Consumers finally pay more for meat

By **ELISE BROWN**

Key Points

- The grain price boom of 2007-08 caught livestock producers off guard.
- Both livestock and retail meat prices are up since supply is down.
- Pork producer says key is learning to live with input cost volatility.

LIVESTOCK producers will see higher prices when taking their animals to market this year, but the jump isn't one that happened overnight — it's been a long time coming.

In 2007 and 2008, a major increase in feed prices increased the cost of livestock production, says Chris Hurt, Purdue University Extension ag economist. Because feed prices tend to be 50% or more of the total cost for many operations and market prices stayed low, many of you lost money.

In those years you couldn't recover your higher cost of production, Hurt notes, because agriculture doesn't have a system to pass through costs to consumers.

Hurt says initial higher costs of production don't immediately change the supply, or the consumer demand for meat, as long as the industry is supplying the same amount to the market and demand stays stable. Higher costs on day one don't affect consumer price, but just increase producer cost.

"This means there will be losses in the production industry," Hurt says. "That's what brings some decisions to cut supply over time. If demand stays stable, in order to get a higher price, you have to reduce supply. That's really all that can happen."

In 2009 a worldwide recession and the H1N1 virus fiasco also cut meat demand, extending producer losses.

Supply drops

That reduction in supply came when many livestock producers became discouraged by losses and sold out or reduced production. The per-person supply of red meats and poultry in the U.S. moved from 222 pounds in 2007 to 206 pounds in 2010.

As a result of decreases in supply and recovery in demand, producers will receive higher prices and consumers will pay more for meat in 2011, Hurt says.

That's also why Hurt says current high feed prices won't hit the livestock industry as hard as in 2008. High feed prices are now being passed on to consumers because the livestock supply has been sufficiently cut back.

"We will see record-high pork and beef retail prices," he says. "The feed price increases in 2007-2008 are finally getting passed on to consumers in the form of record prices."

Producer view

David Hardin, a pork producer from Avon, says that while anything that decreases a profit margin is still a concern, feed prices won't be as much of a factor as in previous years because farmers are two or three years into learning how to manage price volatility.

"It's not just higher prices, it is price volatility that made things more difficult," he says. "For many years we'd become accustomed to corn and soybean prices in a certain range. We could bank on what we thought production input costs would be. Now, we not only saw input prices go up, we also saw volatility. It became harder to budget what you thought your costs would be with feed input."

Economist outlook

While it's easy to say that market prices increased from last year to this year, ag economist Nicole Olynk emphasizes it's important to look at the trends of the last few years, rather than comparing prices from last year to this year.

"We are seeing prices come back, but we're coming out of a hard period for most livestock producers," she says. "We were bouncing back a little bit, but it's not an overwhelming increase."

Olynk observes trends on the graphs shown. They were used as part of the industry outlook for 2011, and illustrate decreases in supply and increases in prices for pork and beef. Information came from USDA's National Ag Statistics Service.

Hardin adds that while he's excited about livestock prices today, he's relatively optimistic when looking at the higher futures for lean hogs this summer. Higher costs are more manageable when sale prices for products go up.

"The days of blindly assuming your grain input prices are going to be within a certain range are long gone," Hardin says. "It makes it more important for a producer to know what's a profitable margin for them, and to take advantage of locking in those margins when the markets will let them."

Brown is a senior in Purdue University ag communications.

Price: unraveling who gets what

WHILE prices at the store are high, the consumer should remember that what the farmer or rancher gets is only a percentage of what the consumer pays, ag economists say.

"Generally, there's one direction at the consumer level, and that is up," economist Chris Hurt says. "The farm-level value, what the farmer or rancher gets as a percent of the consumer dollar spent, has been moving lower and lower."

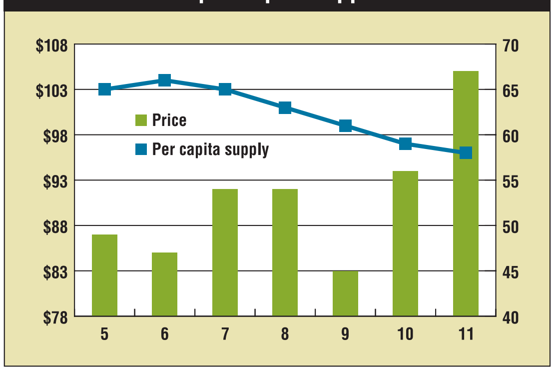
For beef, the value of the farmer's share is 45%. The rest goes into marketing services, processing, transportation, packaging and retail services. For pork, the farmer's share is only about 28%.

"That says 72% of everything the consumer is spending is not related to farm value of that product," Hurt notes. So there's where you really get these other services showing up. These other services, which include labor, transportation and electricity, tend to edge up over time.

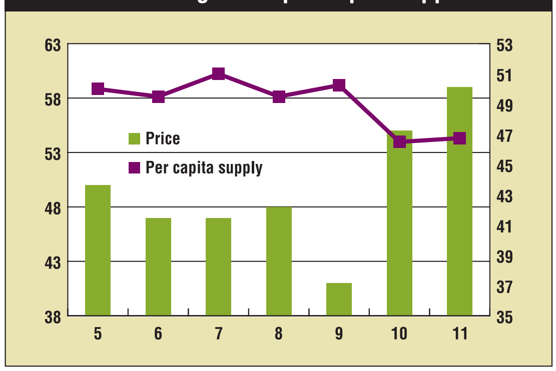
"Pretty consistently, retail prices tend to go up," Hurt says. "Some years are fairly stable, but over time, it's the dominant non-animal costs that make them go up. Commodity goes up in value, and it eventually gets reflected in retail price."

Hurt says there's a perception that if the price farmers receive for their animals doubles, the retail price needs to double. This doesn't happen because the marketing services required to get the product from the farm to the table don't increase as much, resulting in a smaller percentage increase for consumers than for producers.

Choice steer live weight prices and per capita supplies



Barrow and gilt live prices per hundredweight and per capita supplies



SOURCE: USDA NATIONAL AG STATISTICS SERVICE