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Domestic Beef Demand Growth Comes To A Halt

Domestic beef demand during the first quarter of 2005 was slightly weaker than a year ago, but still nearly 10 percent stronger than two years ago. Per capita retail beef consumption in the U.S. during 2005's first quarter totaled 15.6 pounds, a decline of 2 percent compared to 2004. The year-to-year consumption decline occurred primarily because domestic beef production was smaller than last year. Inflation adjusted prices for Choice beef at retail rose less than 1 percent above the year ago quarter's average, which was less than expected given the supply decline. As a result, beef demand index calculations indicate U.S. beef demand during first quarter 2005 declined about 1 percent compared to January-March 2004.

Still, demand index values indicate that beef demand during 2005's first quarter was about 10 percent stronger than two years ago and 22 percent stronger than in 1998, when domestic beef demand bottomed out. Odds favor domestic consumer demand for beef the rest of this year holding near or, perhaps, slightly below 2004's level. That is not bad, especially from a historical perspective. But the recent decline is in sharp contrast to late 2003 and the first three quarters of 2004 when beef demand was growing rapidly as interest in low carbohydrate diets peaked. Looking ahead, reopening of foreign markets to U.S. beef could, at least in part, compensate for weakness in domestic demand.

In The Markets

Prices declined again last week. Fed steer prices in Kansas averaged \$86.88/cwt. (live weight), which was \$2/cwt. lower than the prior week. Dressed weight steers in Nebraska averaged \$138.14/cwt., a decline of nearly \$3.50/cwt. compared to the prior week. Trade so far this week has been at lower prices. On limited trade volume through June 1, 2005, slaughter cattle in Nebraska were changing hands at \$135/cwt. (dressed weight). Feeder cattle prices also declined last week, at least in Kansas. Prices for 700-800 lb. steers in Kansas averaged \$115.58/cwt., \$3 lower than a week earlier. Reported prices for 500-600 pound steers in Kansas also declined, but trade volume was light. Weakness in fed cattle prices is being driven by declining boxed beef values. USDA's Choice boxed beef cutout declined again last week, averaging \$153.39/cwt., approximately \$3/cwt. lower than the prior week. The decline continued again this week as the Choice boxed beef cutout averaged \$147 on June 1, 2005. The Choice-Select price spread declined to a \$12.47/cwt. average, which was also nearly \$3/cwt. lower than last year. The Choice-Select price spread declined even further this week, dropping below \$10/cwt. on June 1, 2005.

| | Last Week | Previous Week | Last Year |
|---|----------------------|--------------------------|----------------------|
| Kansas Fed Steer Price, live weight | \$86.88 | \$88.85 | \$84.87 |
| Nebraska Fed Steer Price, dressed weight | \$138.14 | \$141.57 | \$135.58 |
| 700-800 lb. Feeder Steer Price, KS 3 market average | \$115.58 | \$118.52 | \$109.66 |
| 500-600 lb. Feeder Steer Price, KS 3 market average | \$135.71 | \$137.59 | \$120.02 |
| 700-800 lb. Feeder Steer Price, NE 7 market average | \$120.66 | \$118.65 | \$115.50 |
| 500-600 lb. Feeder Steer Price, NE 7 market average | \$152.70 | \$142.29 | \$128.15 |
| Choice Boxed Beef Price, 600-900 lb. carcass | \$153.39 | \$156.25 | \$149.20 |
| Choice-Select Spread, 600-900 lb. carcass | \$12.47 | \$15.36 | \$16.93 |