

Iowa Farm Outlook

Department of Economics
Ames, Iowa

December 2019

Econ. Info. 2116

Holiday Beef Roasts Face Competition

Despite plentiful beef supplies, retail supermarket beef features have been underwhelming in 2019. Many of the current questions surrounding U.S. beef production pertain to growing foreign demand for U.S. beef products.

But remember that domestic retail demand remains the largest share of U.S. beef consumption. Higher U.S. beef prices appear to be somewhat rationing domestic beef demand, but overall demand remains steady. Competition is also fierce in the meat case as U.S. red meat and poultry production is at record levels. Retailers have a bevy of proteins to pick from and feature into the holidays, which means consumers have many choices.

USDA's Agricultural Marketing Service publishes a weekly retail feature activity report for beef. This report provides a summary of weighted average prices for beef cuts being promoted or featured in supermarkets. AMS gathers information from publicly available sources that primarily include retailer websites. The activity index is a measure of the absolute frequency of feature activity equal to the total number of stores for each advertised beef item. For example, a retailer with 100 outlets featuring 3 beef items has an activity index of 300.

Holiday beef roast marketing

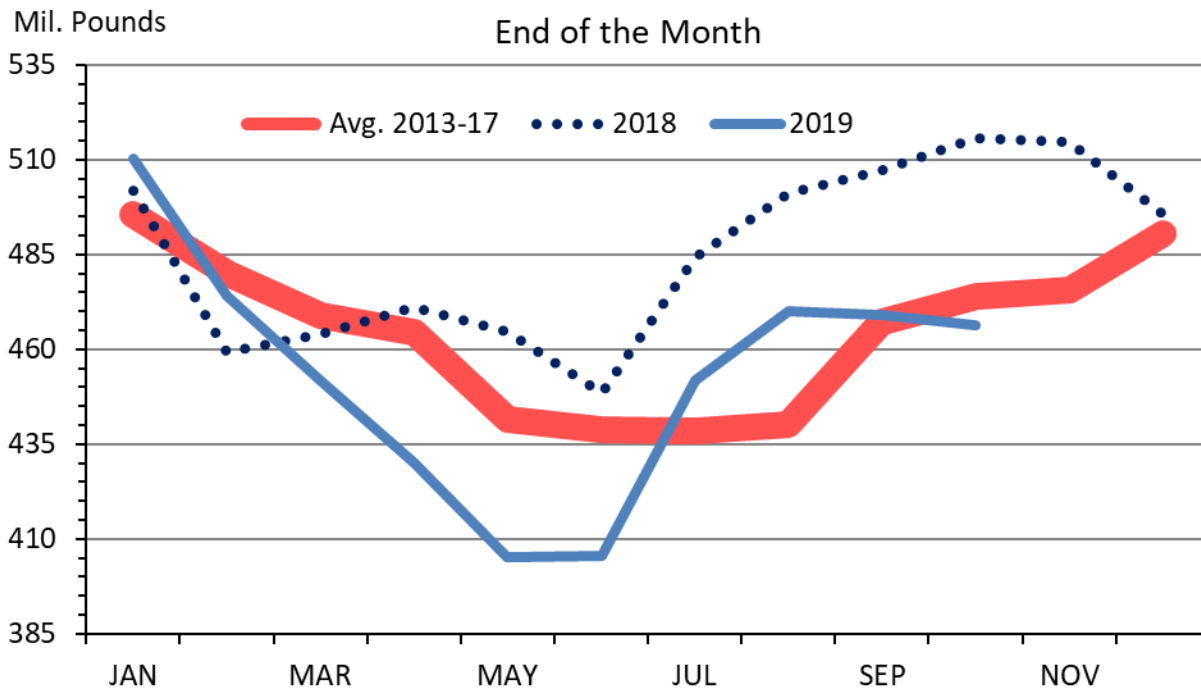
The retail beef feature activity index tends to spike during major holiday times of the year. Steak and grind features occur during the summer grilling season including the holidays Memorial Day, Fourth of July, and Labor Day. Roasts are a big part of fall and winter holiday features. This year has seen a similar pattern of holiday features, but beef feature levels have fallen short of both year ago and five-year average levels. Through mid-November, the volume of beef retail features averaged 8% lower than a year ago and 6% lower than the five-year average before that.

