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Retail & Consumer

Analysis: High U.S. meat prices: packer profiteering or capacity crunch?

By David Lawder

5 minute read

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A grocery store worker wears a mask while working in the meat department of a grocery store as the outbreak of the coronavirus disease (COVID-19) continues in the Brooklyn borough of New York U.S., May 5, 2020. REUTERS/Lucas Jackson/File Photo

WASHINGTON, Jan 19 (Reuters) - The Biden administration is targeting a small group of meat packers for high beef, pork and poultry prices that it says are squeezing consumers and fueling inflation, arguing that they are abusing their market power.

The U.S. meatpacking industry is dominated by a few global companies which say prices reflect a surge in demand, pandemic-constrained supplies, and rising costs for labor and transportation. They deny the administration's **pandemic profiteering** allegations.

Agricultural economists say that pandemic-stoked meat demand has exposed a shortage of slaughterhouse capacity, especially in beef, a supply-chain problem similar to those of other industries.

"I think there's probably some truth on both sides," said David Anderson, a livestock economist at Texas A&M University, about the White House's battle with meat processors.

"Consumers are buying beef. Our exports are booming," he said. "What we're seeing with prices, I would argue as an economist, that's exactly what we should see given this bottleneck. And capacity problems aren't going to be fixed overnight."

Cattlemen are frustrated with limited options for selling their herds, he said, adding: "I don't think it's a bad thing that the government is looking in to this stuff."

MEAT INDUSTRY

At the heart of the issue, just as with **supply chain snarls**, is unusually strong consumer demand for meat, and especially beef.

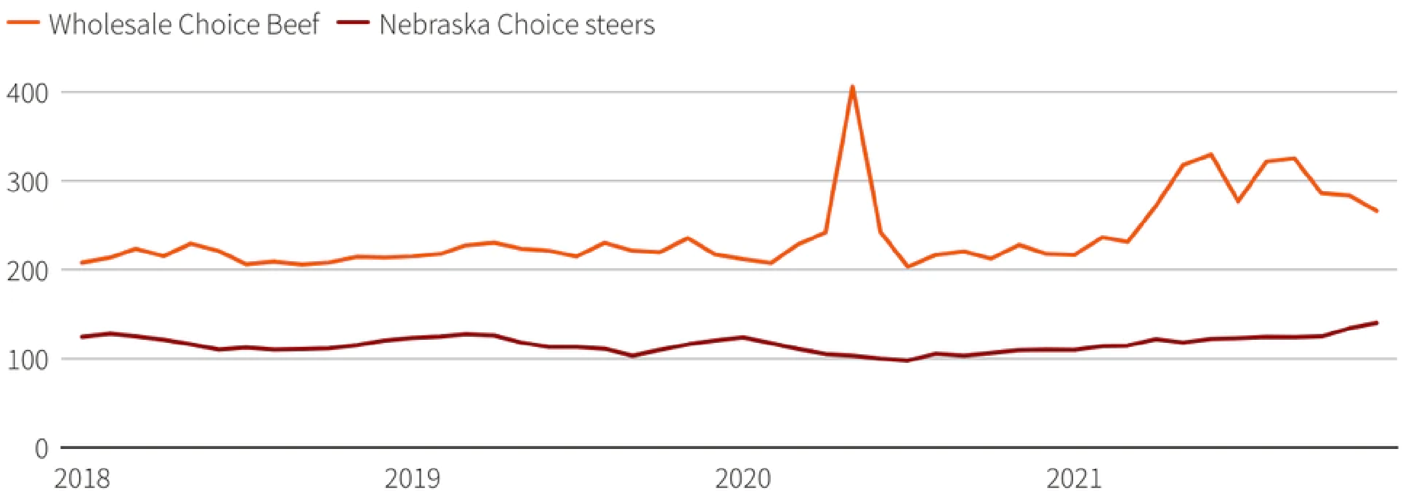
Americans hunkered down during the pandemic and splurged on consumable treats instead of travel or entertainment, and Chinese traded Australian imports for **grain-fed U.S. beef**, amid a diplomatic dispute.

That jump collided with a U.S. meat processing system already stretched to its limits by a decades-long drive for maximum efficiency and profit, leaving **just four companies** to dominate the beef packing market.

COVID-driven plant shutdowns, safety protocols spacing employees further apart and labor shortages cut the number of cows these plants could process, reducing prices they paid to cattle farmers even as the cost of the end product spiked for consumers.

U.S. beef wholesale, livestock prices

Dollars per 100 pounds, USDA Choice boxed beef cutout vs Nebraska steers 65-80% Choice. Indicates difference between prices earned by producers and processors.



Note: December 2021 data estimated by USDA
Source: U.S. Department of Agriculture
Reuters Graphics

Beef retail prices rose 30% from the beginning of 2020, before pandemic lockdowns started, to a peak of $7.90 per pound in October, before declining slightly in November and December, according to **U.S. Department of Agriculture data**.

The price cattle farmers earned declined slightly over the same period, and the National Farmers Union argues that **more competition** is needed in meat packing.

EXPLOITATION OR CAPITALISM?

