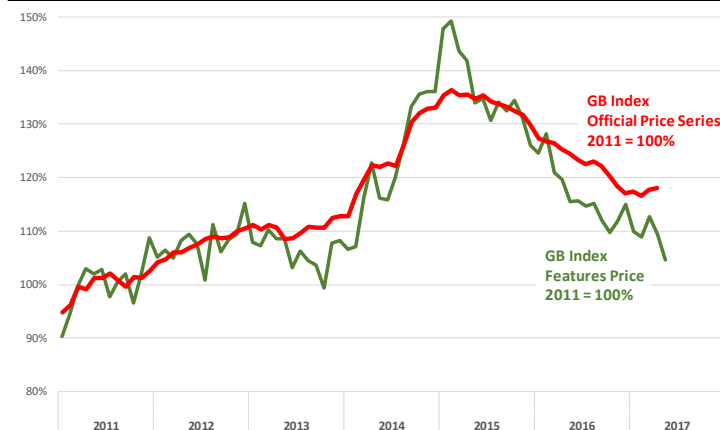


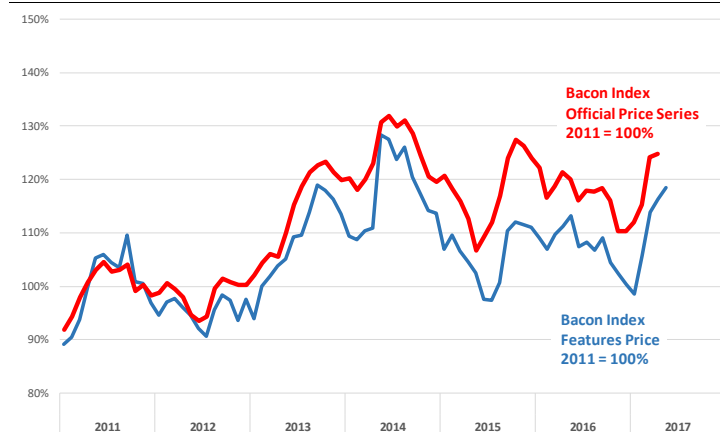
One of the lines of argument for beef prices moving lower in the coming weeks has to do with the fact that buyers appear to have moved to the sidelines and have significantly reduced their forward purchases. This was evident in the last USDA comprehensive cutout report. **Beef sales for delivery 22-60 days out were down 20% from the average in the previous four weeks while sales for delivery 61-90 days out were down 78%.** For those not familiar with these data, here's an example. USDA reported that packers sold just 40 loads of beef that will deliver 61-90 days forward, basically July through September. In the previous four weeks, sales of product for delivery 61-90 days out averaged 184 loads/week, hence the 78% decline. Does this mean that beef prices will collapse as packers suddenly find that they will have to sell more beef in the spot market? Maybe but that is far from guaranteed. In the end, what will cause the quantity demanded to decline is not what buyers but what the consumers do. A buyer that needs two loads a week and opts to buy just one because prices are high does not really affect demand. That buyer now has three loads to buy the following week and there is only so long one can rely on inventories or forward bookings. The hope (guessing) in the market at this time is that the retailer will increase prices quickly enough to cause consumers to change their purchasing behavior. We saw this at play earlier this year when retail bacon features caused significant shortages in the spot market but which were quickly alleviated once retail prices reset and consumers curtailed how much bacon they were taking from the meat case.

And this brings us to the topic of retail prices and how quickly they will have to adjust in order to affect wholesale and live values. USDA updated at the end of last week its monthly retail price series based on data from the Bureau of Labor Statistics (inflation data). **The average price of beef at retail in April was reported at \$5.93/lb, 0.5% higher than the previous month but 2.8% lower than the previous year.** The choice beef cutout in April was 2.5% lower than a year ago. One item that has really exploded in price at the wholesale level is 50CL beef, with prices for fresh product over \$2/lb. This for an item that last December packers could not give away and was trading in the low 30 cents, near rendering value. What happened? The official average ground beef price in April was pegged at \$4.08/lb., 5.8% lower than a year ago. The first chart above shows an indexed value of ground beef prices. This is nothing but a fancy way of saying that we are comparing current prices to a set period a while back. In this case the set period is 2011 average. The average price of ground beef set then was \$3.46/lb. Compared to that level, the April ground beef price was about 18% higher. The problem is that retailers may feature ground beef at less money and studies have shown that when you put product in features it tends to sell more volume. According to the USDA weekly beef retail features report, **the average price of 80-89% ground beef in**

GROUND BEEF PRICE INDEX USING OFFICIAL MONTHLY BLS DATA AND USDA WEEKLY BEEF FEATURES PRICE INDEX CONSTRUCTED USING 2011 AVERAGE = 100%. BEEF FEATURE PRICE IS FOR 80-89% GROUND BEEF.



BACON PRICE INDEX USING OFFICIAL MONTHLY BLS DATA AND USDA WEEKLY BACON FEATURES PRICE INDEX CONSTRUCTED USING 2011 AVERAGE = 100%. BACON FEATURE PRICE IS FOR SLICED BACON



the first two weeks of May was \$3.12 a pound, down about 9% from a year ago and just 5% higher than the 2011 average. In other words, consumers today are looking at prices in ground beef features that are up just 5% from where they were in 2011, well below the rate of inflation during this period. Sales much be great. Add to this the sharp reduction in fat trim availability due to lower steer weights and there is very little fat trim floating around in the spot market these days. The second chart shows a similar comparison for bacon. Note the sharp decline in bacon feature prices in Q4 of last year. The decline was even bigger than the official numbers suggested. Following record Q1 prices, prices quickly rebounded in March and April. It should be interesting to see how quickly retailers respond to current beef market signals. Thanks to the timely USDA reports, the data is there for those that want to see it.

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