Seasonal meat offerings are expected to fill weekly feature advertisements in preparation for the upcoming holidays. According to USDA's Agricultural Marketing Service Livestock and Poultry Program, Agricultural Analytics Division, starting in October and increasing through Thanksgiving, demand for beef roasts reaches its peak at Christmas. While beef roasts of all types enjoy increased consumer demand throughout this period, it is middle meats, cuts from the rib and loin, which are in most demand in December. It is rib roasts that really dominate. In 2017, 61% of annual rib roast marketings occurred in November-December, 40% in December alone. Not surprising that standing (bone-in) beef rib roast has come to be known as the "Christmas" roast.

By the time October arrives, processors are building their stocks of middle meats in sufficient volume to meet the anticipated holiday demand. According to USDA's National Agricultural Statistics Service Cold Storage report, September saw a significant drawdown in beef inventories, likely in large part due to reasonably strong demand in export markets. September beef exports were essentially even with last year. Through the first three quarters of the year, beef exports were 2% below last year's record pace in both volume and value.

Beef in cold storage inventory (Figure 1) is tracked by two categories, boneless beef and beef cuts, which provide little information of what products are really in cold storage. Boneless beef represents over 90% of the beef in cold storage. Total boneless beef inventories at the end of September were 8% lower than a year ago while beef cuts in cold storage were 23% lower than last year. Beef cuts in cold storage are 12% lower than the five-year average. Beef prices have been supported by the tight supply of beef in the freezer. The expectation is for prices to strengthen going into Christmas as end users draw from whittled down inventories and exports remain strong.

FIGURE 1. BEEF IN COLD STORAGE



Data Source: USDA-NASS.

The rib primal, reported in the comprehensive boxed beef cutout, for the week ending November 29th was \$400.23/cwt, up over \$35/cwt or 10% higher from the beginning of September. Wholesale rib values are up \$11/cwt or 3% from last year. Consumers who choose to wait or look for good deals, will likely find some good prices. This is because of retail features, which could be price discounts or non-price promotions such as buy one, get one free.

