we suspect in part because we are harvesting more choice beef but also because there is still some residual product that would have normally moved into foodservice that's traded spot. The last few days the beef and pork product markets have turned into an auction, with the highest bid getting

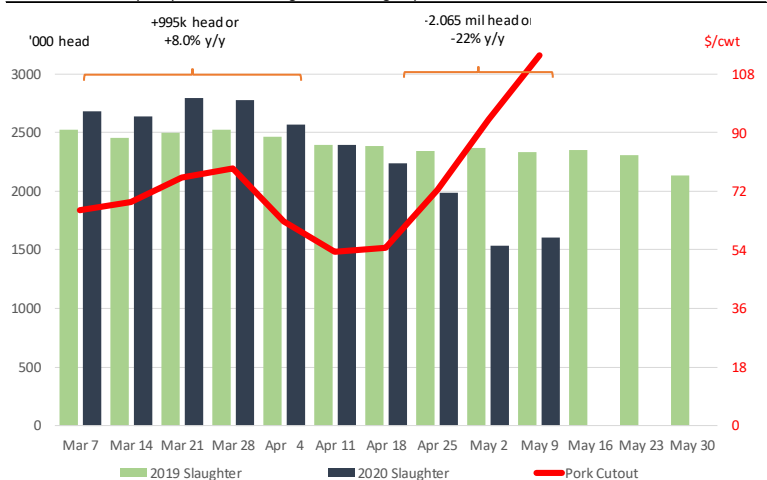
**Weekly Cattle Slaughter, '000 Head. Fed and Non Fed Sltr. And Choice Beef Cutout**

Source: USDA. Analysis by Steiner Consulting. Week ending May 9 is an Estimate

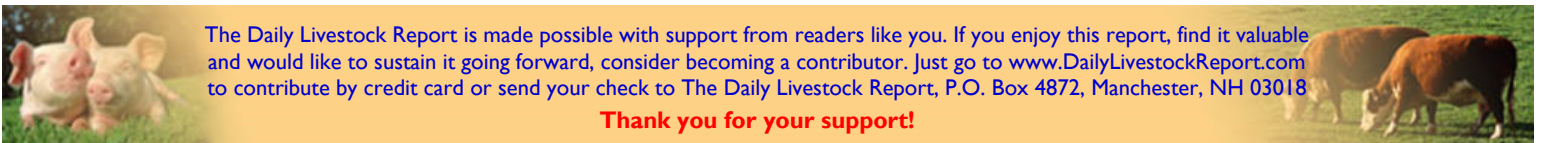


**Weekly Hog Slaughter, '000 Head. vs. Weekly Pork Cutout**

Source: USDA. Analysis by Steiner Consulting. Week ending May 9 is an Estimate



the few loads available. Pork belly prices a few weeks ago were trading in the 30s. Now they are approaching \$200. As the charts above illustrate, it is the dramatic shift in supply and short term inelastic demand that is driving the spike in price. There is no shortage of animals on the farm but **the speed with which we are able to recover processing capacity will be critical in price trends for this summer.** The risk for the market is that current prices may start to ration out demand at a time when slaughter starts to pick up, resulting in more volatility.



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