ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801 *February 15, 1978*

RISING CONSUMER DEMAND WILL CONTRIBUTE TO LIVESTOCK PRICES

CONSUMER DEMAND FOR LIVESTOCK PRODUCTS, meat and poultry in particular, declined significantly in 1977. Expenditures per capita were below normal, taking into account the rapidly rising consumer income. Continued, large supplies kept the pressure on prices, enabling consumers to eat large quantities of meat, while keeping expenditures at a record low percentage of disposable income. Since meat is a bargain, it will tend to attract additional expenditures as supplies stabilize or decline during the months ahead.

During the past 25 years, consumers have increased meat expenditures about 0.6 percent for each percent of increase in disposable income, measuring income in terms of constant-value dollars. That is, when real incomes rise, consumers respond by spending more for meat but not as much more as the increase in income. The pattern was stable until 1972, when it became erratic because of sharp variations in meat supplies. Whenever meat supplies decrease, consumers resist cutbacks in consumption by bidding up prices and temporarily spending more than the usual amount of their income on meat. The effort is futile, though, because no more meat can be consumed than is produced.

In terms of 1971 incomes, meat expenditures and meat supplies were close to a long-term balance. In 1972, consumer income in constant dollars rose 2.6 percent; but meat supplies decreased 2 percent. Instead of a normal expenditure increase of 1.5 percent, consumers spent 6.3 percent more. The situation was more extreme in 1973, as consumer income rose 5.4 percent, meat supplies decreased by 7.1 percent, but expenditures for meat rose 8.2 percent. By then, meat prices (again, in constant dollars) had increased by 26.6 percent compared to 1971. Meat had become expensive by historical standards.

Consumer income was stable at the 1973 level during 1974 and 1975, but declined 1.2 percent in 1976. Meat supplies recovered in 1974 as more cattle came to market, but dropped in 1975 as a result of the short 1974 corn crop. In 1976, meat supplies recovered to about the 1971 level. Consumer expenditures for meat in 1976 in constant dollars had declined by about 5.5 percent compared to 1973, but remained 4.5 percent above the amount expected on the basis of the long-term relationship between incomes and expenditures.

This set the stage for 1977. Meat supplies were slightly below the 1976 level. Real incomes rose by 6.7 percent, but real meat expenditures declined by 9 percent. On the basis of the long-term relationship, the expected meat expenditures would have been $227 per capita, but they were actually only $207. The average price of meat at retail was $1.34 a pound, an amount equal to 1971 taking inflation into account.

During 1978, will consumers return to their normal patterns or will they take their income increases elsewhere as they did in 1977? If real incomes increase 3.5 percent, if the inflation rate is 6 percent, if consumers return to established patterns, and if meat supplies are about equal to 1977, consumer expenditures for meat will rise to about $245 per capita. The average price per pound for meat will go from $1.34 to $1.58. The $245 figure would be only 3.7 percent of disposable income, the smallest amount in history except for 1977. If expenditures rise by a usual amount from the low 1977 base, they will go to $224 and the average price will change from $1.34 to $1.45 per pound. The odds seem to favor a meat-price increase greater than the rate of inflation.

Expenditures for beef bore the brunt of the 1977 decrease. But retail beef purchases will be in the forefront if there is a recovery.

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