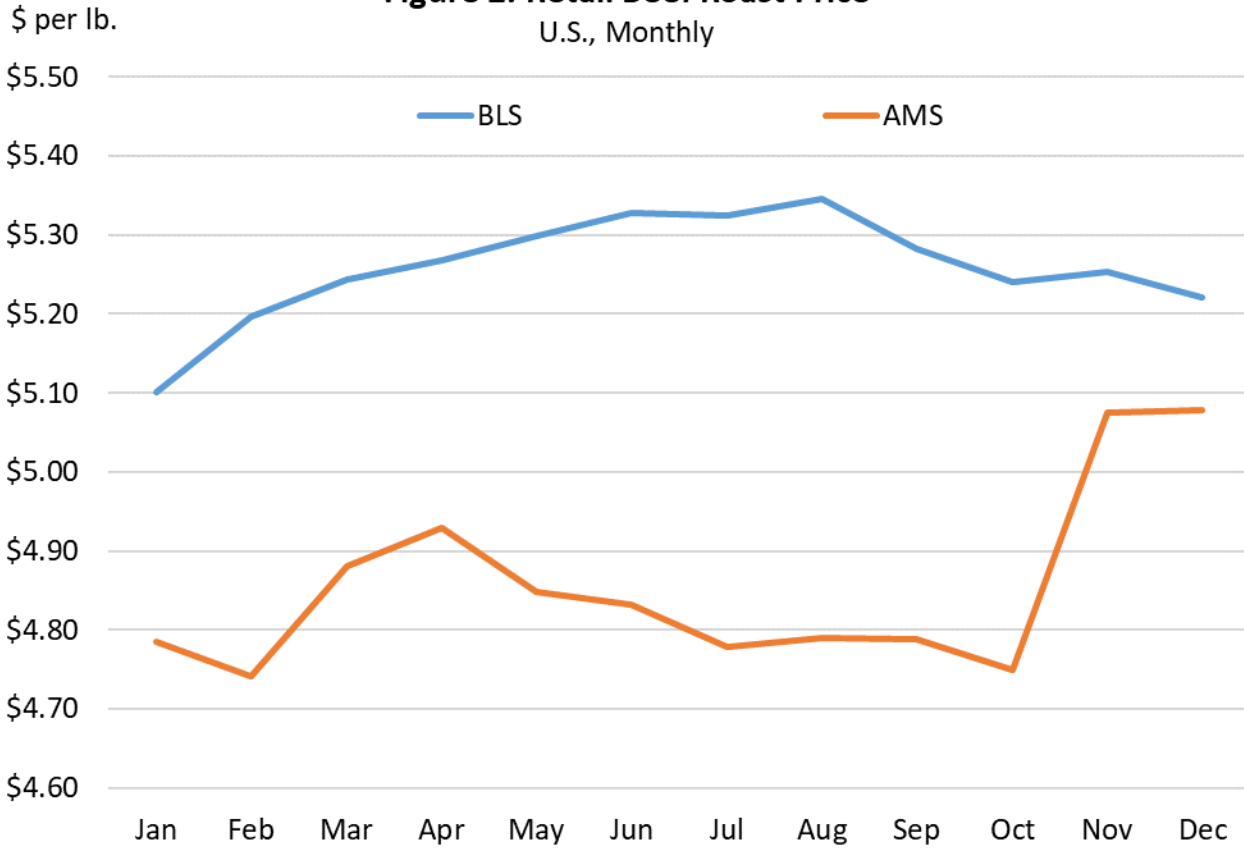
Which data you use matters

The Bureau of Labor Statistics collects a limited number of meat and poultry prices at retail establishments to calculate the Consumer Price Index. For beef roasts, this is a price for all uncooked beef roasts. The main knock regarding BLS reported meat prices is that BLS data do not fully capture the effect of retail promotions. Apparently retailers are often very reluctant to change stickers but, during certain times they run special promotions, either offering discounts or buy one, get one free deals. The promotional impact shows up in the USDA Agricultural Marketing Service weekly retail feature data. From 2012 through 2018 the average difference between the BLS and AMS data for beef roasts was \$0.40 per pound with the largest discounts in the summer and the smallest discounts in November-December (Figure 2). Another way to interpret the data is the average promotional price discount is about 40 cents per pound.

Consumers can find beef roasts in the retail meat case throughout the year in a variety of cuts. However, marketing of roasts is concentrated each year around the Christmas marketing season. In addition, featuring, and prices, appear to be most volatile for bone-in and boneless ribeye roasts and boneless sirloin roasts (Figure 3). November boneless sirloin prices ran \$0.97 per pound higher than November 2018, while bone-in ribeye roast prices were \$1.06 per pound higher than last year. Boneless ribeye roast prices were \$0.13 per pound lower. It is not unusual for beef roast prices to soften in late December and January as seasonal demand wanes once holiday purchases are completed, and end users work down inventories.

