



# ILLINOIS FARM AND FOOD OUTLOOK

## COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

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### CONSUMER DEMAND FOR MEAT: A RESURGENCE?

EACH MONTH THAT GOES BY BRINGS NEWS STORIES OF THE RISING COST OF FOOD. Earlier in the year the prime culprit was fruits and vegetables. The extreme winter resulted in sharp reduction in production and prices responded. More recently attention has centered on rising meat prices.

One backlash of meat price increases was a modest relaxation on meat import restrictions. It had an immediate and drastic impact on cattle prices with choice steers at Omaha falling from \$61.50 on June 1 to \$51.45 on June 22. The price later rose to the mid-fifties by the end of the first week of July.

Rising food prices, centering on meat, will continue to attract attention. At the same time, cattlemen have just come off several years of operating below cost. It has been only a few months since attention centered on the "farm strike" which resulted in higher price supports and incentives to further reduce production. Considered together, these things have the seeds of a clash. We should not rule out further governmental intervention, but the issues will most likely be settled in the marketplace.

Consumer food prices, meat in particular, and prices of meat animals are the result of the interplay of three sets of forces: supplies, consumer demand, and inflation. The direction of these three things will determine the course of prices in the future.

Inflation is an increase in the money supply in relation to the output of goods and services. In recent months the money supply has increased at a much faster rate than production. The result will be increases in prices during the months ahead. These will certainly include food prices.

On the supply side, we should expect further increases in broiler and turkey production. These have been increasing at 6 to 7 percent per year and will continue to do so if the corn and soybean crops now in the field materialize as indicated. Hog production is moving into an increasing phase of its cycle, but current indications are that the rate will be slow. March-May farrowings which will produce pork in the September-November quarter were down 1 percent from a year ago. Farrowing intentions for the June-November period which will produce pork during next December-May are up only 3 percent and indicate continued small pork supplies.



Sooner or later beef supplies will go down sharply. There was a record rate of cattle liquidation during the three years ending January 1, 1978. Slaughter during the first half of 1978 continued at a rate nearly as large as the year before. When numbers stabilize and herd rebuilding starts, slaughter will decline. If liquidation continues through 1978 and numbers stabilize in 1979, beef supplies per capita in 1979 will be the smallest since 1966, some 20 percent below recent years.

From the supply side it appears that consumers will be chasing limited supplies with more dollars. Where meat prices go will depend on how vigorously they chase.

In the past consumer expenditures for meat have increased with inflation and with increases in real income. During the period 1964-1976, expenditures were closely related to incomes and meat supplies, but during 1977 consumer demand decreased sharply. Expenditures were 9 percent less than expected on the basis of the general price level, real consumer incomes, and meat supplies. Livestock prices were thus lower than expected. During the first half of 1978 consumer's returned to their earlier patterns. This is the main reason that pork prices at wholesale are 5 percent above a year ago and beef prices are 35 percent higher.

If consumers continue to pursue reduced supplies as vigorously during the second half of 1978 and in 1979 as they have in recent months, prices of meat and livestock will go to quite high levels. If they give up the chase as in 1977, we will see prices not much higher than now. It's up to consumers.

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