

## Beef Price and Price Spread (12/08/2015)

The difference between the value of an animal at the farm and its value at the grocery store is what is called the total price spread or farm-to-retail price spread. The total price spread represents the cost and profits of the marketing system that transfer the animal from the farm and process it to its final form to the consumer. USDA estimates the total choice beef price spread as the difference between the retail value and the net farm value (i.e., choice beef gross farm value minus the value of byproducts, which represents the value of the meat to the producer). The difference between the retail value and the wholesale value is called the wholesale-to-retail spread. According to a 2004 USDA/ERS's report (Beef and Pork Values and Price Spreads Explained), beef prices vary greatly from month to month, but overall it takes time for prices to adjust to variations in economic conditions. The report indicates that price adjustments take place faster for rising prices than for declining prices. Historically, there is a level of disconnection between retail and wholesale prices, as prices at each level adjust to market conditions at different paces. Price spreads can indicate, in general, how economically efficient different segments of the marketing channel are.

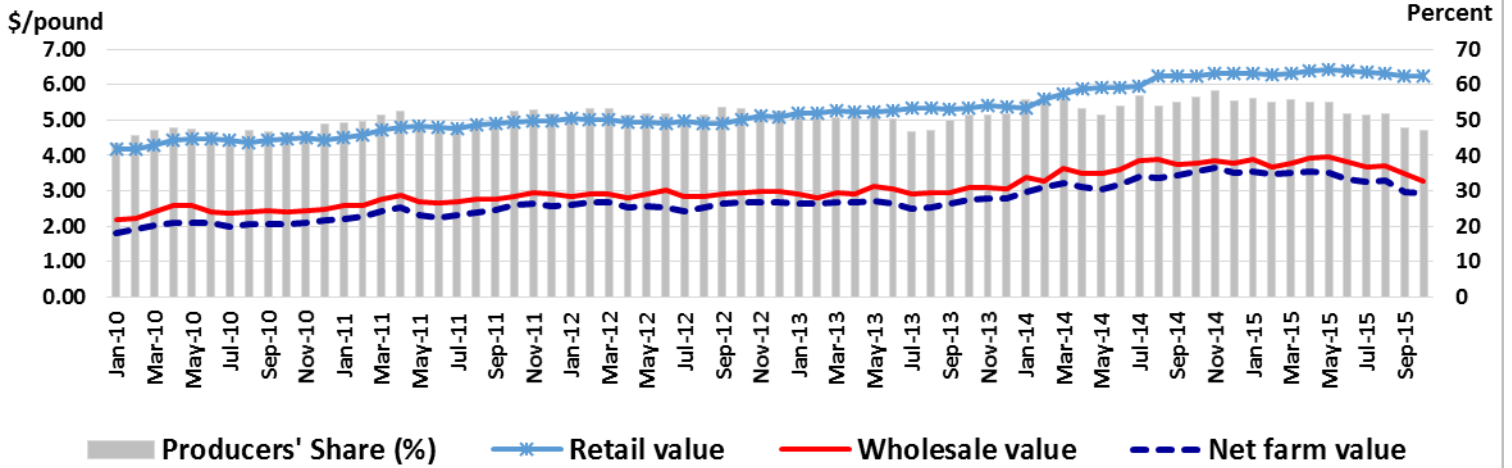
Beef production was down 3.5% to 17,585 million pounds during the first three quarters of 2015 relative to the same period last year. Beef production dropped the most during the second quarter of this year in response to reduced beef cow slaughter due to low inventories and improved pasture conditions in many regions of the U.S. On average, from January to September 2015, choice beef retail price (\$6.34/pound) and choice beef wholesale price (\$3.77/pound) were up 8.1% and 4.9% compared to the same period last year, respectively. Average choice beef net farm price (\$3.38/pound) during the first nine months of this year was 5.5% above last year's (January to September) average price (\$3.20/pound).

According to USDA data compiled by the U.S. Meat Export Federation (USMEF), U.S. beef export volume during the first nine month of 2015 fell 13% to 558,552 metric tons year-over-year, on account of high exchange rate value of the U.S. dollar. The reduction in beef exports increased domestic beef supply and contributed to downward pressure on beef prices. Retail choice beef prices in October 2015 (6.231/pound) remained about the same as the previous month (\$6.230/pound) but declined 2.8% relative to the record high price during May 2015 (\$6.41/pound). Compared to a year earlier (\$6.24/pound), retail choice beef price declined marginally (0.2%).

Choice beef wholesale prices in October 2015 (\$3.26/pound) dropped \$0.20/pound (6.6%) compared to the previous month. Moreover, choice beef wholesale prices in October 2015 shrank 18.0% relative to record high price in May 2015 (\$3.98/pound). The wholesale choice beef price in October was down 14% year-over-year (\$3.77/pound) (see figure below). According to the latest (Nov 17, 2015) USDA's Livestock, Dairy, and Poultry Outlook (LDP Outlook) report, reduced demand for ground beef and declines in the value of byproducts (hides, skins, fats, bones, and edible and inedible offal) have contributed to decreased operating margins for packers. The value of byproducts has declined throughout the year from \$0.39/pound in January 2015 to \$0.28/pound in October 2015. The value of byproducts dropped 33.3% year-over-year.

The net farm value of choice beef declined during September and October 2015. The net farm value of choice beef in October was down 1.7% to \$2.92/pound relative to the previous month and 17% below a year earlier (\$3.53/pound). The total (farm to retail) choice beef price spread in October 2015 (\$3.31/pound) was up 1.6% compared to the previous month and 22% above the same period last year. Because retail prices were essentially unchanged, this indicates a deterioration of choice beef prices at the farm level. The producer's share of the consumer's choice beef dollar (net farm value divided by retail value) during October 2015 was 46.9% compared to 56.6% a year ago. On average the producer's share from January to October 2015 was 52.7% in contrast to 54.8% during the same period last year (see figure below).

### Choice Beef Prices and Producer's Share



Source:LMIC (based on USDA data)

Based on the latest USDA’s projections, 2015 U.S. beef exports are expected to fall 13.6% from last year. It is expected that the beef surplus generated by the decline in exports this year may continue putting downward pressure on beef prices. In addition, due to heavier slaughtered cattle, the USDA November 2015 beef production projection for the fourth quarter of 2015 indicates 1.8% growth from last year’s final quarter production, likely bringing further declines in beef prices.