

**In The Cattle Markets**  
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### **Beef Consumption vs. Demand**

Economic growth projections for the US and the world have been revised downward due to the impacts of COVID-19, with many global growth projections having contractions of nearly 3%. The US is expected to have one of the largest individual country contraction rates and is expected to contract nearly 5.7%. What does this mean for the beef market?

Beef is a perishable product, and consumption typically occurs shortly after production. A consistent relationship between consumption and production exists. Consumption does not reflect consumers' perception of beef in the marketplace, but instead is a function of production. Consumption is calculated as beef production plus imports minus exports and disappearance. The remaining is assumed to have been consumed. For the second quarter of 2020, overall beef consumption is expected to be down 12.5% from 2019.

Even though we eat (i.e., consume) the beef produced, it doesn't mean that beef demand remains in a consistent relationship with production. Beef consumption can increase without an increase in beef demand because beef demand and beef consumption are not the same thing. For example, beef consumption might increase because more beef is produced, but beef demand decreases because consumers are willing to pay less for each pound of beef they do consume.

Beef demand is impacted by several factors including beef prices, as well as prices of alternative proteins such as pork and chicken. Additionally, income is another determining factor in beef demand, as well as other factors such as tastes and preferences. Demand reflects consumers' perceptions of beef in the marketplace and is representative of consumers' willingness to pay for beef. The beef demand index calculated at Kansas State University shows a decrease of almost 18% for choice retail beef for April 2020, compared to April 2019.

Typically, more than half of US beef consumption is through foodservice venues, compared to retail venues. Beef products consumed through foodservice vary from those products consumed through retail. The market saw this disruption and change in where beef is consumed manifest through the narrower spread between round and rib primals. Although this spread has begun returning to pre-COVID levels, it will likely experience volatility until the restaurant industry had recovered.

Given a potential months long economic recession, overall beef demand will likely be down even as sit-down restaurants open across the USA. Consumers will likely see a small decrease in beef consumption due to the expected decrease in 2020 beef production quantities,

but the respective beef demand will likely be down more as consumers will be less willing to pay high prices for beef. The return to US consumers spending large amounts on highly valued beef cuts will be slow and largely dependent on macroeconomic growth and sit-down restaurants will find creative ways to entice patrons to return, including menu changes with lower price entrees. As such, overall beef demand will likely be down, while demand for higher-valued primals, typically consumed through foodservice, will be down more than the overall beef demand.

What does this mean for cattle prices? Until sit-down restaurants are operating at levels prior to COVID there will likely be differences in the spread between different primals, no matter the amount of cattle processed. It will take months for the US processing sector to work through the backlog of cattle on feed, but as it does so, the spread between wholesale beef and live cattle prices will return to traditional levels, although at likely lower absolute price levels for both live cattle and beef due to the macroeconomic downturn.

## **The Markets**

Last week's WASDE report indicated very few changes for the corn market, although projected carryover increased to 3.323 billion bushels. USDA's crop production ratings for the corn crop improved slightly. Meanwhile, technical indicators forecast a short-term price increase. Corn prices will likely to continue in a choppy pattern for the next couple weeks.

Feeder cattle prices continued to weaken based off the concerns that summer temperature will rise and wreck pastures. November 2020 and January 2021 have slight support as the market tries to determine when the backlog of cattle will be pushed through the system and feedlots have greater ability to restock their bunks with new cattle.

Boxed beef prices are \$0.77 lower from Friday at \$229.87 but up \$7.22 from year ago for choice. Select boxed beef is down \$4.10 from Friday at \$215.17, but up \$12.78 from year ago.

USDA clarified the definition of slaughter cattle: fed cattle to be animals with a weight of 1,200 pounds or more that are intended for slaughter. Additionally, "unpriced" is now defined as "based on whether a forward contract, agreement, or similar binding document was in place as of January 15, 2020."

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 6/12/20</b>	<b>Week of 6/5/20</b>	<b>Week of 6/14/19</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$104.47	\$112.39	\$113.62
	all grades, dressed weight, \$/cwt	\$166.40	\$179.04	\$184.48
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$240.77	\$297.90	\$222.11
	Choice-Select Spread, \$/cwt	\$16.56	\$19.70	\$15.86
<b>700-800 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$143.43	\$138.55	--
	Nebraska 7-market, \$/cwt	\$139.86	\$144.11	\$153.61
	Oklahoma 8-market, \$/cwt	\$132.07	\$132.75	\$139.04
<b>500-600 lb. Feeder Steer</b>	Montana 3-market, \$/cwt	\$172.93	\$178.00	--
	Nebraska 7-market, \$/cwt	\$170.31	\$171.61	\$180.50
	Oklahoma 8-market, \$/cwt	\$145.88	\$150.00	\$156.15
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.18	\$3.15	\$4.33
	DDGS, Nebraska, \$/ton	\$123.70	\$124.00	\$132.50