WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

September 12, 1984

FOURTH-QUARTER CATTLE AND HOG PRICES TO BE STRONG

THE USUAL FOURTH-QUARTER DECREASE IN CATTLE AND HOG PRICES may not occur this year. In fact, average cattle and hog prices may be higher during the October-December quarter than they have been to date in the July-September quarter. In 1981 the price of choice steers at Omaha decreased from an average of $66.37 in August to $59.81 in November. In 1982 the August-to-November decrease was $65.56 to $59.28, and in 1983 it was $62.03 to $59.59. The average price for steers in August, 1984, was $65.25. In 1981 the price of hogs at Omaha decreased from an average of $50.60 in August to $42.01 in November. In 1982 the August-to-November decrease was $62.30 to $53.46, and in 1983 it was $49.68 to $39.02. The average price for hogs in August, 1984, was $52.11

The primary reason for expecting strong prices rather than weak ones is the modification of seasonal supply patterns of beef and pork. For the past three years beef production has increased by 1.1 percent from the third to the fourth quarters. This year we expect a decrease of about 1.0 percent. For the past three years pork production has increased 14.4 percent from the third to the fourth quarters, and this year we expect an increase of 12 percent. In the August, 1984, issue of Livestock and Poultry Situation and Outlook, the USDA indicated a third-to-fourth-quarter decrease in beef production of 5.1 percent and an increase in pork production of 12.9 percent. By our estimates, total meat supplies, that is, red meat plus poultry, will be down about 1 percent from the third quarter and down 3.4 percent from the fourth quarter of last year.

A second reason for expecting strength in the fall quarter is weakness in the third quarter caused by inventory liquidation, particularly pork. Decreases in pork production in 1984 were anticipated in late 1983, and substantial inventories of products were accumulated, particularly bellies and hams. These inventories are now being liquidated, thus holding hog prices down.

A third reason is that we expect some increase in consumer expenditures for meat. Consumer demand for meat has been decreasing in real terms for about four years, even though current-dollar expenditures have increased. Using retail weights of beef, pork, broiler, and turkey production with retail prices, we find that con- sumers spent $64.9 billion for 42.8 billion pounds of meat in 1979, $68.6

THE ILLINOIS COOPERATIVE EXTENSION SERVICE PROVIDES EQUAL OPPORTUNITIES IN PROGRAMS AND EMPLOYMENT.

billion for 44.3 billion pounds in 1980, $72.2 billion for 45.2 billion pounds in 1981, $73.5 billion for 44.0 billion pounds in 1982, and $75.1 billion for 45.8 billion pounds in 1983. During the first half of 1984 consumers spent $37.8 billion for 22.7 billion pounds--up from $36.8 billion for 22.2 billion pounds during the first half of 1983.

Consumers have been spending increasing amounts of money for a relatively stable supply of meat. But the increases in expenditures have been far below increases in consumer incomes and the rate of inflation. From 1979 to 1983 consumer expenditures for meat increased 15.7 percent. Disposable personal income in current dollars increased 41.5 percent, and the implicit GNP deflator, probably the best measure of the general price level, increased 31.9 percent. Not only did consumer expenditures for meat fail to increase with consumer incomes, but they also failed to increase with the inflation rate. Real-term expenditures for meat decreased by 12.3 percent.

We think that real-term expenditures will eventually stabilize so that livestock prices will at least reflect the rate of inflation. Consumer demand for meat will be tested this year because the usual seasonal increase in total meat supply from summer to fall will instead be a decrease. Even if consumer expenditures increase by only about one-third of the rate of increase in consumer incomes, the increased amount divided by the reduced meat supply should raise the aggregate of livestock and poultry prices about 7 percent from the fourth quarter of last yea year.

Written by T. A. Hieronymus, Professor Emeritus, Agricultural Economics

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

Official Business
Penalty for private use, $300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101

U.S.MAIL

FIRST CLASS