WEEKLY OUTLOOK
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CONSUMER DEMAND FOR MEAT IS WEAK

CONSUMERS HAVE BEEN UNWILLING TO SPEND AS MUCH MONEY ON MEAT as they have in the past when disposable income and the supply of meat are taken into account. As a result, livestock prices, particularly for cattle and hogs, have been lower in 1981 than had been expected in late 1980.

Meat production is determined by decisions made long before production. For example, a decision made today to increase or decrease hog production will result in larger or smaller pork supplies a year from now. The time lag is shorter for poultry and longer for beef. The meat is offered to consumers who either buy it at the posted price or reject it. If too many consumers buy meat at the price charged at the meat counter, the price is too low. The price will rise as the meat supply shrinks. If not enough consumers buy the meat, the price drops.

The amount of money that consumers spend for meat varies from year to year. About 97 percent of the variation is caused by two factors: the amount of after-tax income available to consumers and the amount of meat produced. During the 12-year period from 1969 through 1980, consumers increased or decreased spending by about 0.9 of 1 percent for each 1 percent increase or decrease in disposable income. Therefore, as consumer income rises, the price of meat increases. Consumers increased or decreased their spending for meat by about 1.5 percent for each 1 percent increase or decrease in the meat supply. Therefore, a smaller quantity of meat sells for a higher total price than a larger quantity. If we can anticipate disposable income and the quantity of meat that will be available for purchase, we can anticipate both consumer spending and meat prices. During the same 12-year period, spending in all years was within 5 percent of the expected levels, although spending was unusually high in 1974 and 1976 and unusually low in 1977. In 1980, the actual expenditure for meat was 97 percent of the amount anticipated, based on disposable income and the quantity of meat available.

The annual rate of consumer income and the meat supply for the first half of 1981 are known. Multiplying production by price, we can calculate expenditure. Consumer demand for meat during the first half of 1981 was only 91 percent of the demand indicated by disposable income and the supply of meat available. This decrease in the demand for meat is the reason why livestock prices, especially for cattle, were lower than expected. We do not know why this decrease in demand occurred.

The lower demand for meat in 1981 was mainly felt by beef producers. This decrease may have been caused by a decrease in the number of meals eaten in restaurants, where beef is central to menus, or to the rising prices of other consumer goods.

In the past, low consumer demand has soon reverted to earlier buying patterns, as in the period from 1977 to 1978. Because we do not know why consumers spent less on meat during the first half of 1981, we do not know what the demand for meat will be during the rest of 1981 and 1982.

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