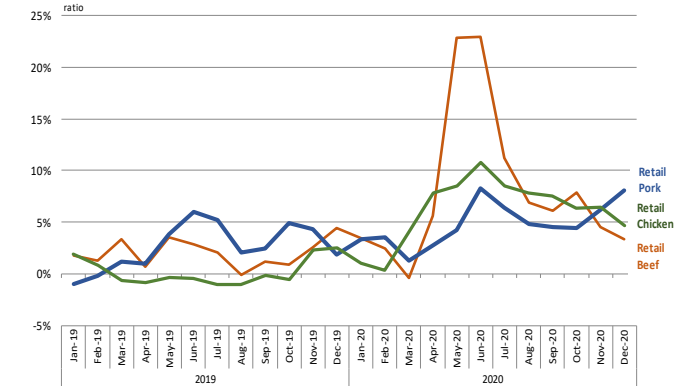


Retail meat price calculations for the month of December were released a couple of days ago and they reveal some interesting trends. For one, we found it quite interesting that **retail pork price inflation far outpaced the other two proteins even as hog supplies were plentiful and pork exports were likely lower than the previous year**. According to USDA, the average price of retail pork in December was \$4.12/lb., 0.5% higher than in November and **8.1% higher than the previous year**. By comparison, the average wholesale beef price in December was 0.8% lower than the previous month and only 3.3% higher than a year ago. The deflation in beef prices has been quite rapid considering that in May and June prices were in the \$7.5/lb. range, up 23% from the previous year. The broiler composite retail price in December was \$2.1/lb., down 0.5% from November but 4.7% higher than a year ago. **Why did pork prices rise at a faster pace last month?** We think this is in part due to the tight labor supply in boning/trimming lines. Over the years retailers have become increasingly dependent on packers and secondary processors to provide them with pork cuts and products made to their exact specification. Rarely do you now see a retailer that brings in primals and butchers them in-house. So while hog slaughter during most weeks in Q4 was close to what it was the previous year, **getting those hog carcasses processed into specific retail cuts and boneless products was difficult and expensive**. Pork processors also had to deal with big holes in their production lines. Bellies were plentiful and prices were low in November and December but bacon processors could only produce so much. Different from years when plentiful bellies offered retailers the opportunity to run features, lack of production capacity prevented that from happening this year.

In the past we have highlighted **the wide discrepancy between the price of bone-in hams and boneless hams**. In Q4 of last year, the average price of boneless hams was a little over \$2 per pound, 30% higher than a year ago. And yet, the average price of bone-in hams was around 65 cents, down 15% from last year. Arguably high pork prices at retail are not a good thing for pork producers, especially when hog supplies are plentiful in the near term. You want to see retailers offer consumers a deal and keep the supply moving. The pork cutout is an average of the various pork cuts sold at wholesale. It often does not tell you the premiums that retailers have to pay (most pork sold on some type of formula to reflect individual specs). With the current labor market, the situation has become even more difficult. We say this because **the simplistic way to look at this would be to say**: the spread of retail pork prices to wholesale is huge and the retailer must be taking advantage. The more complicated, and difficult to hear, story is that the way industry has evolved has created bottlenecks and, in the current environment, inefficiencies. These do tend to prevent producers from maximizing the value of the product they bring to market.

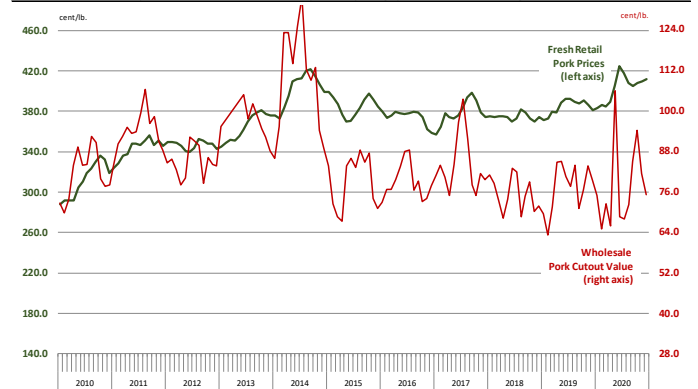
Year/Year Change in Beef, Pork and Chicken Prices at Retail

Data Source: USDA Monthly Retail Price Series and Steiner Consulting



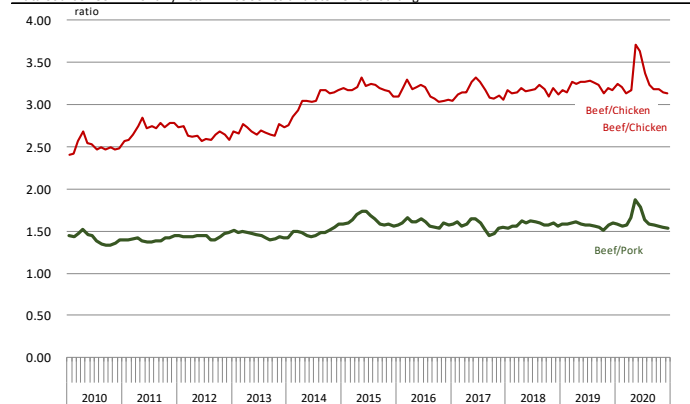
Retail Pork Prices vs. Wholesale Pork Cutout

Data Source: USDA Monthly Retail Price Series, USDA Mandatory Price Reporting System & Steiner Consulting



RATIO OF RETAIL BEEF PRICE TO PRICE OF PORK AND CHICKEN

Data Source: USDA Monthly Retail Price Series and Steiner Consulting



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