Daily Livestock Report

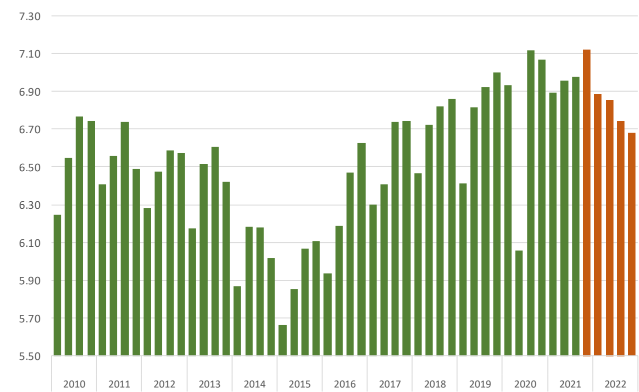
Sponsored in part by CME Group

Vol. 20, No. 8 / January 13, 2022

There's a lot of debate at the moment about the pace of meat protein price inflation and the outlook for 2022. We hope the chart to the right offers some perspective. **<u>While wholesale beef prices saw sharp gains during 2021, this was not exactly due to a shortfall in beef production</u>**. True packers bumped up against labor issues but beef production during all of last year was near all time record levels. The latest USDA report pegs commercial beef production for 2021 at 27.693 billion pounds, 519 million pounds or 1.9% higher than in 2020 and 538 million pounds or 2% higher than in 2019. US beef production in 2021 was an all time record high despite all the production challenges faced. We would argue that domestic and export demand far outpaced the ability of US processors to meet it. And this is a story that's not unique only to meat protein but something we are seeing across various industries. While the tendency in the last 12 months has been to blame rising inflation on supply chain issues, the shift in demand, supported by the flood of cash injected in the system, has not received as much attention. Will demand cool off in 2022 and thus help moderate beef prices? The general expectation is that that will be the case, in part because some of the fiscal support (trillions of dollars) that flooded the system last year will not be there. On the other hand, the US economy is expected to expand by 3.5% to 4% in 2022, which remains bullish for demand overall. The wage/price spiral is also something that bears watching. At this point the FED is signaling that it intends to fight inflation more vigorously but 2022 is also an election year and this will be a test of the its (FED's) political independence. What appears assured, however, is that US beef supplies will not be as abundant as they were in 2021. USDA is currently forecasting beef output to steady decline this year, with the biggest drop expected in the second half of 2022. USDA did revised its production forecast for this year up, increasing it by about 165 million pounds vs. the forecast presented in December. Most of the increase was for Q2, which was revised up by 125 million pounds or 1.9% vs. the previous month's forecast. USDA made no changes to its estimates for beef exports in 2022, still forecasting beef exports to decline 185 million pounds or 5.4% compared to 2021. However, with a number of key exporting countries either not having the supply or restricting exports, this forecast may prove to be hard to achieve. Chinese beef demand will be key here, especially considering that USDA still expects Chinese beef imports to increase in 2022. Without Australia and Argentina, we struggle to understand how China will be able to expand its beef purchases this year, unless of course they continue to source more product from the US.

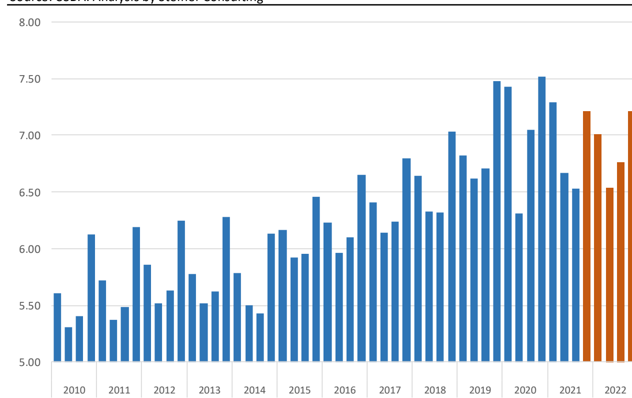
Quarterly Beef Production. Billion Pounds. Carcass Wt. Basis

Source: USDA. Analysis by Steiner Consulting



Quarterly Pork Production. Billion Pounds. Carcass Wt. Basis

Source: USDA. Analysis by Steiner Consulting



<u>USDA currently expects commercial pork production in 2022 to be 27.515 billion pounds, a number that is 80 million pounds lower than the forecast presented in December and 178 million pounds or 0.6% lower than in 2021</u>. Why is it that futures are currently pegging hog prices to be lower in 2022 than in 2021 even as pork production will decline? Much of it has to do with expectations about domestic and especially export demand. USDA lowered pork export forecasts for 2022 by more than 400 million, a recognition of lower Chinese export demand. Still, per capita availability/consumption in 2022 is expected to be 51 pounds per person compared to 51.1 pounds in 2021. And yet the forecast is for hog prices to be down 10% and futures are pricing a 6% decline. This would suggest that market (and USDA) are expecting demand to decline in 2022.

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