



May 2020

Closed Meat Plants Today Mean Empty Meat Cases this Summer

Key Points:

- The spread of COVID-19 among people who work in many beef and pork plants across the country has led to plant slowdowns and shut downs, creating a bottleneck in the U.S. meat and livestock supply chain.
- Meat supplies for retail grocery stores could shrink by nearly 30% this Memorial Day, leading to retail pork and beef price inflation as high as 20% relative to prices last year.
- As livestock prices have been collapsing, industry associations predict 2020 losses at \$13.6 billion for U.S. cattle producers (NCBA) and nearly \$5 billion for U.S. hog producers (NPPC).
- While we expect pork processing to pick up in the coming weeks, U.S. hog producers may still be forced to euthanize as many as 7 million pigs in the second quarter alone, worth nearly \$700 million at historical average prices. This would further diminish meat supplies this fall and add to the billions of dollars of losses from lower livestock prices.
- President Trump’s executive order to reopen closed meat plants, announced April 28, could help stem the tide of additional plant closures and pave the way for closed plants to reopen. However, attracting workers to fill the thousands of vacant positions at meat plants across the U.S. is still an issue.

By Will Sawyer

Lead Economist

Inside...

Introduction 1

Meat Plant Shutdowns Reflect the Spread of COVID-19 in Rural America 2

A Recipe for Food Inflation While the Nation Recovers 3

Conclusion 4

Introduction

The spread of COVID-19 among people who work in many beef and pork plants across the country has led to plant slowdowns and shut downs, creating a bottleneck in the U.S. meat and livestock supply chain. This bottleneck will not only have a lasting impact on meat processors but also producers and consumers.

Margins for cattle and hog farmers have fallen to multi-year lows. Nearly two dozen meat plants closed in April due to the outbreak of COVID-19 and many others have slowed their production. This has shrunk U.S. pork and beef capacity by 40% at the end of April. The meat plant closures have pushed down livestock prices to a level not seen since the Great Recession just over a decade ago. As meat plants



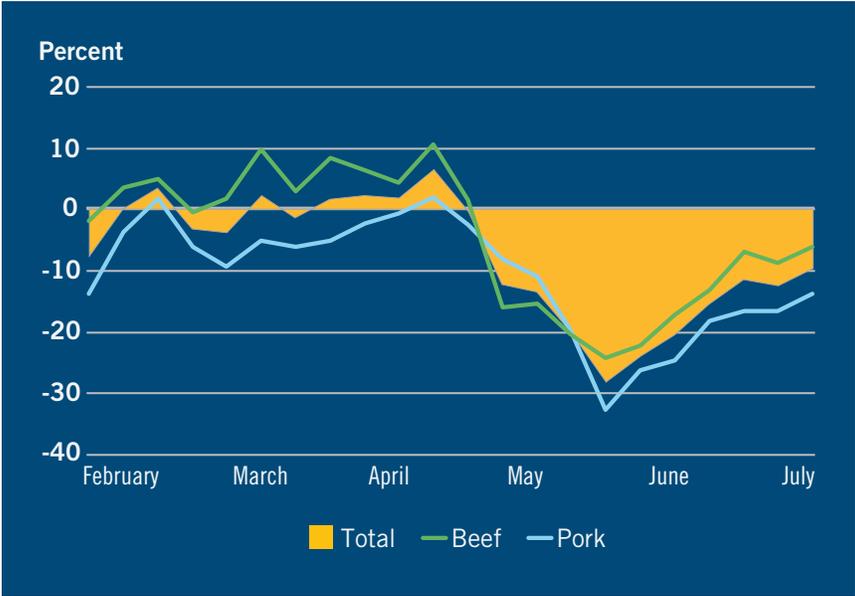
have closed, farmers are left with few options for their livestock, requiring herds to be culled. The U.S. Congress has proposed giving USDA authority to pay indemnities for producers who have to euthanize livestock, which may help producers offset some of the losses caused by the decline in meat plant capacity. Shrinkage in the U.S. livestock herd will likely make the food supply shortage more acute later in the year.

