WEEKLY OUTLOOK
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MEAT PRICES ARE MODERATE, BUT PRODUCTION IS UNCERTAIN

THE PRICE OF MEAT, WHICH LOOKS HIGH TO CONSUMERS, has been getting a lot of attention in the media as a factor in inflation. The prices of livestock, cattle, and hogs in particular seem low to producers—especially when they look at high interest rates and feed costs. These divergent points of view need to be put into historical perspective, taking into account the changing value of money.

Price comparisons in different times are not meaningful unless the value of money is held constant. The best device for accomplishing this is to put prices into 1972 dollars by dividing current prices by a measure of the general price level. The best general measure is the Implicit GNP Deflator.

We can look at some benchmark years. In 1969, the average retail price of beef was 98.6 cents per pound—rising to $1.421 in 1973, $1.484 in 1977, $2.263 in 1979, and about $2.347 in early 1981. To consumers, such upward moves are inflationary. But when put in constant-value dollars, beef was $1.137 per pound in 1969, $1.343 in 1973, $1.048 in 1977, $1.367 in 1979, and $1.244 in early 1981. The real price of beef has moved over a wide range during the past 12 years but is not much different in 1981 than it was in 1969. Pork prices have made similar variations, but not as great. In terms of constant dollars, retail pork prices were 84.8 cents per pound in 1969, 103.2 cents in 1973, 88.8 cents in 1977, 87.1 cents in 1979, and only 73.9 cents in early 1981. The biggest meat bargin has been broilers. The real wholesale price of broilers was 33.6 cents per pound in 1969, 36.5 cents in 1973, 28.6 cents in 1977, 26.9 cents in 1979 and 26.9 cents in early 1981. The continuous increase in broiler production has been associated with continually decreasing real prices.

How meat prices look varies among consumers. Those whose incomes have increased as fast or faster than the general price level may view meat prices in 1981 as moderate. Those who must live on relatively fixed incomes see current-dollar meat prices as out of reach. Many consumer incomes are tied to the Consumer Price Index, such as with Social Security Benefits and the pensions of federal employees. In early 1981, the CPI was 2.4 times its 1969 level. Beef prices were 2.4 their 1969 levels; pork, 1.9; and broilers, 1.7 times. Only beef prices have kept up with the general cost of living. Since 1979, the CPI has increased about 20 percent. Beef prices have increased only 3.7 percent. Pork prices have decreased 3.2 percent. Broiler prices have increased 14.4 percent. Perhaps consumers whose incomes are tied to the CPI could not afford meat in 1979, but they are better able to afford it now than then.

The main reason meat prices have not gone up as fast as the CPI is that meat production has increased faster than the population. From 1969 to early 1981, the population increase was about 11 percent. During the same period, the average monthly production of beef increased 7.5 percent. The average monthly production of pork went up 30 percent and that of broilers, 83 percent. The total production of the three main meats increased 27 percent.

For consumers, the focus tends to be on beef prices. People tend to remember best the things that have happened lately. Between 1969 and 1977 the production of beef increased 19 percent while real prices decreased 8 percent. With rising real incomes, consumers were ready takers of the increased supply. The monthly production rate of beef decreased 10 percent from 1977 to early 1981 and real prices rose 19 percent. Consumers did not give up their beef-eating habits readily.

The market has been well supplied with meat. The weight of the increased supplies has forced livestock prices below breakeven levels. Feed supplies will be nearly exhausted by next fall. Unless the grain crops are very large this year, livestock producers will be forced to cut back and consumers will be confronted with rising prices for meat, both in real as well as inflationary terms.

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