

# Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
University of Nebraska – Lincoln

## Increasing Beef Demand and Marketing Margins

Market Report	Yr Ago	4 Wks Ago	3/29/02
<b><u>Livestock and Products,</u></b>			
<b><u>Average Prices for Week Ending</u></b>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$79.16	\$70.51	\$70.90
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	94.70	*	87.86
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	99.20	93.36	95.02
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	117.54	109.39	108.42
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	47.75	39.00	34.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	58.81	*	46.61
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	121.30	103.50	95.90
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	*	64.25	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	171.00	142.80	142.95
<b><u>Crops,</u></b>			
<b><u>Cash Truck Prices for Date Shown</u></b>			
Wheat, No. 1, H.W. Omaha, bu	3.03	2.94	3.06
Corn, No. 2, Yellow Omaha, bu	1.82	1.87	1.86
Soybeans, No. 1, Yellow Omaha, bu	4.11	4.32	4.52
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.45	3.62	3.51
Oats, No. 2, Heavy Minneapolis, MN, bu	1.36	2.42	2.42
<b><u>Hay,</u></b>			
<b><u>First Day of Week Pile Prices</u></b>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	105.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	85.00	65.00	60.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	112.50	100.00	92.50
* No market.			

2001 was a challenging year for the beef industry. Concerns regarding bovine spongiform encephalopathy (BSE) and foot and mouth disease (FMD) in Europe and Asia and weaker world economies contributed to a 2 percent decline in beef consumption in 2001 compared to 2000. However, real retail choice beef prices increased nearly 8 percent. This translates into a year-to-year increase in retail beef demand of approximately 5 percent in 2001. This marked the third consecutive year of increasing retail choice beef demand.

In the 1980s and 1990s, retail beef demand declined precipitously until demand in 1998 was nearly half of that in 1980. Since its low in 1998, retail choice beef demand has increased over 12 percent. Although retail beef demand is strongly correlated with demand at the wholesale and farm level, a one-to-one correspondence does not exist. Figure 1 illustrates demand indices for retail choice beef, wholesale choice beef and choice Nebraska fed cattle. From 1990 to 1998, demand for each of these fell; however, wholesale beef demand and fed cattle demand declined more rapidly than retail beef demand. In fact, retail beef demand in 1998 was 83 percent of that in 1990, whereas wholesale beef and fed cattle demand were less than 70 percent of their 1990 levels. Further, increases in wholesale beef and fed cattle demand have not been as rapid as the increases in retail beef demand since 1998. Demand for retail choice beef has increased more than 12 percent from 1998 to 2001. However, demand for wholesale beef and fed cattle has increased 11 and 8 percent, respectively, during this same time period.

Demand at the farm level and wholesale level do not change at exactly the same rate as retail demand because marketing margins change over time. Marketing margins are an indicator of the costs to process and market beef products. The retail-to-wholesale marketing margin represents processing and marketing costs incurred by further proces-



sors and retailers to transform wholesale, boxed beef into salable retail beef cuts. The wholesale-to-farm marketing margin includes packer costs to slaughter cattle and to produce boxed beef. Changes in marketing margins over time may result from changes in processing and marketing costs, and may or may not reflect changes in the sector's profitability.

Figure 2 illustrates the real (deflated) retail-to-wholesale and wholesale-to-farm marketing margins. The average retail-to-wholesale and wholesale-to-farm marketing margin from 1990 to 2001 was \$477 and \$105, respectively. During this 12 year time period, the retail-to-wholesale marketing margin increased, on average, nearly \$10 per year, whereas the wholesale-to-farm marketing margin increased \$3.60 per year. This indicates that over 70 percent of the increase in the retail-to-farm marketing margin is attributed to the increase in the retail value relative to the wholesale value of the beef carcass, and less than 30 percent of the increase was realized in the beef packing sector. The retail-to-wholesale marketing margin, and to a lesser extent the wholesale-to-farm marketing margin has increased more rapidly in recent years (Figure 2) when beef demand was also increasing (Figure 1).

The increase in the retail-to-wholesale marketing margin does not necessarily indicate a change in retail profitability. Instead, it may reflect an increase in the processing and marketing expenses at the retail level incurred in recent years in an effort to improve demand. As the percentage of women in the work force increased and consumer disposable income grew during the 1980s and 1990s, consumers increasingly demanded food products with brand names, convenient packaging and easy preparation. The lack of such beef products contributed to the decline in beef demand. It was not until the late 1990s, however, that the beef industry was able to offer a variety of value-added, fully prepared, branded beef products that addressed consumer demand for convenience and taste. As a result, beef demand began to increase by the end of the 1990s.

The number of new value-added, fully prepared, branded beef products has increased rapidly in recent years. According to the National Cattlemen's Beef Association, 472 new beef products became available in 2001, up from 70 in 1997. Creating, producing and marketing these new products does not come without additional costs to beef processors and retailers. Considerable research is required to develop technology to market prepared and cooked beef products with long, stable shelf lives. Additional beef processing and packaging costs are also generated. Marketing and advertising to inform consumers of new products and to develop brand loyalty are generally necessary. Individual beef retailers and processors are currently

spending tens of millions of dollars yearly to develop and promote new value-added, branded beef products. Therefore, part or all of the increase in the retail-to-wholesale marketing margin in recent years reflects additional processing and marketing expenses at the retail level. As wholesalers and cattle producers continue to invest in marketing value-added, branded beef, retail marketing costs will comprise less of the total marketing expenses, thus improving wholesale beef and fed cattle demand relative to retail demand.

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Figure 1. Retail Choice Beef, Wholesale Choice Beef, and Choice Fed Cattle Demand Indices (1990=100)

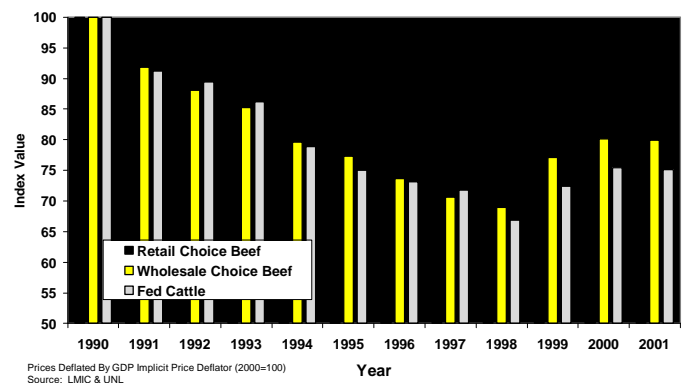


Figure 2. Real Retail-to-Wholesale and Wholesale-to-Farm Marketing Margins

