Daily Livestock Report

Sponsored in part by CME Group

Vol. 16, No. 34 / February 16, 2018

Long-time readers of this newsletter are well aware of the critical distinction that U.S. per capita beef consumption is NOT the same as domestic beef demand. Consumption is only one part of the two components of beef demand. Demand is price and quantity, together. Or, how much someone consumes, or purchases, at a given price. When beef price increases, people normally buy less. Economists call this changing quantity demanded. The demand relationship itself can shift up or down based on changes in incomes, tastes and preferences, the price of pork, etc. Increased demand results when there is a positive shift in the demand relationship.

Beef demand is notoriously difficult to measure, as are shifts in that relationship. One of the difficulties is consumers are all different, and data on what they actually eat are very limited. Further, beef and pork are not exactly what consumers buy. Consumers eat/consume meals. A hamburger based meal is much different than steak.

Using estimates incorporating per capita consumption, inflation-adjusted retail beef price, along with a few economic assumptions, a long-term measure of beef demand can be calculated. One way to summarize beef demand is to develop an index. Here we use 1990 as the baseline year (index value of 100). Some major economic assumptions are made with this approach. Further, there are issues in how the data are collected and then "adapted/aggregated) by the USDA's Economic Research Service. Still, this approach provides some useful things to consider IF viewed as a very broad paintbrush of the sector and not something that can be fine-tuned or dissected down to a percentage or two, and certainly not decimal points. These indexes should be evaluated over years rather than over months. For a much more complete discussion of these indexes, see this concise article (written in 2010) by Dr. Glynn Tonsor at Kansas State University available here.

If U.S. consumer demand has shifted positively, the index value increases. Red meat demand increases are most obvious when consumers buy more per person and also pay more for an item. The most recent dramatic examples of that situation tend to be periods of strong economic growth coupled with the surging popularity of high protein diets.

Both beef and pork demand eroded (shifted negatively) and then bottomed out during the depths of the recession (2010). The effect of the economic environment is obvious, just look back to 2010 when the beef index value was 75 versus 89 for 2017, a 19% improvement. If consumer demand was at 2010's level, retail beef and hence cattle prices would be much lower than they are today.

As measured by the indexes, for both beef and pork the basic domestic consumer demand functions did not improve significantly in 2017 compared to 2016. But, looking back several years, they remain rather strong. The "demand pull" in the marketplace that supported cattle and hog markets in 2017 was apparently not so much at the domestic consumer level as it was at the wholesale and live animal levels. For example, wholesale prices manifested the positive shift in export market demand. And front page featuring of meat in grocery adds also supported wholesale markets.