

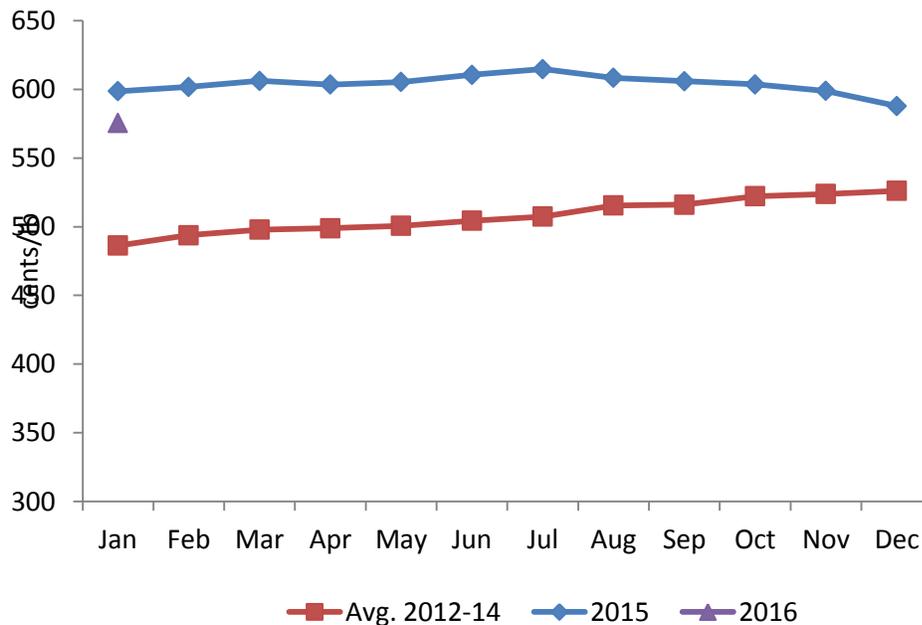


February 2016 – Livestock Market Update

Public Policy Department Budget & Economic Analysis Team

Retail Meat Prices and Meat Demand Trends

This week, USDA Economic Research Service released their summary of retail meat prices for January based on Bureau of Labor Statistics data. The broad-based decline in retail meat prices, which has been well underway since about mid-year last year, appears to be continuing. In January (as in December), retail prices for all three of the major species declined on a year-over-year basis. For January, retail beef, pork and chicken prices are down from a year ago by 3.8 percent, 4.9 percent and 2.6 percent, respectively. USDA's all fresh beef retail price estimate for January of 575.6 cents per pound is the lowest since July 2014. Still, the perception of very high retail beef prices seems to persist. This is not without justification. As Figure 1 shows, the all fresh beef average retail price, while clearly down from its recent highs, remains well above the 2012-14 average.



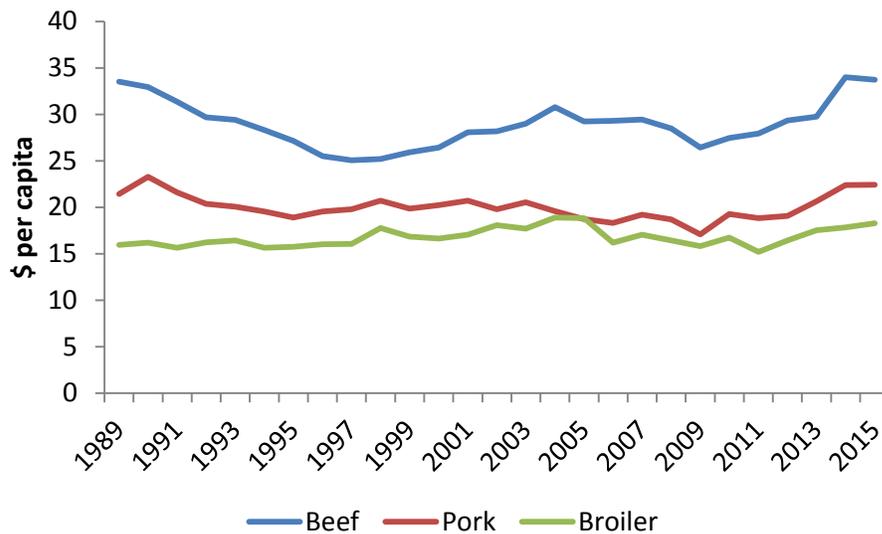
Data Source: USDA Economic Research Service

Figure 1. All Fresh Beef Average Retail Price (cents/lb.)

