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## Economy Hard on Beef and Pork Demand

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# CORNHUSKER ECONOMICS

March 18, 2009

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
<http://www.agecon.unl.edu/Cornhuskereconomics.html>

## Economy Hard on Beef and Pork Demand

The inventory of all cattle and calves reached a 50-year low at the end of 2008. Pork producers reduced the size of the breeding herd late in 2008. Imports of feeder cattle, feeder pigs and slaughter cattle and hogs from Canada have dropped dramatically since the fourth quarter of 2008. And, never-before seen drops in broiler production occurred in the last few months of 2008. With production of nearly all sectors of the meat industry lower than year-ago levels, why haven't livestock prices rallied in response? The economic times we're in have reduced demand. People haven't been willing or able to consume more beef and pork at higher prices.

The economic recession, and troubles in the financial markets impact beef and pork demand in obvious and not-so-obvious ways. Beef and pork demand can be broken down into two categories: domestic consumption and exports. In most respects, exports over the past year have been very positive and growing for both beef and pork markets. In 2008, beef and veal exports were up 32 percent compared to 2007, as shipments to Japan, Korea, Mexico and Canada increased. United States pork exports were up an astounding 49 percent in 2008 and accounted for nearly 20 percent of U.S. commercial pork production. At a time when the beef and pork industries were growing increasingly reliant on the export market (late in 2008), exports of both meats began to fall, but did remain above year ago levels. Exports in the fourth quarter of 2008 fell in response to several factors. Foreign consumer demand for high valued proteins declined as they, like Americans, realized lower consumer income, job losses, equity erosion and other consequences of economic hard times in their own countries. Further, the value of the U.S. dollar rallied appreciably relative to most world currencies (except the Japanese yen), making U.S. products relatively more expensive on world markets. Additionally, with increased credit uncertainties across the world banking system, financial institutions were generally less willing or able to provide credit guarantees for importers buying products on the world market. With tighter credit conditions and relatively higher prices for many customers of

Market Report	Yr Ago	4 Wks Ago	3/13/09
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$89.78	\$80.87	\$80.07
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb....	121.81	112.42	112.43
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb....	102.26	94.54	94.02
Choice Boxed Beef, 600-750 lb. Carcass.....	145.69	136.62	135.70
Western Corn Belt Base Hog Price Carcass, Negotiated.....	50.41	61.08	55.41
Feeder Pigs, National Direct 50 lbs, FOB.....	50.44	63.80	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	57.73	58.13	58.19
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	95.38	95.00	93.75
National Carcass Lamb Cutout, FOB.....	262.09	249.03	247.01
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Imperial, bu.....	11.90	4.97	5.20
Corn, No. 2, Yellow Omaha, bu.....	5.25	3.55	3.83
Soybeans, No. 1, Yellow Omaha, bu.....	12.53	9.55	9.09
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	9.09	5.05	5.82
Oats, No. 2, Heavy Minneapolis, MN, bu.....	3.81	1.89	1.93
<b><u>Feed</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	135.00	200.00	190.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	85.00	77.50	77.50
Grass Hay, Large Rounds, Premium Nebraska, ton.....	*	85.00	85.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.....	167.50	137.50	128.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.....	63.00	46.00	48.62
<b>*No Market</b>			

U.S. beef and pork, exports began to fall. Importantly, this wasn't just realized in the demand for meat cuts and ground product, but also in the demand for hides and offal products. A large majority of hides are exported to other countries for tanning and processing. Further, edible offal products (e.g., beef tongues, etc.) are heavily reliant on foreign demand. These products are subject to the credit and currency value changes mentioned above. But worldwide demand for leather products has also slumped – people tend not to buy expensive leather shoes during recessions, and declining auto sales has also contributed to lower leather demand. Last August, the value of a steer hide was about \$68. By December, the same hide would have been worth about \$30. The inedible offal market has similarly been affected. Products like tallow, lard and grease have also seen price declines, part of which are attributed to the large drop in energy prices during the second half of 2008 (as animal fats, these products are alternative energy sources). Overall, the value of beef hide and offal value dropped from record highs of about \$12/cwt to less than \$6/cwt from July through December, and pork by-product values dropped nearly 50 percent as well. If all of that price drop were passed back to live feeders, it would result in cattle and hog prices declining by about \$75/head and \$10/head, respectively.

Domestically, beef and pork demand have suffered from declining consumer disposable incomes, job losses and overall negative outlooks associated with the economy. At retail grocery stores and supermarkets, consumers have “traded down” from higher valued steaks to lower valued ground beef. Consequently, the value of middle meats (e.g., loins) has declined relative to hamburger prices. Further, consumers have “traded down” from beef to less expensive pork, or away from red meat to poultry, or away from meat altogether and purchased rice and pasta as cheaper substitutes. In 2008, per

capita choice beef consumption was down 3.8 percent, and real (inflation adjusted) prices were about constant with 2007. So choice beef demand was down about 3.7 percent (Figure 1). Pork demand was down a similar 3.8 percent in 2008 (Figure 2). Per capita consumption of pork fell only 1.8 percent; however, real retail pork prices also dropped 1.8 percent last year.

Although retail beef and pork demand has been impacted, retail sales have fared better than the hotel, restaurant, and institution (HRI) trade. Clearly, consumers have responded to the economic recession by dining out less frequently and preparing more meals at home. The restaurant industry has been particularly hard-hit by this trend, with many sectors of that industry realizing some of its lowest-ever sales and growth performance. While fine dining establishments report an 80 percent decline in sales, other restaurant categories such as family dining, casual dining, and quick casual also saw sales drop off by 50 percent. Limited service (“fast-food”) restaurants, however, saw an increase in sales as consumers switched their remaining “dining out dollars” to what they viewed as their most

affordable alternative. The importance of sales declines in the HRI trade to the beef and pork industry shouldn't be underestimated, as the proportion of domestic consumption occurring in HRI has been growing significantly in recent years.

The outlook for beef and pork demand in 2009 remains uncertain. Clearly, an improvement in the general economy and, in particular, an improvement in consumers' outlook on the economy should improve demand for both protein products. That may still take several months though. In the meantime, it appears as if beef and pork may be positioned to take advantage of the nearly seven percent reduction in broiler production that is driving chicken prices up at retail, and making beef and pork a relatively better buy for consumers.

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