

# Cattle Producers Struggle as COVID-19 Reduces Beef Processing Capacity

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Outbreaks of COVID-19 in meat-processing facilities across the U.S. have created a significant bottleneck in the beef supply chain that has had substantial and widespread ramifications for cattle producers. Cattle producers are reliant upon a highly concentrated processing sector in order for cattle to reach consumers as cuts of beef. At the end of April, when beef packing plant shutdowns were most widespread, daily processing volumes fell 40% below 2019 levels. While every effort has been made to get these plants back online, recent statistics indicate that throughput remains 30% below last year, even though all but one plant had reopened as of May 13.

Meatpackers' dependence on labor, coupled with protocols to reduce the risk of work-related COVID-19 infections, means that throughput at packing facilities will remain below normal levels for the foreseeable future. With the majority of restaurants still shuttered, or operating with severely limited dine-in options available, meatpackers continue to struggle to repurpose cuts of beef that are typically utilized by foodservice operations. This process is especially challenging because much of this repurposing is labor-intensive; butchers breaking down larger cuts to sizes and packages appropriate for retail. While foodservice sales are still severely compromised, retail sales of fresh beef have increased 59% relative to the same week last year.

While media headlines have warned of widespread meat shortages and Tyson, one of the largest three meat processors in the country, publicly declared that the "food supply chain is breaking," only limited product-specific stockouts have been noted in specific geographic areas. But, this does not mean that the

issues confronted by the processing sector have occurred without costs. With fewer cattle being processed and a reduction in the supply of beef, wholesale and retail beef prices have increased.

The consumer price index for beef indicates that in April 2020, consumers paid 7.5% more for beef, compared to 2019. In the early days of May, wholesale beef prices were up almost 50%, relative to the same time last year, and 67% year-to-date. At the same time wholesale and retail prices are rising, the processing bottleneck has limited the producers' ability to sell their cattle, increasing supplies and driving down cattle prices. This reduction in cattle prices sent meatpackers' margins (the difference between the wholesale beef price and the live cattle price) soaring, an increase of 150% year-to-date. Although this margin calculation fails to account for processors' additional costs associated with operating during these unique circumstances (e.g., running plants at lower capacity, installing equipment to increase worker safety, increased cost of sick workers), cattle producers and policymakers have used these developments to petition the U.S. Department of Justice to investigate the competitiveness of the industry and formulate legislation to dictate the procurement mechanisms utilized by packers in the future.

California's cattle producers are the backbone of the beef supply chain; primarily participating in the cow-calf and stocker segments of the industry that produce calves and feed young cattle before they are sold to large-scale feeding operations in the Midwest. Although California is the 5th largest cattle-producing state, some would like to believe that our geographic separation from the meat-processing sector

would soften the blow. However, this is not the case.

With fed cattle ready for slaughter backed up in feedlots, many feed yards have stopped making purchases. This forces producers up the supply chain to make hard decisions; keep cattle longer hoping the market improves (adding costs as you continue to feed them) or sell immediately at a loss. Average feeder prices (cattle one year away from slaughter) are 12% below last year and 24% below the average price paid in May over the last five years. The drought-like conditions that occurred this winter throughout much of the state leaves less available forage and limits producers' ability to hold cattle until prices improve.

The short-run situation is likely to remain unstable for the foreseeable future. While all processing plants are currently open, the possibility remains that worker health issues could shutter facilities again. Even if processing lines continue to run, cattle prices are unlikely to recover until meatpackers are able to process the backlog of fed cattle. At current throughput levels, this is predicted to be months away. However, producers selling younger animals are likely to see prices recover sooner, given those animals are more than a year away from being ready for processing.

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## Author's Bio

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