For consumers, closed meat plants means they will find less meat in the grocery store in the weeks ahead. U.S. consumers have been able to rely on grocery stores this spring as many restaurants across the country have closed in response to “stay-at-home” orders in many cities and states. As communities reopen with only about one week of meat supply in cold storage, shortages and stock outs in the meat case couldn’t come at a worse time. Food inflation and a weak U.S. economy is a combination that will leave many consumers in greater financial strain.

Meat Plant Shut Downs Reflect the Spread of COVID-19 in Rural America

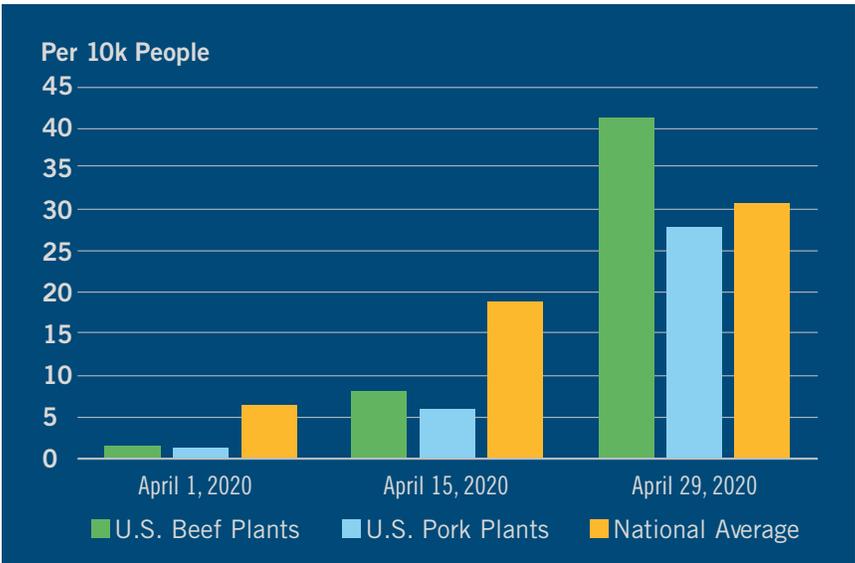
The rural nature of livestock farming and processing has meant the impact of COVID-19 had lagged urban areas of the U.S. At the end of March, the counties surrounding U.S. meat plants had about one-fifth of the COVID-19 cases on a per capita basis relative to the national average. Now, per capita COVID-19 cases around U.S. meat plants, which have thousands

EXHIBIT 1: Differences in U.S. Pork and Beef Supplies Available for Domestic Consumption in 2020 Versus 2019
Impact on Grocery Store Shelves



Note: Domestic supplies = domestic production plus imports less exports
Source: USDA, CoBank Estimates

EXHIBIT 2: Per Capita COVID-19 Cases
Counties Neighboring U.S. Meat Plants



Note: COVID-19 cases per capita in six counties including and adjacent to packing plant
Source: CDC, CoBank Estimates

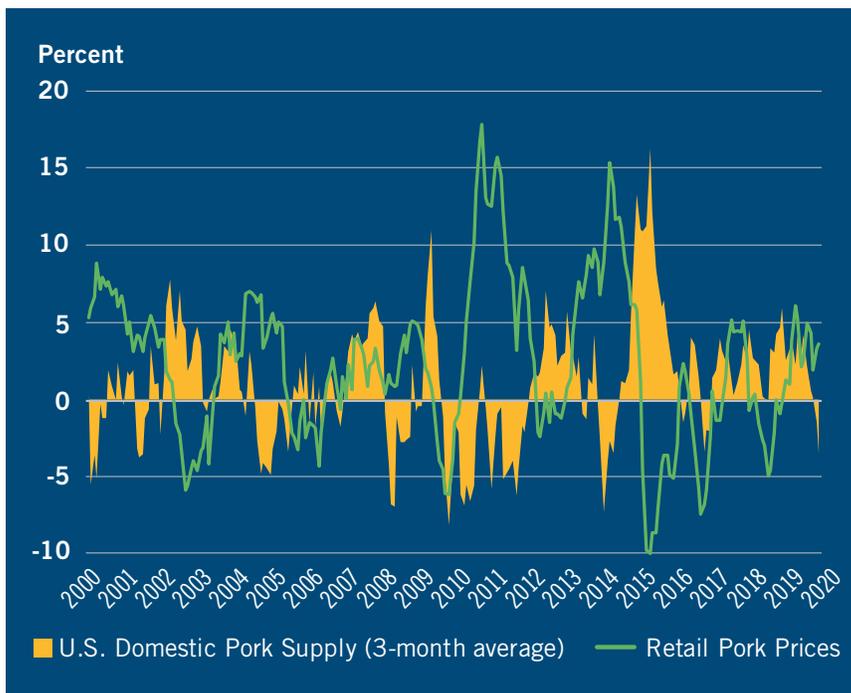
EXHIBIT 3: U.S. Domestic Pork Supplies and Retail Prices Change Versus Year-ago

