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## In The Cattle Markets

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### Beef Demand: Q3 Update and Broader Understanding

The past couple months likely will go down as some of the most turbulent in memory for most cattle producers. At the heart of industry-wide price declines and rallies has been concern and uncertainty regarding both supply and demand fundamentals. Most of the near-term supply pressures related to extra heavy-weight fed cattle are well documented. What is less well understood and shrouded in uncertainty is the status of beef demand strength.

Accordingly it is useful to note the KSU All Fresh Beef Demand Index (AFBDI) increased 8.7% compared to 2014.<sup>1</sup> To appreciate the AFBDI patterns, note per capita consumption increased by 2% and real prices increased by 6% in the third quarter. Anytime we observe both consumption and price increases we know demand improved as consumers clearly were willing to pay more for beef than in the past. In economic jargon we know the demand curve shifted in a positive way for the industry. This strong demand estimate suggest the widely stated concerns with demand strength in September may have been overstated or at least were offset by prior strength in July and August.

As noted many times before, the background confusion and uncertainty on demand calls for all industry participants to engage in ongoing education. This includes recognition of alternative methods of assessing demand. Therefore it is valuable to briefly summarizing key aspects and differences between two alternative ways of assessing retail beef demand: KSU indices and the Food Demand Survey (FooDS) published by Oklahoma State University<sup>2</sup>.

The demand indices currently released by KSU measure revealed preferences as informed by governmental estimates of past consumption (disappearance) and retail prices. This approach relies on an assumed elasticity estimate conveying how price sensitive we believe consumers are. By design this provides a backward looking estimate of how strong demand was in the most recently completed quarter.

The FooDS is a monthly survey conducted since May 2013 of at least 1,000 individuals weighted to reflect the U.S. population. The FooDS includes a sequence of product-selection questions from which estimates are derived of what consumers say they would pay for eight specific food products including steak and hamburger. Accordingly this approach measures stated preferences as directly gathered from the consumer, by design attempts to look at the

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<sup>1</sup> Additional details on the KSU demand indices and demand concepts more broadly are available at: <http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>

<sup>2</sup> Additional details on the OSU FooDS are available at: [http://www.agecon.okstate.edu/agecon\\_research.asp](http://www.agecon.okstate.edu/agecon_research.asp)

current month's demand strength, does not require any assumptions regarding price elasticity estimates, and offers less aggregated estimates of demand.

The KSU index and FooDS approaches each offer valuable demand information and have their own set of strengths and drawbacks. Ongoing research will more finely assess the relative merits of each approach as this is the main subject of interest in an active USDA funded grant project.<sup>3</sup> In the meantime, it is useful to appreciate my favorite quote from the most recent issue of *The Economist* magazine: "it is only by understanding differences between people that we can understand the whole" in discussing Angus Deaton's contributions to economics as the recent recipient of the Nobel Prize.<sup>4</sup> Similarly, it is only by investing in assessing demand multiple ways can the industry truly advance its understanding of beef demand. The critical importance of said understanding should be clear to all producers as industry success is contingent on providing consumers products they strongly demand.

### The Markets

Cattle prices last week increased from prior week levels. The 5-area live fed cattle price for the week was up nearly \$8/cwt while Nebraska yearlings traded steady at \$197.13/cwt. Corn prices were down for the week trading at \$3.47 in Omaha.

		Week of	Week of	Week of
		10/16/15	10/9/15	10/17/14
<i>Data Source: USDA-AMS Market News</i>				
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$132.95	\$125.35	\$163.76
	all grades, dressed weight, \$/cwt	\$204.98	\$195.92	\$257.75
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$209.46	\$203.67	\$249.26
	Choice-Select Spread, \$/cwt	\$5.12	\$5.47	\$13.73
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$192.69	\$181.72	\$241.24
	Nebraska 7-market, \$/cwt	\$197.13	\$197.52	\$250.71
	Oklahoma 8-market, \$/cwt	\$194.16	\$186.44	\$245.35
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$218.89	\$206.62	\$285.80
	Nebraska 7-market, \$/cwt	\$227.46	\$217.26	\$293.57
	Oklahoma 8-market, \$/cwt	\$210.88	\$196.20	\$272.00
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.47	\$3.59	\$3.09
	DDGS, Nebraska, \$/ton	\$115.31	\$117.90	\$111.75

<sup>3</sup> Dr. Tonsor and Dr. Jayson Lusk (lead researcher with FooDS at Oklahoma State University) are collaborating on a USDA funded grant project (2015-67023-23134) titled "Using Consumer Tracking Survey to Understand and Forecast Changes in Consumer Demand for Disaggregated Meat Products."

<sup>4</sup> Interested readers can find this article at: <http://www.economist.com/news/finance-and-economics/21674436-angus-deaton-wins-nobel-prize-bringing-economics-back-real>