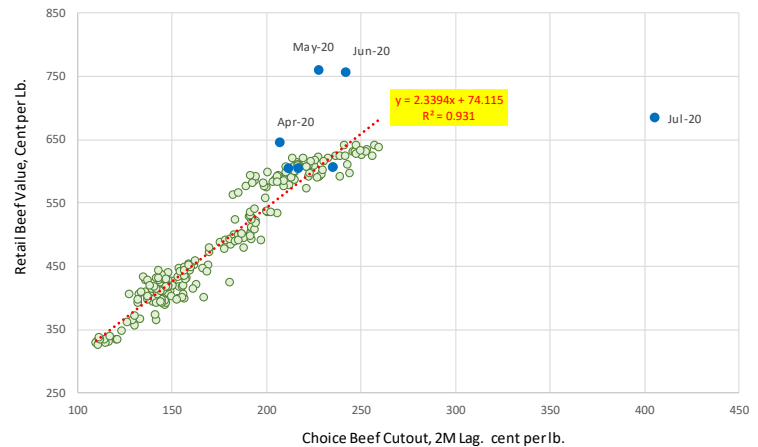


Retail beef and pork prices were lower in July compared to June levels but they remain well above year ago levels. COVID disruptions have had a significant impact on merchandising of meat product at retail, in part **due to the lags in price transmission. While product usually leaves the packing plant and in a few days it is in the retail meat case, pricing of that product is done well ahead of time.** The disruptions in supply and demand this spring were unprecedented so using the normal price relationships does not work. However, as everyone works towards normalizing the situation, understanding long run price relationships helps as a guide for expectations. In July, the average price of beef at retail was pegged at \$6.838 per pound, 9.5% lower than the previous year but still some **11.2% higher than the previous year.** The average choice beef cutout in July was \$2.027 per pound, down 15.3% compared to the previous month and 5.6% lower than the previous year. That would seem like a big discrepancy unless one accepts the delayed price relay mechanism. The chart to the right tries to illustrate the relationship between wholesale beef prices and beef prices at retail but it lags the wholesale price by two months. In other words, the retail price in March is matched up with the retail price in January, April with February and so on. For the period 2002 through 2019 that model seemed to work pretty well although it was never perfect. The R² was 0.93, suggesting a very strong relationship between lagged wholesale beef prices and retail values. **That relationship went haywire this spring, however, as strong demand induced by COVID disruptions at foodservice and the supply shortfall forced retailers to make some dramatic adjustments to retail prices.** In May and June retail prices jumped to over \$7.50 per pound even as they probably had product booked in March and April at reasonable levels. Part of this was due to the fact that even though you may have booked product, if packers did not have the supply then tough luck, it was an Act of God and they could not deliver. Higher beef prices were thus required at retail in order to ration out demand, which is what happened. Wholesale beef prices in May jumped over \$4 per pound, which likely caused some retailers to book beef at levels where they could arguably make no margin. Again, the \$4 wholesale price and \$6.8 retail July price are well outside of what we have seen in the last +15 years. But as the industry starts to slowly return to normal, we should expect retail beef prices to start to decline. If we were to apply the long run model to the latest wholesale prices, one would expect August retail beef values to be around \$641, which would be about 5.5% higher than a year ago but more in line with where June beef prices were trading. July wholesale beef prices would suggest even lower retail prices. **As retailers lower prices, especially via features and promotions, this should continue to underpin better beef sales movement through retail into the fall.**

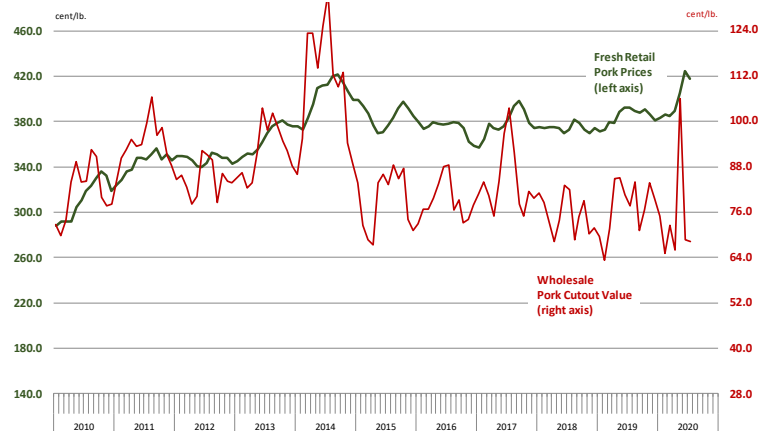
Retail **prices for other proteins were lower as well in July although they remain above year ago levels.** The average pork retail prices in July was pegged at \$4.179 per pound, 1.6% lower than in June but 6.4% higher than a year ago. The composite chicken

Choice Beef Cutout (Lagged 2Months) vs. Retail Beef Value 2002-2019 + 2020
Data Sources: Cutout from USDA MPR System. Retail Value Calculated by USDA/ERS



Retail Pork Prices vs. Wholesale Pork Cutout

Data Source: USDA Monthly Retail Price Series, USDA Mandatory Price Reporting System & Steiner Consulting



price in July was \$2.032 per pound, 2.2% lower than in June but 8.5% higher than a year ago. Prices for individual items at retail show greater variability, reflecting in part demand considerations but also the ability to still get supply delivered. For instance, ground chuck prices at retail in July were 11% lower than the previous month but still 18% higher than a year ago. Lean and extra lean prices, on the other hand, only declined 4% from last year but because they did not go up as much, they were only 11% higher than a year ago. The average price of various steak offerings at retail was pegged at \$8.7 per pound, 9% lower than in June but 13% higher than last year. The average price of pork chops was still around \$3.91 per pound, 7% lower than in June but 15% higher than year ago. One would expect (hope) that retailers will adjust pork chop prices lower given the ample supply expected. If there is anything that the second chart above shows, it is that **the relationship between wholesale pork values and retail pork prices shifted following PEDv in 2014.** Could we see a similar shift for all proteins after the COVID shock this year?

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