of employees on site at any given time, have climbed sharply, raising the risk of further plant closures. Without labor available and willing to work in the plants, the plant shut downs and slowdowns will continue.

Meat processors have instituted a number of measures to ensure employee safety, reduce the spread of COVID-19 and keep protein supplies moving. These measures include increased employee distancing, installation of metal partitions, mandatory use of personal protective equipment, mandatory temperature checks prior to starting work, paid sick leave for ill employees, increased wages and attendance bonuses, increased frequency of cleaning and sanitation, on-site health screening and others.

A Recipe for Food Inflation While the Nation Recovers

The impact of significant contractions in meat supplies has often led to substantial inflation of retail beef and pork prices. In the past 20 years, only twice have retail pork prices experienced greater than 10% inflation – and neither time saw inflation climb to 20%, which may be coming in the months ahead. The most significant contraction had been during the commodity super cycle of 2007 and 2008, which was quickly followed by the Great Recession. From the summer of 2008 through early 2010, many hog producers reduced their herd due to significant financial losses. While this contraction was around 15%, less than half of what the U.S. pork and beef sectors are experiencing currently, it drove a spike in retail pork inflation in 2010 of 17% in the fall of that year.



Source: USDA-AMS

Pork and beef production is now approximately 35% below this time last year, making retail shortages and price inflation nearly assured. Prior to the plant shut downs in April, beef and pork supplies were well above 2019 levels which provided consumers with ample supplies as restaurants around the country closed. But the declining meat production this April will likely lead to reduced grocery store supplies in May and June. Grocery stores are likely already rationing their current meat supplies and will likely draw on meat supplies in cold storage over the next month. The supply chain and inventory from the meat plant to local grocery store meat cases is less than a few weeks.

To curb food inflation, one strategy other countries have employed in the past are quotas or tariffs on meat exports, but it resulted in lower prices for producers, further reducing meat supplies.

Conclusion

Soon, U.S. consumers will begin to see in their local meat case the effects of the beef and pork plant shut downs in April, with potentially 30% less meat on shelves and prices up to 20% above last year. For cattle and hog producers, the bottlenecks created by the plant slowdowns and shut downs have meant they will lose billions of dollars this year and be forced to euthanize

millions of pigs. In spite of President Trump's executive order to re-open the plants, per capita COVID-19 cases around U.S. meat plants have continued to climb, raising the risk of further plant capacity disruptions. The United States is facing an unprecedented situation and it will take a while to return to what life was like before COVID-19. ■

**CoBank's Knowledge Exchange Division welcomes readers' comments and suggestions.
Please send them to KEDRESEARCH@cobank.com.**

Disclaimer: *The information provided in this report is not intended to be investment, tax, or legal advice and should not be relied upon by recipients for such purposes. The information contained in this report has been compiled from what CoBank regards as reliable sources. However, CoBank does not make any representation or warranty regarding the content, and disclaims any responsibility for the information, materials, third-party opinions, and data included in this report. In no event will CoBank be liable for any decision made or actions taken by any person or persons relying on the information contained in this report.*