

## In The Cattle Markets

Glynn T. Tonsor, Associate Professor

Department of Agricultural Economics, Kansas State University

### Beef Demand Strength Update and Implications...

The combination of substantial \$/cwt changes in cattle market prices since the start of this year coupled with the sheer amount of money at stake in each managerial and marketing decision continues to magnify producer interest in current information regarding supply and demand fundamentals. While a wealth of information is available on current (and upcoming) meat and livestock supplies (e.g. reports including Cattle Inventory, Cattle on Feed, and Cold Storage), there comparatively is much less information available regarding demand strength. Nonetheless, nearly all economists highlight it takes an understanding of BOTH supply and demand to appreciate the current and possible future market situation.

One key source of retail beef demand information is provided by quarterly demand indices maintained at Kansas State University. While more details are available online<sup>1</sup>, the KSU demand indices can best be succinctly described as comparing expected beef prices with realized prices to identify if demand has strengthened or weakened. If the realized price is higher (lower) than expected given changes in beef volume, then we have evidence of demand improving (declining). This comparison of expected and realized prices relies upon information from BLS regarding retail meat prices, USDA estimating per capita beef disappearance, and the academic literature indicating that beef prices increase (decrease) 0.542% for each 1.0% decrease (increase) in quantity available.

In the first quarter of 2015, beef prices increased by 13.48% and per capita consumption increased slightly (+0.01%) compared to 2014 levels. While the change in consumption was small, it is imperative to note both prices and consumption volume increase ONLY if beef demand improves. That is, if demand was unchanged (or declining) a lower beef price would be necessary to facilitate purchase of the increased beef volume available. The KSU All Fresh Beef Demand (AFBD) index estimates this Q1.2015 demand increase was +15.5% which was the largest quarterly increase in the life of this series going back to 1990. In fact, the AFBD has increased in 18 of the most recent 19 quarters.

Implications of this demand improvement are best highlighted by two interpretive examples. The AFBD index was 80.3 in the first quarter of 2014 implying that retail beef prices were 19.7% lower than they would have been had beef demand been at its 1990 level. Fast forward to the most recent quarter and the AFBD index of 92.8 implies first quarter 2015 beef prices were only 7.2% lower than they would have been had beef demand been at its 1990 level.

---

<sup>1</sup> Computation details and quarterly updates are posted online for interested readers:  
<http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>

Substantially closing the gap between current and past periods of demand strength is critical. As higher retail prices are realized, the derived demand increases throughout the industry from wholesale beef to seedstock producers leading to higher sales prices.

As the industry proceeds to likely continue the process of expanding the breeding herd and hence beef production, the recent period of substantial supply-side price support will at least partially subside in coming years. During this process, the ever-present but often overlooked role of beef demand strength will become increasingly clear. Join me in hoping for both ongoing beef demand strength and enhanced understanding of implications by industry stakeholders.

### The Markets

Cattle prices last week generally decreased from prior week levels. The 5-area live fed cattle price for the week was down nearly \$2.50 while Nebraska yearlings traded higher at \$233.92. Corn prices were steady for the week trading at \$3.71 in Omaha.

		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		4/24/15	4/17/15	4/25/14
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$159.18	\$161.65	\$146.34
	all grades, dressed weight, \$/cwt	\$255.84	\$256.77	\$235.08
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$259.20	\$259.02	\$231.91
	Choice-Select Spread, \$/cwt	\$9.22	\$8.67	\$11.49
<b>700-800 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$222.33	\$222.88	--
	Nebraska 7-market average, \$/cwt	\$233.92	\$230.78	\$187.57
	Oklahoma 8-market average, \$/cwt	\$218.02	\$220.42	\$181.44
<b>500-600 lb. Feeder Steer</b>	Montana 3-market average, \$/cwt	\$274.09	\$283.05	--
	Nebraska 7-market average, \$/cwt	\$284.52	\$287.43	\$231.39
	Oklahoma 8-market average, \$/cwt	\$272.85	\$277.67	\$211.06
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.71	\$3.73	\$4.91
	DDGS Price, Nebraska, \$/ton	\$177.70	\$176.65	\$227.50