President Joe Biden has announced steps to boost competition in beef, pork and poultry processing to curb what he argues is "exploitation" of consumers and farmers.

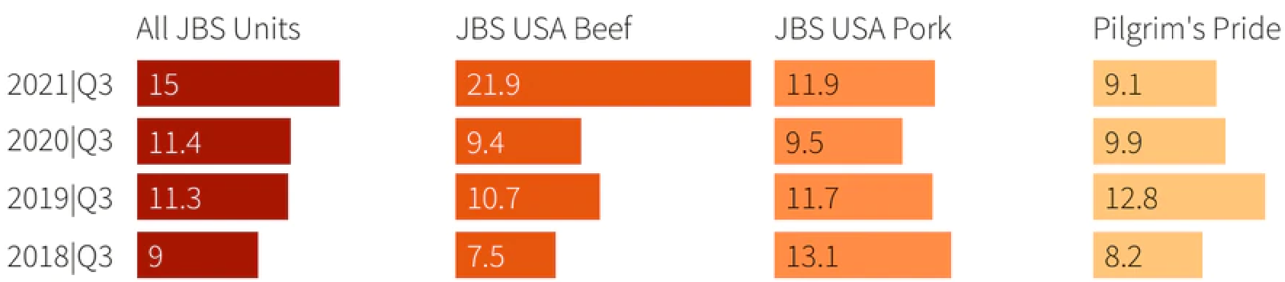
The **administration's action plan** includes $1 billion for grants and loans for new independent processing plants, $100 million for worker training, new labeling rules and ways for farmers to report anticompetitive practices.

That is after a White House said in a **December analysis** that the four big meatpackers - Tyson Foods Inc **(TSN.N)**, JBS SA **(JBSS3.SA)**, Marfrig Global Foods SA and Seaboard Corp **(SEB.A)** - had tripled their net profit margins during the pandemic.

JBS's U.S. beef operation more than doubled its third-quarter operating margin - the rough difference between revenue and costs - to 21%, compared with the same periods of 2020 and 2019, the Brazilian company's **earnings statement shows.**

JBS Q3 profit margins soar on beef demand

Third quarter percentage adjusted EBITDA* margins for JBS SA and its major U.S. operating units, a measure of the difference between operating costs and revenues.



Note: *Margins based on earnings before interest, taxes, depreciation, amortization and other expenses
Source: JBS SA earnings statements
Reuters Graphics

PAYING QUOTED PRICES

"The margins have been extremely wide" in beef, said Derrell Peel, a livestock economist at Oklahoma State University, citing the processing bottlenecks. He blames them not on deliberate anti-competitive behavior, but on 30 years of market-driven consolidation that left the industry with no spare capacity to handle the COVID-19 demand surge.

"The main driver of why we have the industry structure we have today is because of the economics of cost efficiency. Those small packers just went broke. And the ones that got bigger survived," Peel said.

The **North American Meat Institute**, representing beef and pork packers, and the **U.S. Chamber of Commerce** argue that higher meat prices are a temporary result of forces stoking inflation across the economy, including labor shortages.

"The market is behaving predictably," said Sarah Little, vice president of communications for the North American Meat Institute. Grocery chains compete for supplies and set retail meat prices - not meat processors - she noted, and Americans are willing to pay higher prices for beef.

"There are going to be times when cattlemen make more money and packers lose money. We've certainly seen that cycle before."

U.S. grocery chains' prices to consumers also reflect acute labor shortages, high trucking costs, and competition from China and other foreign buyers, said Jayson Lusk, head of Purdue University's agricultural economics department.

Chinese demand for pork is easing as the country rebuilds its hog herd from a devastating bout of African swine fever, returning pork processing margins to their **five year average**, according to Dermot Hayes, economics professor at Iowa State University.

Price spikes show the industry needs some slack in the system, Hayes said. Government incentives could encourage more farmer groups to build processing plants and earn more selling meat rather than live animals, Hayes said.

Reporting by David Lawder in Washington Editing by Heather Timmons and Matthew Lewis

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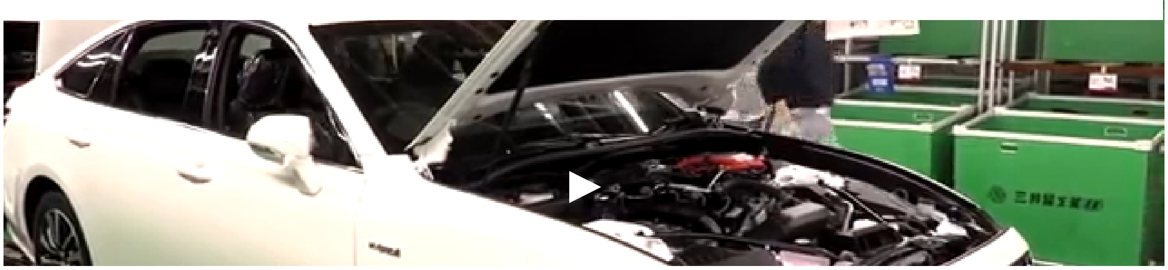

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