

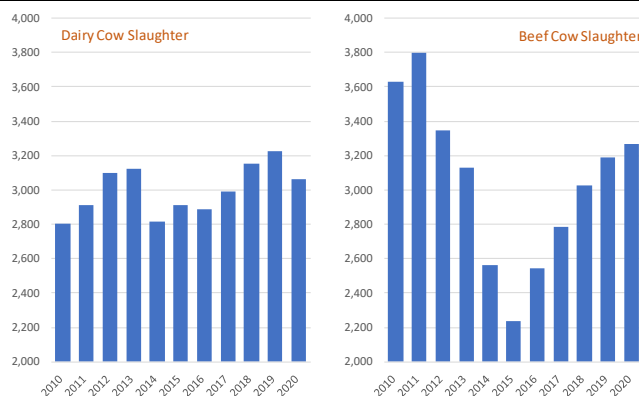
**The supply of lean grinding beef in the US is a function of several factors:** a) domestic cow slaughter; b) domestic fed slaughter; c) imports. While some product harvested from fed cattle goes into the lean and extra lean supply, largely via grinding of muscle cuts, **low cost processors look at the domestic cow slaughter and imports as primary supply drivers.** There is a lot of uncertainty about grinding beef supplies currently. In part this is due to the effect that high feed costs are having on livestock producers but also because of lower imports so far in Q1. We will leave the discussion of imports for another day and focus on domestic cow slaughter, particularly the supply of grinding beef coming from the dairy sector.

**In 2020, total US cow slaughter was estimated at 6.331 million head, 83k head or 1.3% lower than the previous year.** The reduction was entirely due to fewer dairy cows coming to market. Total dairy cow slaughter last year was estimated at 3.064 million head, 160k head or 5% lower than the previous year. The reduction more than offset the 78k head increase in beef cow slaughter. The start of the pandemic last April appeared to set up a major liquidation in the dairy industry. Headlines screamed with stories of producers dumping milk given the collapse in foodservice demand. However, the so called 'Food Box' program provided a much needed lifeline for the industry. US government ended up buying billions of dollars worth of food products that were directly distributed to families in need. **Cheese, butter, yogurt and fluid milk were key components of the food boxes delivered.** At a same time, fast food demand recovered faster than most expected and grocery store sales were able to pick up the slack. The average Class III milk price last year was a little over \$18/cwt, 7% higher than the previous year. In the second half of 2020, the average Class III milk price was over \$20/cwt, 9% higher than the previous year. Instead of liquidation, between June of 2020 and February of 2021, US dairy producers increased the dairy herd by 108k head or 1.2%.

The milk production report issued by USDA yesterday now pegs the dairy herd at 9.458 million head, the highest since the mid 1990s. **Does the larger herd imply a higher cull rate and thus an increase in the number of dairy cows coming to market in 2021?** We think the answer is yes. Milk prices are expected to be lower in 2021. Futures are currently pricing Class III milk at \$17.5/cwt, down 4.7% from a year ago. And feed costs for 2021 are on pace to be the highest since 2012. A higher inventory, even with a normal culling rate, will result in more dairy cows coming to market. In Jan/Feb of this year the ratio of cow slaughter vs. the monthly dairy cow inventory has been higher than in 2020 and also above the five year average. If high feed costs cause the culling ratio to approach the levels we saw in 2012, then dairy cow slaughter in 2021 could approach 3.2 million head, 130k head or 4.3% above what we saw in 2020 and close to 2019 levels.

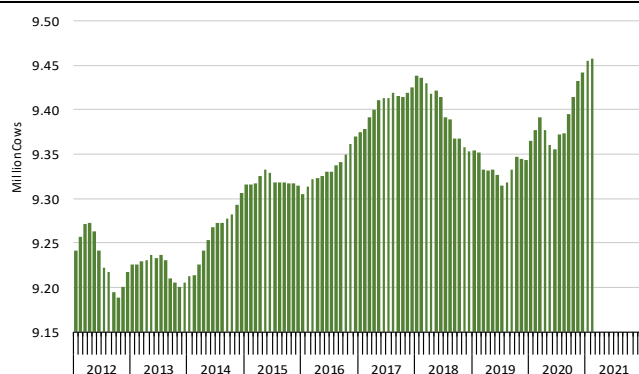
## US Annual Dairy and Beef Cow Slaughter: 2010 - 2020

Source: USDA-NASS. Analysis by Steiner Consulting

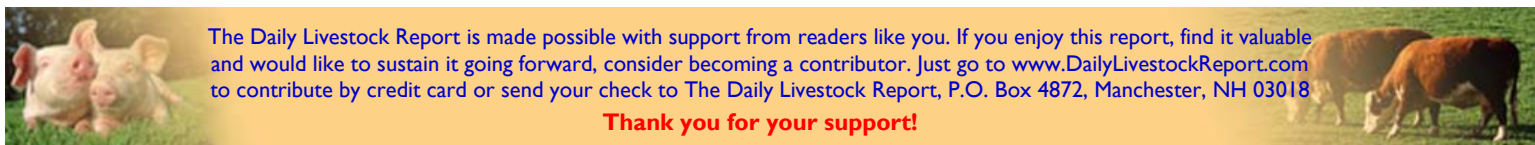
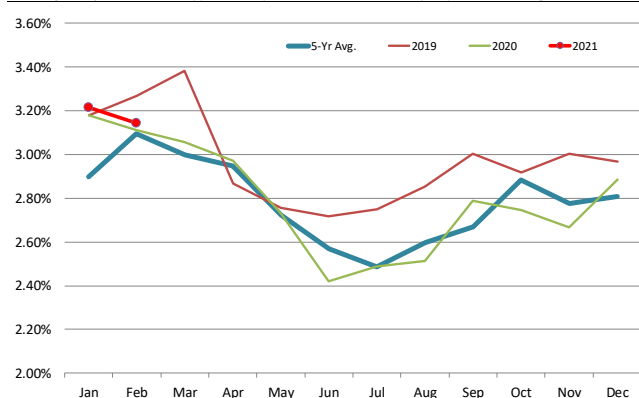


## Monthly Inventory of US Milk Cows. Million Head

Source: USDA-NASS



RATIO OF DAIRY COW SLAUGHTER (ADJUSTED) VS. MONTHLY DAIRY COW INVENTORY  
Cow Slaughter Adjusted on a 21.92/day per month equivalent. Data from USDA. Analysis by Steiner Consulting



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