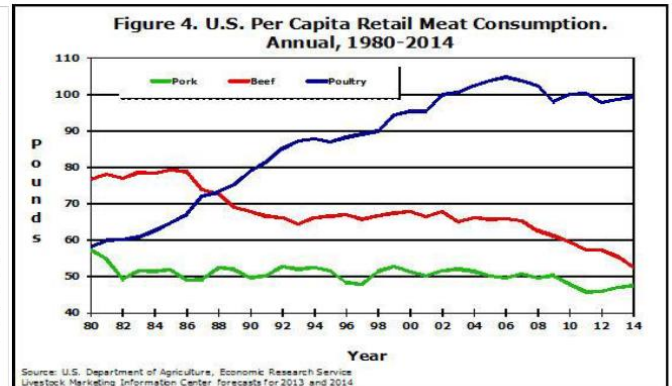
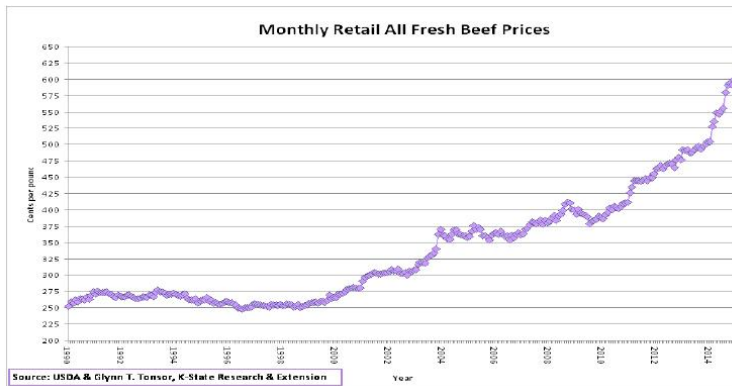


WHOA NELLY - WHAT'S UP WITH THE COST OF BEEF? A LAYMAN'S PERSPECTIVE

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North American ground beef prices have remained steady from 1976 to 2000 at ~ \$5.75/kg to \$6.60/kg but in the last 4 years it has increased over 50% to > \$11.90/kg in 2015 (Stats Canada Index) Meanwhile US beef demand has been declining. Since 1976 demand per capita is down 33%, from ~90 lbs/capita in 1976 to ~60 lbs/capita in 2015.

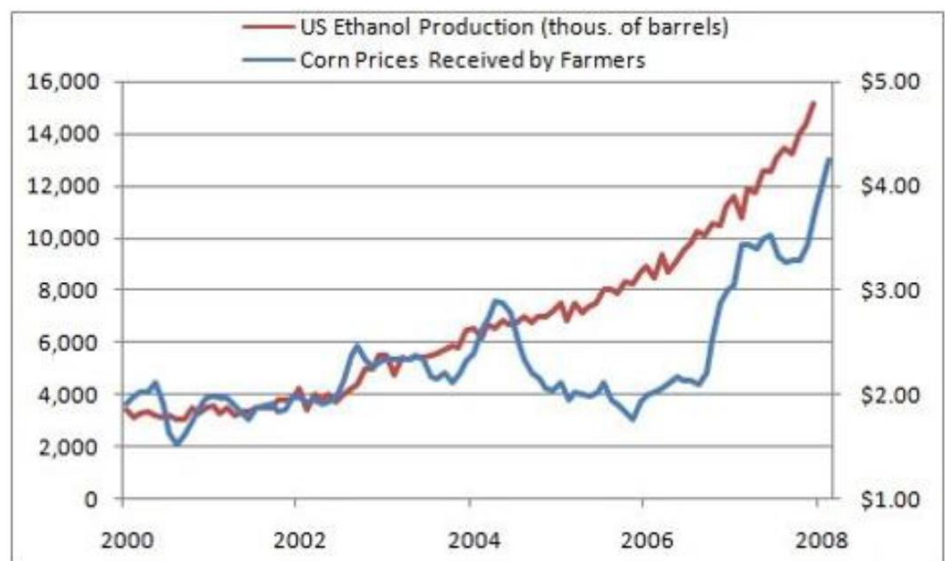


What causes these changes in beef demand and how does it affect price?

