

Cornhusker Economics

February 23, 2005

Cooperative Extension

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<http://agecon.unl.edu/pub/cornhusker.htm>

Beef Demand Increased in 2004

Market Report	Yr Ago	4 Wks Ago	2/18/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$78.43	\$88.06	\$87.57
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	109.85	126.14	130.28
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	89.32	107.60	104.54
Choice Boxed Beef, 600-750 lb. Carcass	127.58	154.88	143.54
Western Corn Belt Base Hog Price Carcass, Negotiated	60.05	73.16	68.76
Feeder Pigs, National Direct 45 lbs, FOB	45.36	67.20	64.45
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	66.22	75.13	68.79
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	100.00	107.00	111.50
National Carcass Lamb Cutout, FOB	214.22	244.17	266.50
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.74	3.31	3.31
Corn, No. 2, Yellow Omaha, bu	2.70	1.75	1.80
Soybeans, No. 1, Yellow Omaha, bu	8.84	5.23	5.38
Grain Sorghum, No. 2, Yellow Columbus, cwt	4.61	2.46	2.50
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	115.00	112.50
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	62.50	62.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	57.50	57.50
* No market.			

Beef demand increased about 8-10 percent in 2004. What does that really tell us and how is beef demand measured? For cattle producers, how does an increase in beef demand impact the price for fed cattle, feeder cattle and calves? The objective of this article is to answer those questions.

You might hear a market reporter state that “demand was stronger than a week ago at this week’s auction as all weights of feeder cattle sold for \$3-4 per cwt. higher.” Perhaps you have heard another report that “demand for beef was stronger this week as there were 300 more boxes of beef sold compared to the week earlier.” Each of these statements may be correct, but each of these statements may also be false. Was demand really stronger for the feeder cattle if only half as many were sold this week compared to the prior week? Likewise, was demand stronger for box beef if those boxes sold at a lower price than the prior week? To be able to correctly state whether demand was stronger or weaker requires information about both quantity and price. If the same number of feeder cattle were sold at a higher price this week, then demand was stronger. Similarly, if 300 more boxes of beef sold at the same price as the week earlier, then demand was also stronger.

How do we know that demand for beef increased in 2004? The short answer is that U.S. consumers ate more lbs. of beef and they paid a higher price for that beef this year, compared to last year. That is really all you need to know, and that is great news for the beef industry! However, if you want to know how we know beef demand increased 8-10 percent, then it gets a little more complicated. Prices must be adjusted for

inflation; there must be an estimate of how much prices are expected to change to a change in the quantity supplied, and; there must be some assumptions made about the type of beef that was consumed. For example, if all wages and prices increased in the economy, the definition of inflation, then simply selling beef at higher prices may not constitute an increase in demand. Did the price of beef increase more than the inflation rate? From prior research, economists assume that a 1 percent increase in the supply of beef will lead to a 1.7 percent decrease in the price for beef. Using this quantity-price relationship, and a general measure of inflation in the economy, and assuming the type of beef that consumers ate this year was the same as last year, one can calculate the percentage increase in beef demand. There are different beef price series and different measures of inflation that can be used, and that is why I place a range on beef demand increase in the 8-10 percent.

Using this same procedure, economists have estimated that beef demand has increased approximately 25 percent since 1997-98. The 1997-98 time period marked the low point in beef demand. Beef demand had declined since the late 1970's until 1997-98. Since that time, there has been fairly consistent growth in beef demand. Per capita consumption of beef in the U.S. in 1997 was nearly identical to per capita consumption in 2004. That allows for some direct comparisons of prices in 2004 and 1997, since quantity is unchanged. In 1997, the inflation adjusted price (2000 price level) for all fresh beef was \$264.51 per cwt. and in 2004 the inflation adjusted price was \$334.82 per cwt. That is an increase of 26.5 percent over the last seven years. The cattle industry needs to give out a few thank-yous for this increase in demand. Thank-you Beef Check-Off. Thank-you Low Carb diets. Thank-you beef merchants. Most of all, Thank-you Beef Consumers!

What is the impact of this increase in beef demand on the price of fed cattle? In 1997, fed cattle in Nebraska sold for \$66.27 per cwt. and in 2004 the average was \$84.91 per cwt. When these prices are adjusted to 2000 dollars, prices were \$69.45 and \$78.66 for 1997 and 2004, respectively. Without any increase in beef demand, the average price in 2004 would likely have been \$75 per cwt., \$10 per cwt. less than it actually was. The \$75 per cwt. price in 2004, when adjusted for inflation, would equal the 1997 inflation adjusted price. The \$10 per cwt., \$125 per head is the impact of increased beef demand since 1997.

If fed cattle were worth \$125 more per head in 2004, then they would have had no demand increases in the last seven years, then feeder cattle and calves were also higher valued. An 8-weight yearling was likely worth \$15 per cwt. more and a 5-weight calf was worth \$25 per cwt. more as a result of the increased beef demand over the last seven years.

Now, the next time you are at the coffee shop and some 'good ole boy' tells you that he sells cattle at the (*insert name here*) auction market and he doesn't give a $\$ \# \% \wedge * \% \$$ what happens to beef demand at the supermarket, you tell him that the reason he sold those steer calves for \$125 per cwt. rather than \$100 per cwt. is that retail beef demand has increased over 25 percent in the last seven years!

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