Figure 2. Retail Beef Roast Price

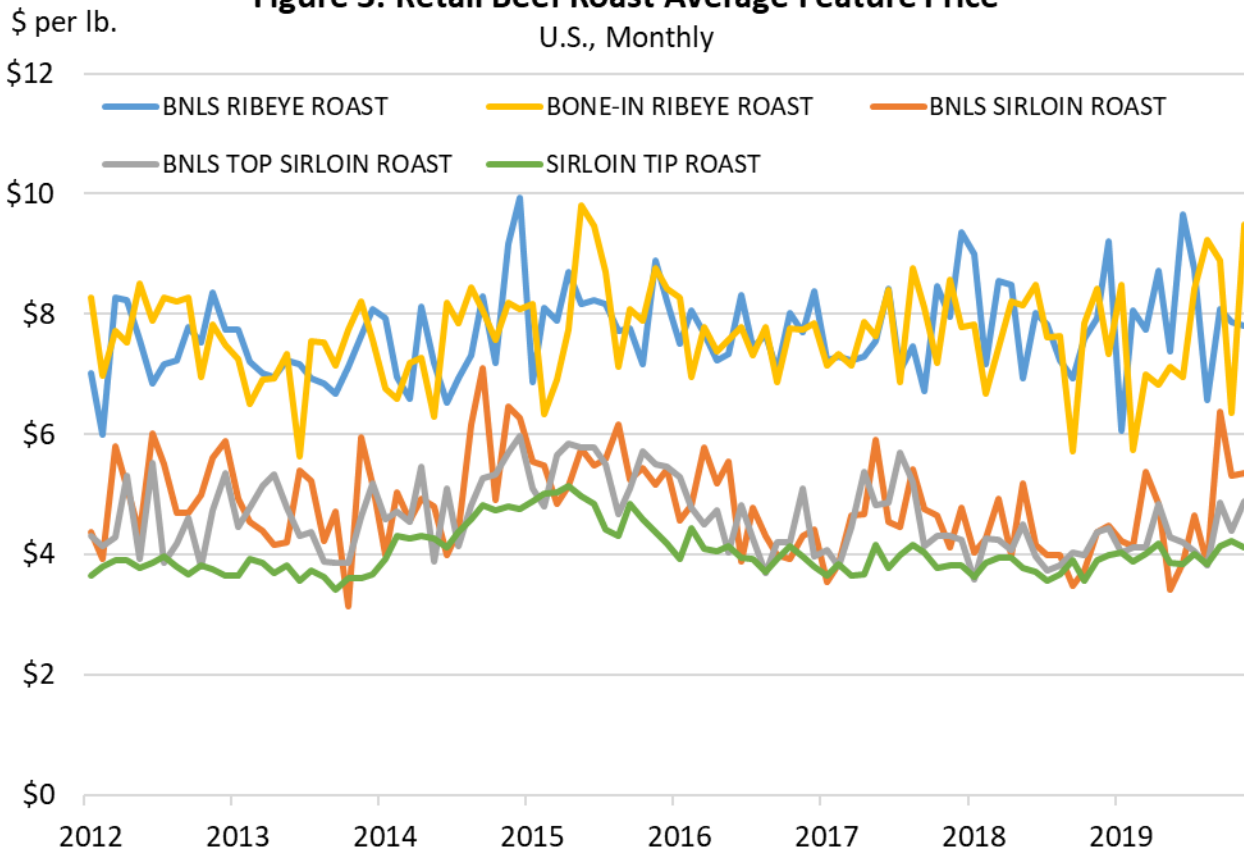
U.S., Monthly



Data Source: Bureau of Labor Statistics and USDA's Agricultural Marketing Service.

Figure 3. Retail Beef Roast Average Feature Price

U.S., Monthly



Data Source: USDA's Agricultural Marketing Service.

