WEEKLY OUTLOOK
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University of Illinois at Urbana-Champaign

March 19, 1984

FARM PRICES AND CONSUMER DEMAND FOR MEAT

CONSUMER DEMAND FOR LIVESTOCK PRODUCTS, MEAT IN PARTICULAR, is a major price-making force for Midwest agricultural commodities, both grain and livestock. Feedgrains and soybeans are primarily used for livestock feed. Livestock producers can pay no more for grain than the amount that they can get from livestock sales. There is a long-run equilibrium relationship between grain and livestock prices and the lines of causation that run from livestock to grain. Livestock prices, of course, depend upon the prices of the various meat products on the market.

Meat prices are demand determined. The production processes are put into motion and at a substantially later time, the length depending on the kind of meat, the products appear in the supermarkets. The quantities that finally reach the market are determined by production plans that were made much earlier. Retail prices are posted at levels that will just clear the market. The whole of the supply is put on the auction block and sold for what it will fetch. Consumers protest that they have no choice but to pay the prices that are asked. They do have a choice: they can walk on by. And they exercise the choice. How much money consumers spend for meat is up to them and depends on their priorities in the allocation of their money among the various demands for it.

Total meat production increased consistently and substantially from the end of World War II into the mid-1970s and now appears to have stagnated at near record levels. During the 1950s and 1960s, consumers took increasing quantities at basically constant real prices. They increased their expenditures for livestock products about 60 percent as rapidly as their real incomes increased. There was a surge in consumer demand from 1969 through 1973. Consumers took increasing quantities at increasing real prices so that expenditures rose rapidly. This enthusiasm for meat persisted through 1979. Real term expenditures for meat in 1979 were 15 percent higher than they were in 1969, and the quantity taken in 1979 was 8 percent greater than in 1969. This happy circumstance has since reversed. In 1983, market supplies of meat were up 2.6 percent from 1979, real term prices were down 16 percent, and real term expenditures were down 14 percent.

In 1983, real term expenditures per capita for meat were just about equal to 1969 which was, of course, a very much smaller proportion of disposable income.

We do not know enough about consumer demand to explain the surge in the 1970s or the decrease since 1979. Thus, we cannot forecast the future. We do know that what happens to consumer demand for livestock products is the biggest question in the short-term price outlook. We can say with reasonable certainty that had consumers behaved with regard to beef purchases in January, 1984, as they did in 1979, the price of steers would have been about $93 instead of $68.

What of the future? About the most optimistic thing that can be said is that consumer demand will stagnate at current high-quantity levels and current real dollar prices. It may be that health and diet considerations will force production down with still lower prices. Such a pattern seems more probable than an increase in consumer demand back toward the 1979 level.

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