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In The Cattle Markets

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Declining Domestic Demand for Beef

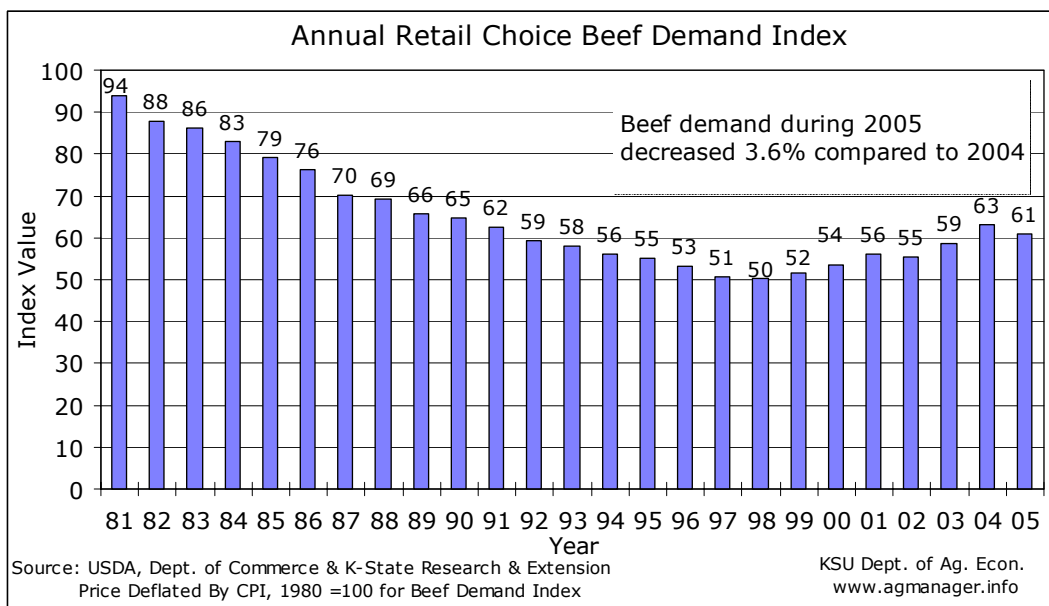
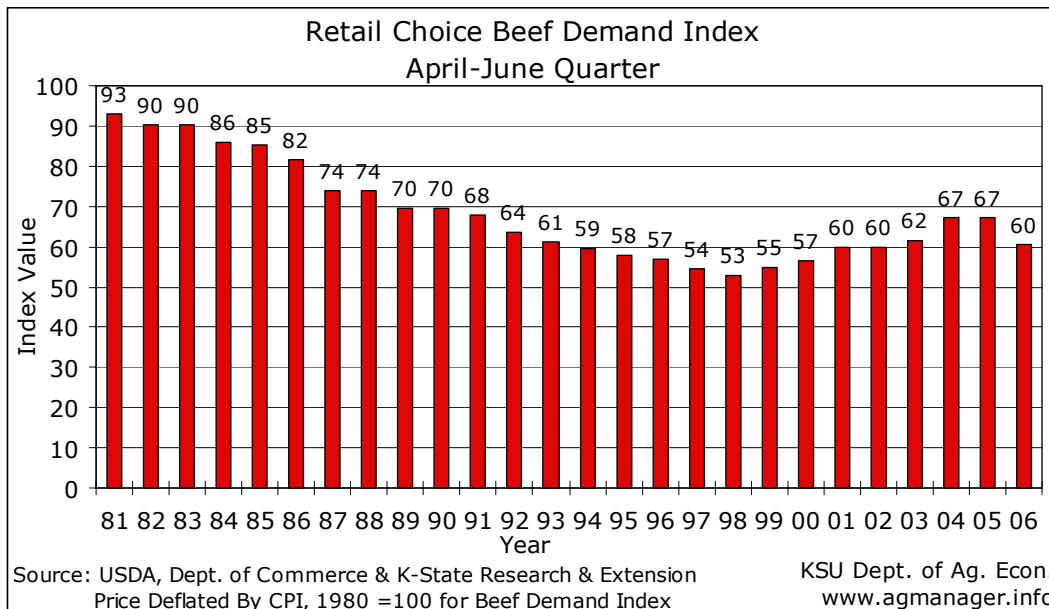
Strong demand for beef in the U.S. market helped U.S. cattle producers weather the loss of key export markets in 2004. Demand growth in 2004 was a continuation of a trend that got underway in the late 1990's. After spiraling downward for the better part of two decades, domestic beef demand started to improve in late 1998 and early 1999. And, with the exception of a very mild downturn in 2002, year-to-year improvements in domestic beef demand were the norm from 1999 through 2004. But that situation began to change in 2005.