This continues to contrast with pork and broiler retail prices, which have fallen back in line with that historic average for the most part.

The decline in retail meat prices is largely a supply-side phenomenon. In the fourth quarter of 2015, production of all three of the major species increased on a year-over-year basis. Of course, pork production increased at an aggressive pace through all of 2015 (up, for example, an astonishing 9.8 percent in the third quarter); broiler production has been plodding steadily higher with ruthless efficiency since all the way back in 2012. Now beef has finally joined the expansion and it looks like retail prices are reacting accordingly.

The drop in retail prices at the end of 2015 was not entirely a supply-side phenomenon, though. After increasing steadily since late-2009/early-2010, beef demand appeared to abruptly level off in the fourth quarter of 2015. The same can also be said of pork demand. Figure 2 shows real per capita expenditures for beef, pork and broilers in the fourth quarter of each year from 1989 through 2015. Real per capita expenditures serve as a reasonable proxy for demand, aggregating price paid and quantity consumed into a single figure indicating how much consumers were willing and able to spend on a given product.



Data Source: USDA Economic Research Service, Bureau of Labor Statistics and Livestock Marketing Information Center

Figure 2. Real per Capita Expenditures on Beef, Pork and Broilers: Fourth Quarter, 1989 – 2015

Notes: The beef price used in these calculations is the all fresh beef price rather than the choice beef price. All prices are deflated using the CPI for all urban consumers.

Fourth quarter per capita expenditures on beef declined year-over-year for the first time since 2009. This is in marked contrast to the first half of the year, when real per capita expenditures were still rising rather sharply on a year-over-year basis.

Pork real per capita expenditures behaved very similarly to beef in the fourth quarter. Whereas beef expenditures declined slightly, pork expenditures were exactly flat in the fourth quarter of 2015 compared to the prior year. Per capita expenditures on pork had been growing steadily since 2011.

Of the three major species, only broilers showed continued year-over-year growth in fourth quarter real per capita expenditures.

Stable demand is obviously not too bad. However, if domestic demand is essentially flat while foreign demand is declining (as is most likely, due to the strong dollar and strong foreign competition), increasing production—as is expected for all three of the major species—will put more pressure on prices. Increasing demand could partially or fully offset the price impacts of higher production. That won't happen if beef and pork demand remain flat.

Wholesale Beef Market Turning the Seasonal Corner

This week, wholesale beef prices have turned in a pretty strong performance. Through Thursday, the Choice cutout had added about \$7 from its value last Friday. That is a pretty strong gain and the best weekly performance by the cutout in a while.

The rally in the Choice cutout looks like a normal seasonal turn in the market. Over the past ten years or so, the Choice beef cutout has tended to bottom out in mid-February or so before trending to a seasonal high in the general vicinity of late-May. On average, the rally from mid-winter to late-spring amounts to a seven to ten percent increase in value on the cutout. If that pattern holds this year, we should expect to see the Choice cutout run up from last week's low of around \$211 to about \$230 for a spring high.

A wholesale market rally this year could face some tough going. This month's Cold Storage report showed just over 518 million pounds of beef in storage as of the end of January. This is the largest amount of January beef stocks ever—or at least, as USDA notes in the report, since 1915. Other meat stocks are also up significantly from last year. Pork and chicken frozen stocks at the end of January were up by seven percent and 12 percent, respectively. The January pork stocks number was also a record for that month.

The chicken stocks numbers are kind of interesting. The gain in chicken stocks year-over-year is due entirely to the accumulation of white meat. Dark meat stocks are actually just a bit lower than they were a year ago despite a pretty ho-hum export market. Buyers may have some interest in building stocks against the possibility of a supply disruption due to highly-pathogenic avian influenza. It will be interesting to see if the market continues to carry those stocks levels over the next few months.

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