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In The Cattle Markets

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Beef Demand is Key: *Aim at the Correct Goal*

Analysts and producers alike are keenly monitoring ongoing adjustments in economic fundamentals underlying cattle markets. While some of the recent cattle price declines are associated with recognition that the industry is (albeit slowly) moving out of the “tight supply” situation of recent years, arguably the biggest driver of downward price pressure has been expanding bearish sentiment regarding global economic strength (recognize corresponding equity market reactions) and associated impacts on beef demand. As bearish signals on beef demand grow, market forces result in downward pressure on cattle prices throughout the entire supply chain.

As noted in a recent Kansas State University fact sheet with Ted Schroeder, the industry is at a critical crossroads and the role of beef demand will become increasingly clear to all.¹ One of the top priorities for maintaining and expanding beef demand is expanded understanding of demand concepts. Most cattle producers are aware of SPA (Standardized Performance Analysis) or other ranch management programs available to improve production and marketing efficiency by enhancing the management of their operation. In many related discussions the phrase “you can’t manage what you don’t measure” is used as an underlying reason to engage in SPA or an alternative program. As with these management programs, it is critical for producers to appreciate this simple yet crucial concept: *to sustain and build beef demand you first must understand what demand is.*

One of my favorite demand resources is nearly 20 years old yet immensely valuable today. In 1998 Wayne Purcell, who I regularly credit as the intellectual pioneer of contemporary meat demand monitoring efforts, wrote a piece titled “*A Primer on Beef Demand or To Fix it You Have to Understand It.*”² Written after nearly two decades of retail beef demand declines, this piece outlines a host of issues critical to understanding what beef demand is. Purcell’s “important rules” remain vitally important to appreciate today:

- *Per-capita consumption is not a measure of demand.*
- *Talking about “strong demand” when increased quantities are being taken at sharply lower prices is wrong and misleading.*
- *If demand is constant, the only way an increased per-capita supply will be taken by consumers is at lower prices.*
- *You cannot use high beef prices as a reason for weak beef demand since price is part of the demand schedule.*

¹ Interested readers may view this fact sheet at:

http://www.agmanager.info/livestock/marketing/Beef%20Demand/BeefDemand_08-28-15.pdf.

² This paper is available at: <http://www.naiber.org/Publications/RILP/primer1.pdf>.

- *If demand is decreasing, the only way to avoid losing market share is to reduce costs enough to keep the business viable.*
- *A prolonged period of decreasing demand for beef will eventually exceed even the most efficient producer's ability to cut costs.*
- *Significant changes in pork and chicken prices can and will shift beef demand from year to year and within the year.*
- *Changes in consumers' incomes are usually positive for beef demand, but rising incomes during the 1980s and 1990s have not offset other problems.*
- *The facts support a conclusion that, since 1979-80, consumers' preferences have turned away from beef as their needs and lifestyles have changed.*
- *If these pervasive problems are not fixed and the negative trend in beef demand isn't at least stopped, the beef sector will lose market share and will trend toward a smaller industry for the foreseeable future.*
- *It is time to do something, time to understand, time to get the product offering moved toward what the modern consumer wants and is willing to pay for.*

The good news for the industry is that substantial improvement in beef demand has occurred since 1998 when Purcell outlined these key concepts. Furthermore, a silver lining today is the industry has a unique opportunity being in the midst of a sustained period of retail beef demand growth. Since 1980, no other period of four consecutive demand growth years has occurred.³ An optimistic view is this situation sets the stage for ongoing absorption of additional beef supplies without substantially adverse drops in beef and cattle prices. Time will tell of course how strong future beef demand is but something all industry stakeholders can do is individually invest in understanding what demand is (and what it is not).

In basketball it is critical to know which goal your team wants the ball in; it is equally important to know which goal is your opponent's. Likewise, everyone in the beef industry can contribute by making sure they know what goal to collectively aim for. Making your industry stronger starts with the basic understanding of fundamentals as simple as identifying the right goal. Recognizing and grasping beef demand concepts is a key building block for sustained industry success.

³ Specific details on recent retail beef demand strength are available at:
<http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>.

The Markets

Cattle prices last week were mixed compared to prior week levels. The 5-area fed cattle price for the week was down over \$3 while Nebraska yearlings traded higher at \$221.21. Corn prices were down for the week trading at \$3.45 in Omaha.

		Week of	Week of	Week of
		9/4/15	8/28/15	9/5/14
<i>Data Source: USDA-AMS Market News</i>				
5-Area Fed Steer	all grades, live weight, \$/cwt	\$141.75	\$144.86	\$161.28
	all grades, dressed weight, \$/cwt	\$222.09	\$227.39	\$250.61
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$241.06	\$243.97	\$247.62
	Choice-Select Spread, \$/cwt	\$11.39	\$10.48	\$12.94
700-800 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$221.21	\$219.82	\$241.58
	Oklahoma 8-market average, \$/cwt	\$209.62	\$210.19	\$228.46
500-600 lb. Feeder Steer	Nebraska 7-market average, \$/cwt	\$253.90	\$255.08	\$279.00
	Oklahoma 8-market average, \$/cwt	\$233.98	\$231.83	\$258.85
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.45	\$3.60	\$3.40
	DDGS Price, Nebraska, \$/ton	\$138.50	\$141.30	\$105.00