According to a study by Dr John Cranfield in 2012 at the University of Guelph, beef demand is increasingly becoming *inelastic*. A 1% increase (or decrease) in the price would result in a 0.428% decrease (or decrease) in demand or consumption. The demand for chicken at 0.49% and pork at 0.502% are even more inelastic. Even though, the prices of these two meat sources are still considerably lower than beef, consumers are even less willing to pay for any increase. Price is determined by countless factors that influence a consumers willingness to buy and it can change on a whim such as food safety issues (ie) BSE, E. coli, mystery meat or even a price ceiling, the cost of going from 3.99/lb to 4.00/lb (Kevin Grier Market Analysis Consulting Inc.)

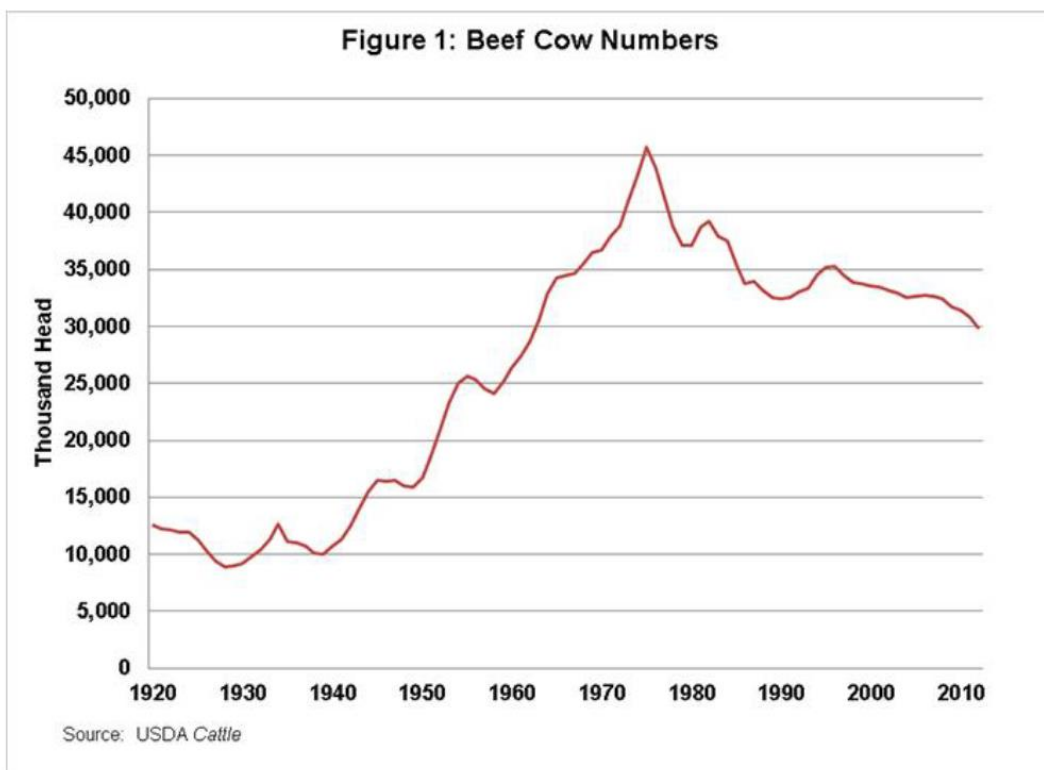
Who is making a profit at the high prices or are they just a reflection of dwindling supply?

The current cost of beef is going to drive down demand even further. The profit in the beef chain seems to favour the processors but many of the big slaughter houses are closing due to short supply. Producers, and especially, cow calf producers, have existed in a nearly perfectly competitive industry; where the calf prices reflect the cost to fully raise a beef cow for the beef plant granting only a minor amount of profit on an animal \$200/head (2004). The cow/calf price will factors in the feed, veterinary, yardage,



and supplement cost. The biggest cost is feed and since the fall of 2013, there has been record high feed cost. We can blame it on the US trying to make a domestic ethanol market but more so on the recent drought in the mid US. Corn cost hit record highs in 2008, 2012 to 2013.

In 2013, US corn prices were high and the beef cattle numbers were reduced to a record low of 87.9 million head, producing about 24.32 billion pounds of meat. In 2014, the western US corn prices are still high but leveling off. In Canada, we have barley feed but it represents only a small fraction in the North American commodity feed market.



If the 2015 corn crop improve in yield and cost less, it will drop prices but *how long before we see any saving at the retail store ? Probably not anytime soon.*

Demand and supply of fresh beef and beef products from outside the US and North America help smooth out the price fluctuations but pressure from emerging economies that like beef such as Russia, China and India are going to help keep prices high.