

The Solution To Record Meat Prices: The Return Of Pink Slime

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A few months ago [we reported](#) that while the Fed is seeing nothing but hedonic deflation as far as the eye can see, food prices - for whatever reason but "certainly not" due to trillions in liquidity entering a close system so just blame it on the weather - were soaring to record highs. Among them was the [price of beef](#), which in 2014 alone has soared by the most in over a decade. This led the US Department of Agriculture to warn of "sticker shock" facing home chefs on the eve of the Memorial Day holiday weekend, the unofficial start of the U.S. summer grilling season.

According to the USDA, [reported by Reuters](#), conditions in California could have "large and lasting effects on U.S. fruit, vegetable, dairy and egg prices," as the most populous U.S. state struggles through what officials are calling a catastrophic drought. Alas, the USDA had nothing to say about the Fed's unprecedented desire to reflate the US economy which is still suffering from the catastrophic depression which started nearly 7 years ago.

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The consumer price index (CPI) for U.S. beef and veal is up almost 10 percent so far in 2014, reflecting the fastest increase in retail beef prices since the end of 2003. Prices, even after adjusting for inflation, are at record highs.

"The drought in Texas and Oklahoma has worsened somewhat in the last month, providing further complications to the beef production industry," USDA said.

Beef and veal prices for the whole of 2014 are now forecast to increase by 5.5 percent to 6.5 percent, a sharp advance from last month's forecast for a 3 to 4 percent rise. Pork prices are set to rise by 3 percent to 4 percent, up from a 2 to 3 percent advance expected a month ago.

The USDA said overall U.S. food price inflation for 2014, including food bought at grocery stores and food bought at restaurants, would rise by 2.5 percent to 3.5 percent in 2014.

That is up from 2013, when retail food prices were almost flat, but in line with historical norms and unchanged from April's forecast.

"The food-at-home CPI has already increased more in the first four months of 2014 than it did in all of 2013," USDA noted. At-home spending accounts for about 60 percent of the U.S. food CPI.

Ok we get it: soaring food prices are not only already here but are set to surge even more, especially for those who rather eat real meat than mystery meat dispensed with largesse at your favorite \$0.99 fast food outlet.

So what are food processors to do facing soaring meat input costs and unwilling to suffer bottom line hits? Why, return to that old staple of unknown origin of course.

Here comes Pink Slime... again.

According to the WSJ, **"finely textured beef, dubbed "pink slime" by critics, is mounting a comeback as retailers seek cheaper trimmings to include in hamburger meat and processors find new products to put it in."**

Proving that popular memory lasts at best a couple of years, it was only in 2012 when sales of pink slime, **processed from beef scraps left after cattle are butchered**, collapsed in 2012 after a "social-media frenzy spurred by television reports raising questions about its legitimacy as a beef product. The ingredient's two largest producers, Beef Products Inc. and Cargill Inc., closed plants that made it and cut hundreds of jobs— while defending the product's quality and pointing out that the U.S. Department of Agriculture deems it safe."

What really allowed the scrapping of pink slime, however, was the broad decline in prices of non-alternative meat, as in the real deal. However, now that meat prices are soaring again (all weather mind you, nothing to do with the Fed), it is time for US consumers to eat "hedonically-cheap" "meat" once again.

[From the WSJ:](#)

Today, Cargill sells finely textured beef to about 400 retail, food-service and food-processing customers, **more than before the 2012 controversy**, though overall they now buy smaller amounts, company officials said. Production of finely textured beef at Beef Products has doubled from its low point.

The resurgence is being driven, in part, by an aversion to something many consumers and companies find even less pleasant than the pink-slime nickname: red-hot prices. Prolonged

drought in the southern Great Plains has shrunk U.S. cattle supplies to historic lows. **The retail price of ground beef soared 27% in the two years through April to a record \$3.808 a pound,** according to the U.S. Bureau of Labor Statistics.

That means serious sticker shock for U.S. consumers preparing to fire up their barbecues for Memorial Day weekend—the traditional start to the summer grilling season. The week leading up to the Monday holiday is typically one of the biggest sales periods for ground beef, with an estimated 160 million pounds likely to be sold during that stretch this year, according to CattleFax, a Colorado-based research firm.