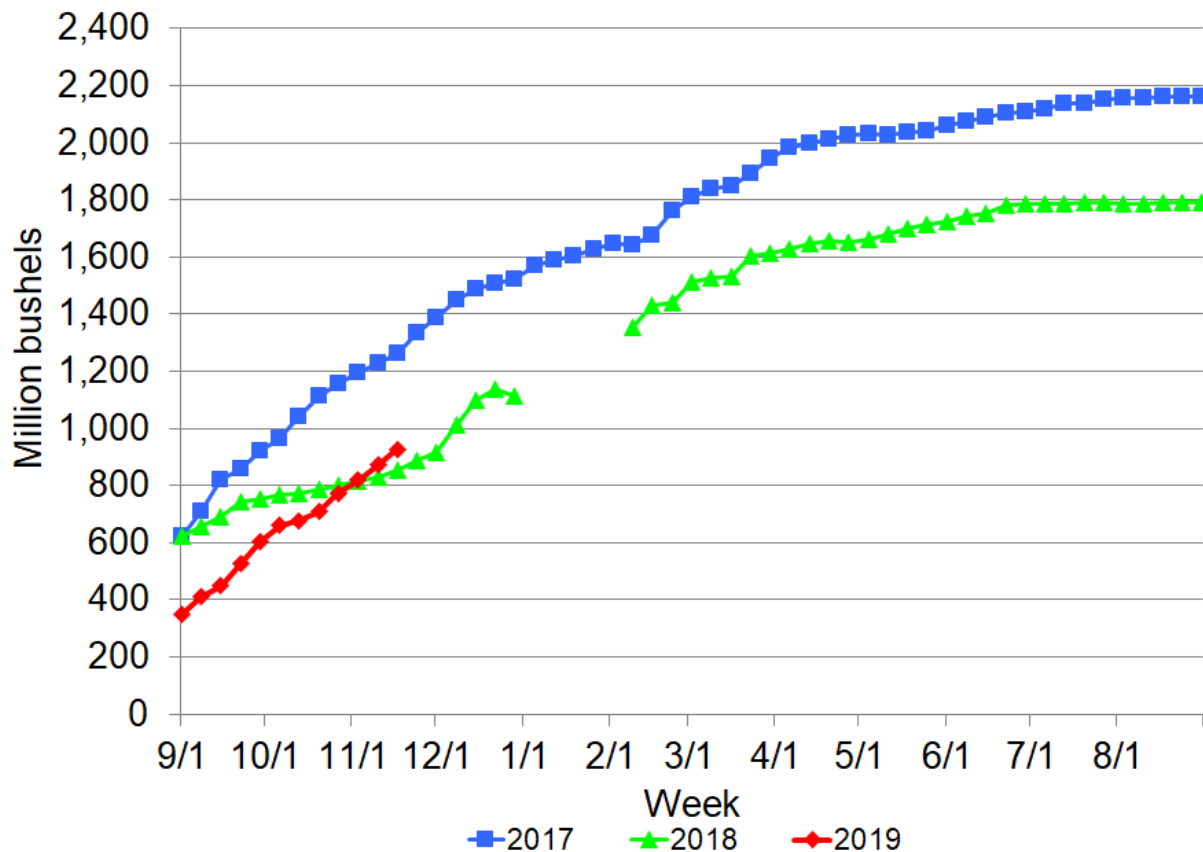
Looking for a Rebound in International Demand

As USDA's 2020 initial projections showed, the next calendar year looks to be a challenging one. Farmers will be trying to bring back nearly 20 million acres of prevented planting land. Crop production levels remain high, despite the planting and harvesting issues. Yields in the neighborhood of trend would bring about the largest corn crop ever and the 4th largest soybean crop. Much of the Corn Belt will go into the next planting season with soils that are saturated, so there will be plenty of moisture to grow a crop, assuming farmers can plant. But one of the biggest issues facing farmers as they go forward to 2020 will be concerns about crop demand.

This year, as USDA has lowered its production estimates, it has also lowered its crop usage figures. And that pullback may continue as we enter 2020. The damage to international crop trade has been building for the past couple of years and the cracks in demand are now occurring in some unexpected places. While most of the press has concentrated on the U.S.-China trade war, the export data for 2019 is showing that trade issues range well beyond our two countries.

