

In The Cattle Markets

Glynn T. Tonsor, Associate Professor

Department of Agricultural Economics, Kansas State University

Beef Demand Update and Context ...

The Choice Retail Beef and All Fresh Beef Demand (AFBD) Indices for the third quarter of 2014 each rose by 3.9%.¹ There now have been year-over-year increases in the AFBD Index in 16 of the last 17 quarters (only exception was Q1.2014).

To better understand the AFBD note this recent demand increase reflects per capita consumption declining by 4.6% and real (inflation-adjusted) prices increasing by 11.3% (\$5.51/lb nominal price). **If** real prices would have increased by 7.1% then the AFBD index would have been unchanged from the third quarter of 2013. The fact prices increased more than this 7.1% “no demand change” level signals that beef demand improved notably.

This most recent illustration provides one of multiple historic examples of how beef demand can improve when per capita consumption declines highlighting critical concepts. First, despite fairly wide-spread confusion on the topic, per capita consumption is **not** demand as consumption alone says little about the value consumers place on beef offerings.² In fact, there have been periods of beef demand declining when per capita consumption has increased because prices had to notably fall to move product. Second, the realized 11.3% price increase exceeding the index suggested price of 7.1% that corresponds with no change in beef demand clearly signals ongoing demand enhancement. That is, while consumers are being offered less beef currently (largely reflecting well noted production reductions), there is nothing forcing consumers to pay “this much more” for beef and the fact they are voluntarily do so is a very positive thing for all industry stakeholders.

Given the generally tight cattle and hence beef situation, cattle producers would be realizing historically high prices with a flat or stable beef demand environment. What is critical to really appreciate is that this tight supply situation has been coupled with an extensive period of demand improvement. This ongoing demand enhancement has provided yet another factor “pulling up” cattle and beef prices. Like many other economists, yours truly believes many things can be explained by understanding supply and demand factors. The sooner beef industry stakeholders appreciate the critical role of both the better as decision making and overall industry viability will correspondingly improve. At some point in the future the

¹ Details are available at:

<http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>

² See this demand index concept paper for more details:

http://www.agmanager.info/livestock/marketing/graphs/Meat%20Demand/Index/IndexOverview_09-14-10.pdf

support of tight supplies will mitigate and the ability to understand and act upon demand signals will only be further heightened.³

The Markets

Cattle prices were mixed this week compared to last. The 5-area fed cattle price for the week was down at \$167.46 per cwt live weight while Nebraska yearlings traded higher at \$248.01 per cwt. Corn prices were up for the week trading at \$3.31 per bushel in Omaha.

<i>Data Source: USDA-AMS Market News</i>		Week of	Week of	Week of
		10/31/14	10/24/14	11/1/13
5-Area Fed Steer	all grades, live weight, \$/cwt	\$167.46	\$168.79	\$131.99
	all grades, dressed weight, \$/cwt	\$263.23	\$264.79	\$207.96
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$251.79	\$249.50	\$204.56
	Choice-Select Spread, \$/cwt	\$13.21	\$15.22	\$15.58
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$245.95	\$237.01	\$161.07
	Nebraska 7-market average, \$/cwt	\$248.01	\$245.69	\$177.07
	Oklahoma 8-market average, \$/cwt	\$237.37	\$239.44	\$168.14
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$281.42	\$288.12	\$178.61
	Nebraska 7-market average, \$/cwt	\$293.72	\$293.32	\$192.63
	Oklahoma 8-market average, \$/cwt	\$281.65	\$274.25	\$180.29
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.31	\$3.23	\$4.21
	DDGS Price, Nebraska, \$/ton	\$111.80	\$105.85	\$200.00

³ Interested readers may also benefit from related narration in this week's K-State *Agriculture Today* 'Livestock Market Update' interview available at: <http://www.ksre.ksu.edu/news/p.aspx?tabid=66>