

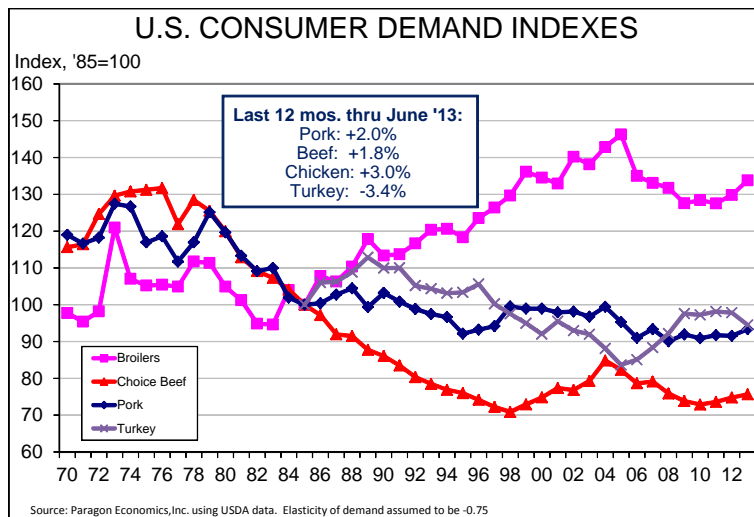
It strikes us frequently that we analysts do a lot of work on the supply side of the market and very little on the demand side. There are very good reasons for that, of course. We have bunches and bunches of data on animal and product inventories, the pace at which those animals are moving to market, how much they weight when they get there, the color of their eyes — okay, not the last one but you get our drift on this: We know quite a bit about supply at most times. Never as much as we want but quite a bit none the less.

Those quantities, of course, are just part of the “supply” equation since supply, like demand, includes a monetary component in the form of costs. Thus the reason that readers of The Daily LIVESTOCK Report read so much about grain prices and all of the factors that come to bear on that market. It was not long ago that livestock and meat analysts paid very little attention to grain markets but the dawn of subsidized and mandated biofuels and the now-obvious fact that the weather is not always favorable have put crop prices back into our set of calculations on a regular basis.

But even knowing all of the quantities and having some good ideas on costs omits the demand side of the market. And we spend precious little time on that topic, largely because the data are harder to come by and the modeling is so much more complex. Consider:

- The primary “demands” that drive all livestock and poultry markets are far removed from the farm and are, for the most part, more and more fragmented. “Consumer-level” domestic demand is itself split, at its simplest, between retail and foodservice. Export demand depends on even more “distant” factors and claimed 23% of our pork, 20% of our chicken and nearly 10% of our beef in ‘12.
- Many, many factors impact the demand for a product. We know quite a bit about some of those factors such as income levels and prices of substitutes and complements (more on these in a moment) but we know little about the big issues of consumer tastes and preferences and have historically not had many ways to monitor, and especially, predict them.
- And then there is the issue of retail prices. While we have data each month from USDA, it is still completely dependent on the data gathered by the Bureau of Labor Statistics and represents a “carcass-weighted” product set that may or may not be representative of what is actually being sold to U.S. consumers. And what about foodservice products? At present we must assign to retail price to it since that is all we have. We can make a good argument that the retail price as a “shadow” price for foodservice is correct but isn’t consumer value being added to that product?

So, we have done the best we can with what we have. Most notable among those efforts are the demand indexes first used by Professor Glenn Grimes at Missouri and then by Dr. Wayne Purcell at Virginia Tech. The indexes, we think, correctly and properly use the data available to compare the level of demand (ie. the position of that demand function in the traditional P-Q diagram space) from one year



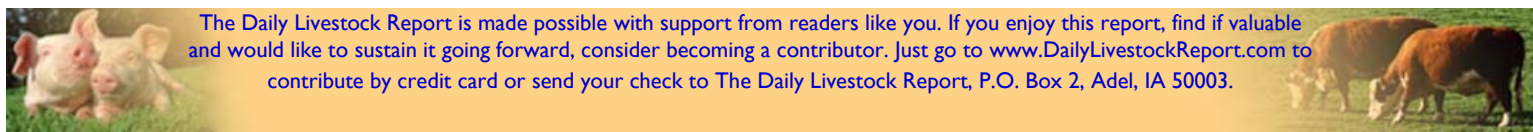
to the next. Indexing to a fixed time period allows comparison over time, providing at least some idea of how demand may have influenced prices. The National Pork Board now uses real per capita expenditures, a measure very closely related to the demand index, as its measure of pork demand primarily because RPCE is measured in dollars and is easier to compare on a month by month basis.

But there is a new effort at characterizing and measuring demand. Dr. Jayson Lusk at Oklahoma State University has developed the FooDS (Food Demand Survey) system that conducts a monthly, online survey of 1000 consumers to gauge their willingness to pay for various food items and their awareness and concerns about many aspects of food and food production. The effort is a new one with August being just the fourth month for which survey results have been published but it is, to us, an impressive effort. Survey reports and background information can be found at http://www.agecon.okstate.edu/agecon_research.asp.

The August survey indicated month-on-month increases for consumers’ willingness to pay (WTP) for beef steak (+6.4%), pork chops (10.9%), deli ham (4%) and chicken wings (12.4%). The survey indicated lower WTP chicken breast (-1.75) and hamburger (-.7%). Food expenditures declined in August by 1% versus July levels.

The survey also asks consumers about what they expect to do in “coming weeks”. August responses indicate higher expected purchases of chicken but lower purchases of beef and pork. In addition, 45% of consumers expect higher beef prices while 39% expect higher pork prices and 37% expect higher chicken prices.

It is difficult this early in the process to put the results in context after just four months of surveys but we think this is an effort worth of watching. And in case you missed it, Dr. Lusk’s book “The Food Police” is an excellent treatise on food economics and choice!



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