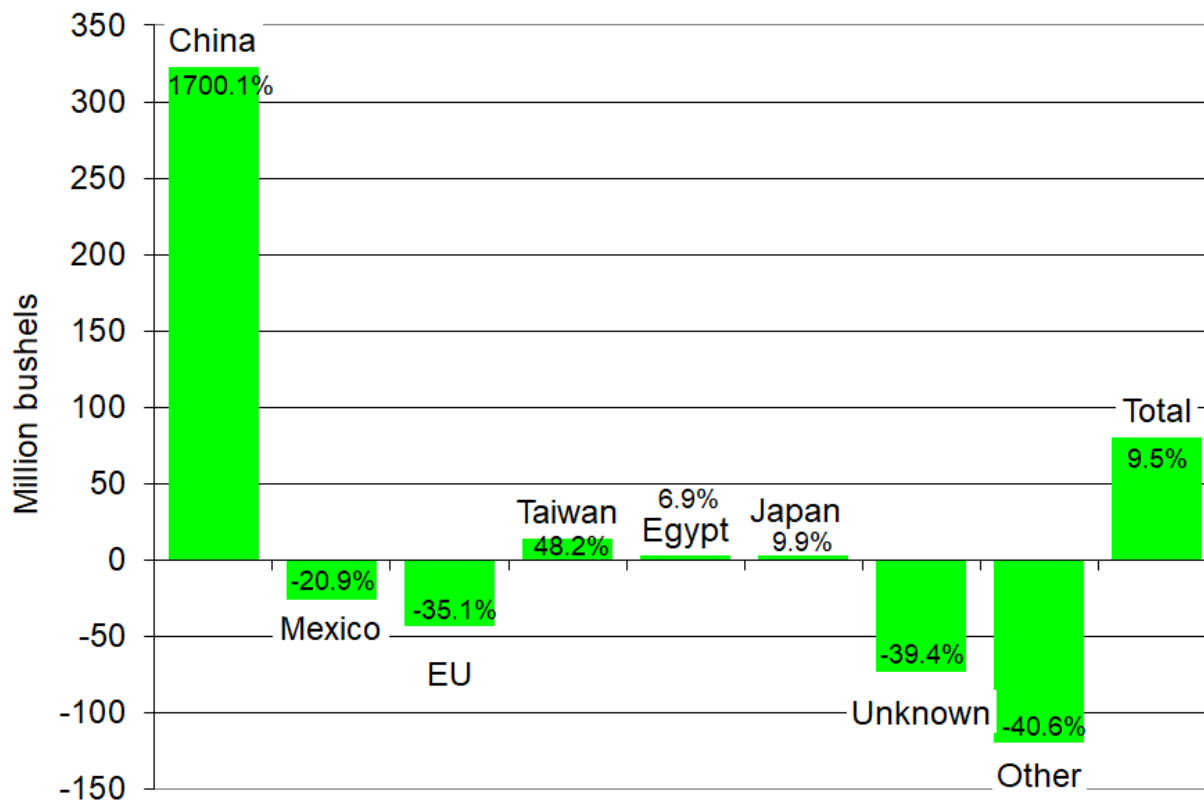
Figure 1 outlines the flow of U.S. soybeans in international markets over the past couple of years. As the figure shows, soybean trade flows were significantly impacted at the start of the 2018/19 marketing year (marketing years start in September for soybeans and corn, aligning with the harvest of the crops). Initially, that was due to the trade war, as China severely curtailed their soybean purchases from the U.S. The drop in soybean exports expanded to roughly 400 million bushels very quickly, with the vast majority of that loss in China. With the government shutdown early in 2019, there was a loss of export data (hence the gap in the 2018/19 line). But once the government was back up and running, the export data showed the gap had remained fairly constant. That 400 million bushel gap has persisted through the end of the 2018/19 marketing year and continued as we have moved through the first 12 weeks of the 2019/20 marketing year.

Figure 1. U.S. Soybean Export Sales. Source: USDA-FAS.



So while the overall pattern in soybean exports has held steady, the mix of sales to individual countries has not. While the initial hit came in export sales to China, that is not the case today. In fact, China has returned to the U.S. soybean market and reestablished itself as the top market. Compared to sales last year at this time, China has purchased over 300 million more bushels of soybeans. That is a tremendous turnaround, but it still puts Chinese demand for U.S. soybeans well below the large volumes we sold them in 2015, 2016, and 2017. And as China returned to the U.S. market, other countries stepped away, offsetting the gains. Sales to Mexico have fallen by 20 percent. Purchases by the European Union dropped by 35 percent. Sales losses in our smaller markets (labeled “Other” in the figure) have plummeted over 40 percent. Earlier in the marketing year, total soybean export sales were below last year’s levels. The surge from China has boosted sales above last year’s pace, but the 400 million bushel gap remains.

Figure 2. U.S. Soybean Export Sales Changes. Source: USDA-FAS.



The question for 2020 will be whether the international market will close the gap. The expansion in China has helped stabilize the gap. But the concerns for soybean exports will center on two issues. One, how much damage has occurred to Chinese demand for soybeans with the continuing problems with African Swine Fever and the loss of a significant percentage of the Chinese hog herd? Two, will we see a rebound in our smaller export markets in 2020? Over the past couple of years, our smaller soybean markets served as a counterbalance to Chinese shifts, increasing significantly as the Chinese tariffs hit, but also declining now as China reenters the marketplace. Given the potential return of a sizable portion of land to soybean production in 2020, farmers will hope for those smaller markets to rebound again. A few key markets to watch are Canada, Thailand, and Iran. In each of these countries, we have seen a dramatic reduction in soybean purchases so far this year.