Measuring year-to-year changes in consumer demand for beef at retail is difficult. We know that as the quantity of beef available in the marketplace changes, the market clearing beef price will change. Typically, consumers are willing to consume larger quantities of beef only at lower prices, and are willing to pay higher prices for beef when the quantity of beef available declines. These shifts in available supplies essentially trace movement along an existing downward sloping demand curve. Shifts in consumer demand occur, however, when the entire demand curve shifts, either up or down, because of a change in myriad other factors that affect consumer demand. Examples include changes in consumers' disposable income, availability of competing meat products, or consumers' dietary preferences, perhaps because of concerns about health or caloric consumption. To measure shifts in the entire demand curve, the beef demand index was developed a decade ago.

To calculate the beef demand index, a base year is chosen. The inflation adjusted price for Choice beef at retail is compared to the inflation adjusted retail beef price in the current year, adjusted for the change in per capita beef supplies that has occurred since the base year. Adjusting the current year's price for the change in per capita beef supplies compensates for movement along the demand curve that occurred since the base year. The current year's inflation and supply adjusted retail Choice beef price is then divided by the base year's inflation adjusted price and the result is multiplied by 100 to obtain the beef demand index value for the current year. Although any base year can be employed when calculating the demand index, 1980 is generally used by convention since that coincides with the approximate start of the long-term decline in beef demand.

What do recent beef demand index calculations reveal? Unfortunately, it's not encouraging. After strengthening sharply during 2004, demand for Choice retail beef showed signs of softening during the first half of 2005, but the year-to-year declines were negligible. During the last half of 2005, however, beef demand weakened appreciably. Compared to a year earlier, beef demand index values declined 7 and 6 percent, respectively, during the third and fourth quarters of 2005. And the downtrend continued during the first half of 2006. The first quarter 2006 beef demand index value was 5 percent below the first quarter of 2005 and the second quarter 2006 index value fell 10 percent below a year earlier.

Why has domestic beef demand been declining lately? The beef demand index does not provide an explanation regarding why beef demand shifted, it simply documents the shift that's taken place, so we're left to speculate regarding causation. During the late 1990's and early part of this decade, consumer interest in low carbohydrate diets was growing rapidly. The rebound in beef demand coincided with the low carbohydrate diet boom so it's reasonable to think that played a big role. But, as expected, it looks like low carbohydrate diets turned out to be another consumer fad that is rapidly running its course. The recent decline in the beef demand index coincides with the downturn in consumer interest in high protein, low carbohydrate diets. At the same time, energy prices have increased dramatically, which has reduced funds available for consumers' discretionary spending. As a result, it looks like we can expect continued weakness in domestic demand for beef.



The Markets

Slaughter cattle prices weakened last week, averaging near \$89/cwt. (live weight) in Kansas and \$138.55/cwt. (dressed weight) in Nebraska. Prices in both markets were about 2 percent lower than a week earlier. So far this year, Kansas slaughter steer prices have averaged \$85.43/cwt., down about 1.5 percent compared to a year ago. Prices for Choice boxed beef also declined moderately last week, falling about 1 percent below the prior week's average. The Choice-Select spread was virtually unchanged from a week ago, averaging \$9.62/cwt. Feeder cattle and calf prices changed little last week, except for 700-800 pound steers in Kansas, which dropped back to about \$119/cwt. after averaging \$124/cwt. two weeks ago. Through last week, prices for 700-800 pound steers in Kansas this year have averaged \$111.50/cwt., down less than 1 percent compared to the same period in 2005. At the same time 500-600 pound steer prices in Kansas have averaged \$131.93/cwt., about 1 percent higher than last year.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$88.94	\$91.20	\$86.80
Neb. Fed Steer Price, dressed weight	\$138.55	\$141.70	\$136.64
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$118.95	\$124.39	\$117.92
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$131.56	\$131.44	\$132.02
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$123.22	\$123.75	\$122.29
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$137.90	\$135.34	\$137.57
Choice Boxed Beef Price, 600-900 lb. carcass	\$147.26	\$148.07	\$139.07
Choice-Select Spread, 600-900 lb. carcass	\$9.62	\$9.69	\$11.09