Where’s the Beef?

Key takeaways

• Multiple slaughterhouses have reported coronavirus outbreaks due to close working quarters and have shut down.

• As the slaughterhouses close, ranchers do not have a place to process their cattle, pigs, and chickens. Many ranchers fear that they may have to put large numbers of their herd down soon.

What it may mean for investors

• This is bad for the rancher, bad for food supplies and waste, and bad for prices paid at the grocery store. Americans should expect to see higher food prices in the coming months.

“The world is only as good as the weakest link. Diseases do not respect borders.” – Dr. Vernon Lee

Coronavirus impacts have been broad and deep, and extend beyond just staying healthy. For months now, economic stories of job losses and restaurant closings have carried as many news headlines as new vaccines and ventilator shortages. Each story goes deep and can carry knock-on effects, especially if we remain locked down longer. One new, knock-on effect to closing restaurants is food shortages. Americans could soon see prices of meat and dairy, especially, rise in the coming months (if they haven’t seen it already).

One obvious consequence of restaurant closings was that Americans would soon be buying a lot more groceries. In a normal month, Americans spend about $120 billion on food and drinks. $50 billion of this is typically spent at the grocery store, while the remaining $70 billion is spent at restaurants and bars. Chart 1 highlights that these numbers flipped in March 2020. Americans are now spending $70 billion per month in grocery stores. And we’re expecting to see the same trend when April’s official numbers are released.
One not-so-obvious consequence of the coronavirus is that it would force key parts of Americans’ food chain to break. The issues are particularly acute near America’s ranches. Multiple slaughterhouses have reported coronavirus outbreaks due to close working quarters. As they shut down, ranchers do not have a place to process their cattle, pigs, and chickens, which leads to less meat at the grocery stores. Additionally, animals that stay on the farm still have to be fed. Many ranchers fear that they may have to put large numbers of their herd down soon. This would be bad for the rancher, bad for food supplies and waste, and bad for (higher) prices paid at the grocery store.

The story became even more muddied two days ago, when President Trump signed an executive order to reopen meat processing plants. The twist here is that workers will have jobs but might not show for fear of contracting the coronavirus.

**Chart 1. Grocery versus food services and bars**

Sources: Bloomberg, U.S. Census Bureau, Wells Fargo Investment Institute. Monthly data: January 31, 2019 – March 31, 2020. Food services and drinking places is represented by data from the U.S. Census Bureau for the food services and drinking places seasonally adjusted retail sales. Grocery is represented by data from the U.S. Census Bureau for the grocery seasonally adjusted retail sales.
Americans should expect to see higher farm-related prices at the grocery store, possibly for the remainder of 2020. This includes things such as chicken, beef, pork, eggs, milk, and the like. As much as we’d like to say that this will be a short-term issue, history suggests otherwise. When commodity supplies dry up, no matter the commodity, it typically takes significant time to replace them. Sometimes it takes years. One recent example we can show comes out of China. Since a late 2018 outbreak of African swine fever, roughly half of China’s pig population has had to be put-down. Chart 2 shows the impact that this steep supply drop had, and continues to have, on pork prices in China.

**Chart 2. China pork prices**

![Chart 2. China pork prices](image_url)

There is evidence that the U.S. consumer could soon face a similar story. Chart 3 shows wholesale prices for beef and pork. Notice that in the last few weeks, prices have become extremely volatile and are moving directionally higher. This is a consequence of shuttering slaughterhouses and strain on the food supply chain, due to coronavirus outbreaks.

**Chart 3. Wholesale pork and beef prices**

![Chart showing wholesale pork and beef prices](image)


The bottom line is that the novel coronavirus continues to show just how “novel” it is. It continues to disrupt, and has now found its way into America’s (and much of the world’s) food supply chain. Americans should expect to see higher food prices in the coming months.
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