Corn export sales were able to hold off the trade problems for a while. But once the calendar flipped to 2019, corn export sales have experienced a steady erosion that continues today. The 2017/18 marketing year was one of the strongest years for corn exports. And the 2018/19 marketing year started off robust as well. But by the end of the 2018/19 marketing year, corn export sales had fallen 400 million bushels. And as with soybeans, that gap remains today. Where the soybean story had a well-defined starting point (China), the loss in corn exports is much more broadly based and, because of that, much more troubling.

Figure 3. U.S. Corn Export Sales. Source: USDA-FAS.

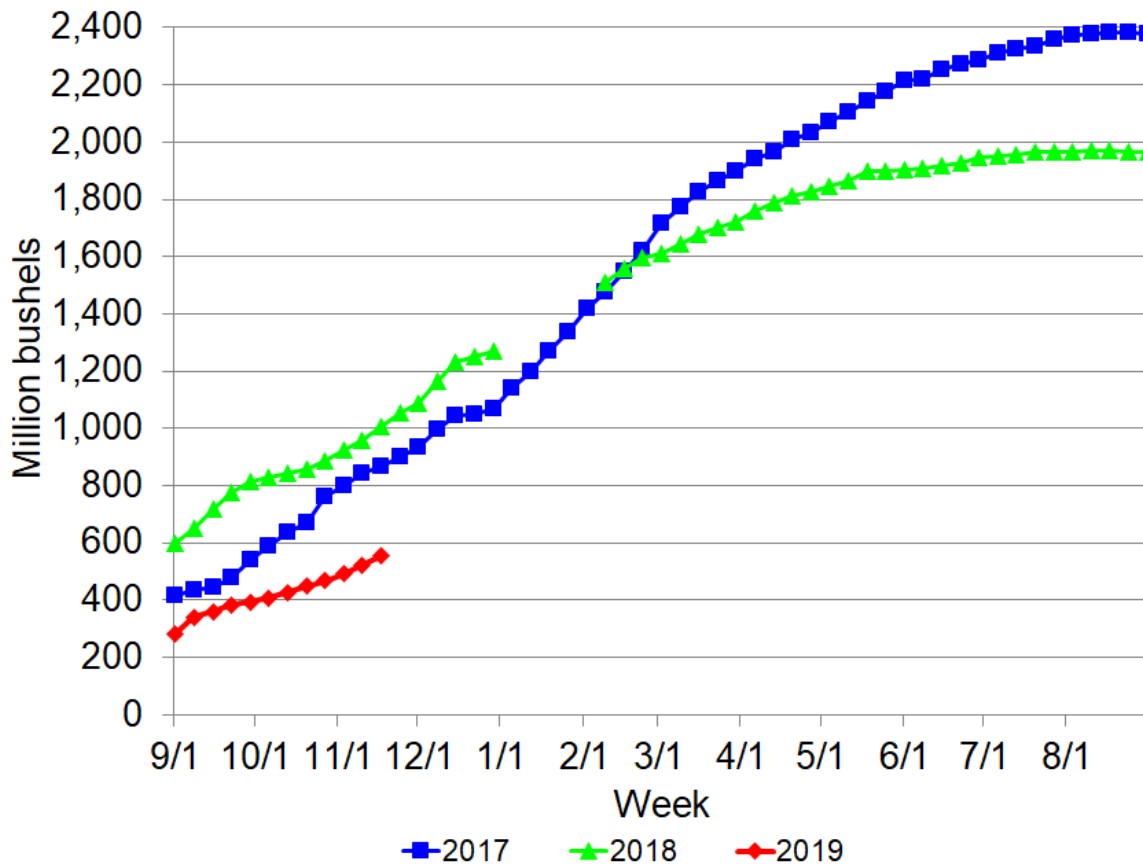
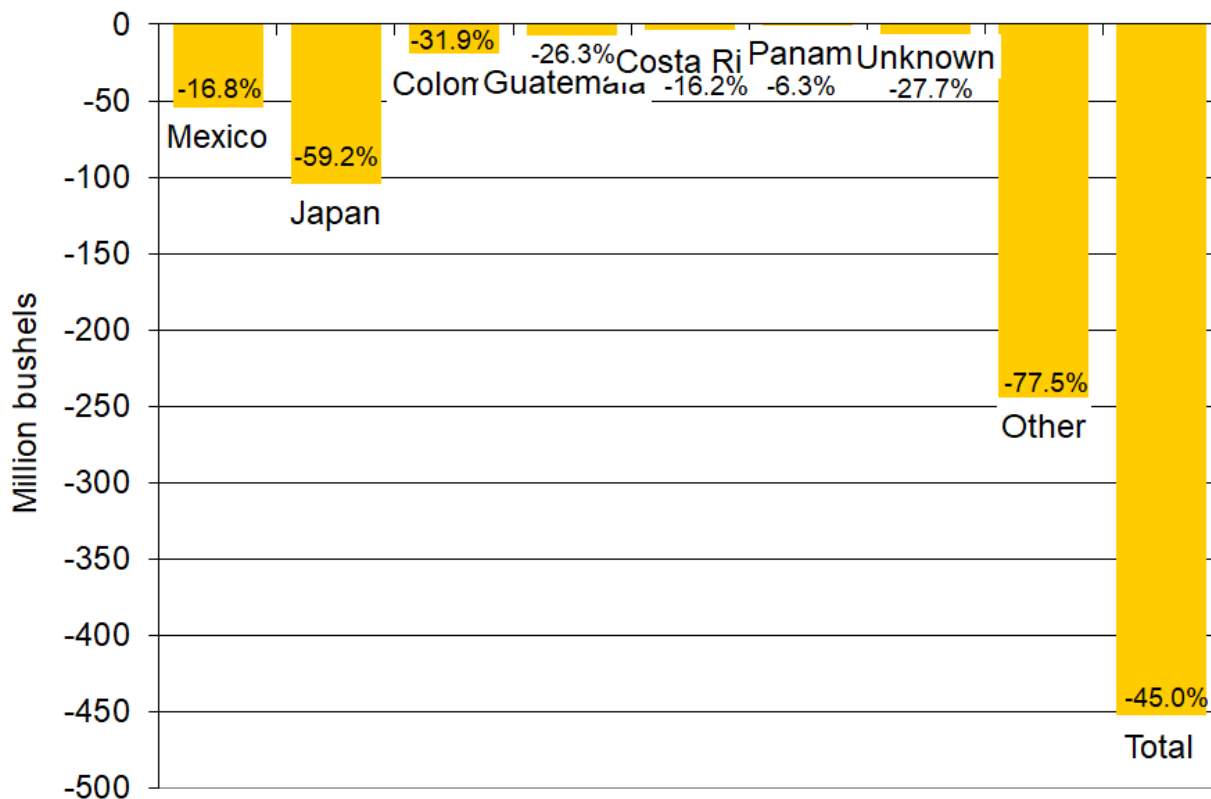


Figure 4. U.S. Corn Export Sales Changes. Source: USDA-FAS.



The decline in corn export sales seems to be a worldwide phenomenon. We see reductions in Latin America, Asia, Europe, and Africa. As the figure shows, corn sales are currently down in all of our top six markets, and in most cases, the declines are at least 10 percent. But again, as with soybeans, it's the sales to our smaller markets where the most damage has occurred, with the drop approaching 80 percent. Out of the 43 countries USDA tracked for corn sales, only 8 show growth. The African markets have disappeared. South Korea was our 3rd largest market at this time last year, now they are 17th. Whereas the soybean market can pin its hopes on China, the corn market doesn't have an easy or clear way back.

In 2020, corn will likely add acres as well, returning from prevented planting. The additional acres signal a need for additional outlets. But as the export sales data show, the search for those outlets will be challenging. Based on the export patterns as they currently stand, 2019 was a rough year, but 2020 will be rougher.

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