Canadian Boxed Beef Report

February 28, 2005

Canadian Boxed Beef

Supplies were moderate to light based on easier kills two weeks ago and holiday constrained kills in Alberta last week. Overall the situation suffers from the February blahs, as demand continues to disappoint packers, retailers and foodservice purveyors.

The exact outcome of the US border situation is yet to be determined; however speculation is playing a major role on current conditions. Packers are not very willing to set prices out front, unless they more than cover their risks, while distributors are not overly eager to commit to current levels either. Everyone appears to be waiting for March 7th, before making too many firm commitments.

The typical seasonal trends are materializing, as last week saw an increase in the price of some middle meats, while end meats continued to fall. Of the middle meats, top butts saw the greatest increase, as demand seemed to overwhelm packers, who are now reasonably clean on butts for the next few weeks. Strips and shortloins also jumped in price, however not quite as much as the butts. Similar movement on the ribs, as recent increased retail demand has kept the market fairly clean. Chuck rolls and clods continue to fall. The round complex is mirroring the chucks, as eyes plummeted the hardest. Flats are also experiencing strong decreases. Insides and peeled tips are also beginning to move lower, however not nearly at the pace of some of the other cuts.

Inventories finished the week in decent shape due to lower production levels and lower pricing. Packers were forced to lower prices on most items on the cutout in order to keep product out of inventory. Most demand for Canadian product came from the US. The US safety valve was more important than usual as domestic orders were slack. Packers were forced to come to domestic buyers during most of the week given lower values south of the border.

US Boxed Beef

Boxed beef cutout values were generally steady on fairly good demand and moderate to heavy offerings. The combination of reduced harvest rates, the holiday week, and lower beef prices, brought many buyers to actively pursue boxed beef product. Many buyers are anticipating that boxed beef prices may start to trend higher. End meats continue to be burdensome to packers as the chuck and round cuts were lower for the week. The strength in the cutout was mostly attributed to the middle meats. Rib and loin cuts trended higher for the week. Beef trimmings were higher on moderate demand and light to moderate offerings. Fed cattle and blended coarse grinds were lower on light to moderate demand and moderate to heavy offerings. (Source: USDA's National Carlot Meat Trade Review Week Ending: Thursday, February 24).

Canadian Retail Beef[1]

Retailers in Ontario focused on a cross section of fresh meats. Each of the three major banners in the province hit hard on three different fresh meats. A&P looks to have worked the hardest by featuring boneless breast on the front of the flyer at just $2.99/lb. That price has not been tried in years and it will draw traffic. Loblaw was also very aggressive on back ribs at $3.99. The $3.99 back rib is a repeat of a very successful feature about two months ago. IGA went hard on its front page with lean ground at $1.59. Each of these features was designed to draw serious traffic and are each very competitive. Beef features accounted for less than one quarter of fresh meat features in Ontario this week. That is far lower than the average of the past few years.

Beef Packer Margins[2]

Canadian packer margins sank to their lowest levels in the past year. Margins of about $200/head were low enough to suggest that packers might have been close to the red on kill and fab operations. The decline in margins was due to the sharp increase in cattle prices from two weeks ago coupled with the big drop in boxed prices last week. Margins were about $70/head lower than the previous week and $70 lower than last year at the same time.

US packer margins sank even lower last week. Margins continued to be deeply red in kill and fabrication operations. US packer margins were in the red by about 50 dollars per head last week, which was about 5 dollars worse than the previous week. Last year at this time margins were around breakeven.

---

[1] Retail prices are referencing southern Ontario.
[2] Gross margins equal the Cdn boxed beef cutout composite, plus Canfax by-products (hide, offal) less previous week's Canfax steer cost. Gross margins do not include kill, cut and packaging costs. George Morris Centre estimates for US operating costs are US$130/head. GMC operating cost estimates for a representative, model Cdn packer prior to the BSE crisis was C$150/head. BSE related costs such as specified risk material procedures and other compliance requirements have likely pushed costs significantly higher. The current GMC estimate/guideline is C$170-200/head.

This report is a National Beef Industry Development Fund sponsored project
authored by Kevin Grier, George Morris Centre, Guelph with assistance from Informa Economics, Memphis.
519-822-3929x202; kevin@georgemorris.org