How much of that burger meat contains finely textured beef isn't clear. **Prior to the flurry of media attention in 2012, Beef Products estimates, the ingredient was in as much as 70% of the ground beef sold in the U.S. at retail and in food service. Cargill and Beef Products decline to give a similar estimate now, but they say sales have rebounded sharply from their 2012 lows.**

So... 100%? But at least the Fed will soon be able to claim that "food" (or byproducts rather, but who cares) prices are plunging, even as it itself announced that food prices in its cafeteria have soared by up to 33% as Zero Hedge reported yesterday.

Meanwhile, it's a feeding frenzy, pardon the pun, out there by those who know too well that Americans don't really care what they shove in their mouths as long as it i) tastes kinda meaty and ii) is cheap.

"Two years ago, no one would return our calls," said Jeremy Jacobsen, spokesman for BPI, which closed three of its four plants in operation in 2012. "Now some of those same people are calling us unsolicited, and we don't have the sales staff to maintain the new business."

Finally for those who may have forgotten the prehistory of Pink Slime, here it is again. First, a look at how it is made.

And its recent turbulent history.

The ingredient began attracting wider attention last decade. A 2009 New York Times article cited a 2002 email by a USDA microbiologist who called the product "pink slime." TV chef Jamie Oliver used the epithet in an on-air critique in 2011. **After ABC News reports in 2012 scrutinized the product, a public backlash ensued, spread through social media.** That prompted several supermarket chains, including Kroger Co. and Supervalu Inc. to drop the beef

additive from their meat cases. Neither Kroger nor Supervalu sell the product today.

Critics were partly repulsed by images of the product—some of which the industry says were false—and by the idea of using chemical treatments such as ammonia gas on food products. Supporters of finely textured beef pointed out that many foods contain similar traces of ammonia naturally. BPI says it uses a form of the chemical called ammonium hydroxide. **That compound falls under the U.S. Food and Drug Administration's "generally recognized as safe" category, which means they are safe when used as intended.**

Officials including Agriculture Secretary Tom Vilsack defended the product's safety. **But its sales fell so sharply that they effectively reduced total U.S. beef supplies by 2% in 2012, according to agricultural lender Rabobank.**

BPI, based in Dakota Dunes, S.D., said it lost contracts with 72 customers, many over the course of one weekend in March 2012, forcing its production to slide below one million pounds a week at their nadir that year. **Customers were "dropping like flies," said Mr. Jacobsen, the BPI spokesman.**

BPI in 2012 sued ABC and several other defendants for defamation in South Dakota Circuit Court, seeking at least \$1.2 billion in damages. The state's Supreme Court on Thursday affirmed a decision by a lower court to let the case proceed, denying an appeal by ABC. The case hasn't gone to trial. Jeffrey Schneider, a spokesman for ABC, said the news organization continues to vigorously contest the charges.

At Cargill, about 80% of sales of the product evaporated "overnight" in 2012, said John Keating, president of Cargill Beef. The company ceased production at a plant in Vernon, Calif., in 2012, laying off about 50 workers. Mr. Keating said the lost business also contributed to Cargill's decision last year to idle a beef-processing plant in Plainview, Texas, where about 2,000 people were laid off. At other plants, production slowed.

Cargill's meat processors and chefs have been working with its customers to find new uses, such as frozen meatloaf and sausages, though 90% to 95% continues to go into ground beef, Mr. Keating said. Earlier this year Cargill, based in suburban Minneapolis, began to label boxes and packages of ground beef containing the product. Mr. Keating said the labels haven't much affected Cargill's ground-beef sales.

"It's a product we're working very hard to reintroduce," Mr. Keating said.

And a product which the Fed will be delighted when it is reintroduced because remember: it is all about hedonics. And there is nothing in the Fed rulebook that says replacing meat with "meat" if only to keep prices lower, is a bad thing. As long as the Fed academics running the centrally-planned economy get to keep eating the real thing of course.