Beef Demand

What to expect in 2023.

by ***Sydnee Shive***

Life in a post-pandemic world has been anything but 'normal.' Between unprecedented levels of inflation and severe drought, both consumers and producers are struggling. With consumer budgets tightening, Glynn Tonsor, agricultural economist at Kansas State University, expects to see a decline in demand for most consumer goods, including beef, in 2023.

"Consumer demand for a lot of things is slipping in our economy," Tonsor says. "I think it is that many U.S. residents are financially losing ground. The cost of goods they buy is going up faster than their wages. They're having to tighten their household budget; their household finances are being squeezed. That puts some limits on how much they're willing to pay for ribeyes, ground beef and other proteins as well."

U.S. beef demand and exports are expected to remain above pre-pandemic levels in 2023.

Demand versus consumption

Tonsor notes that demand is different from consumption.

"The term 'per capita consumption' is what producers most often see," Tonsor says. "It's not a demand metric. It's a measure of how much we think the typical person, or the average person, in the U.S. consumes. It's simply what we produce, adjusted for trade (put on a per-person basis)."

Consumption is just a volume number — there's no information for value or price per pound included in the statistic.

"'Demand' is what economists would call the value that people put on the product," Tonsor says. "So, it's a schedule of how much you pay, given this volume or how many pounds you would buy for each price."

For example, if ribeye steaks are $10 a pound, consumers buy more than if the steaks are $12 a pound.

Shrinking budgets

Demand for U.S. beef remained high in 2021 and 2022. Tonsor expects to see consumer beef demand drop — not below pre-pandemic levels — but still decrease, in 2023. Inflation and other economic factors are the driving force behind the expected decrease. It's not that consumers don't want beef; it's that some are finding it more difficult to afford.

"I don't think there's evidence that the public doesn't want protein," Tonsor says. "I don't think there's evidence that beef has a product or an image problem, because demand has been quite good recently. The public wants the product, and the product is viewed favorably. But there are macroeconomic pressures, their ability to basically sustain strong demand has slipped. They can't afford it as well as they could have six months ago."

Beef demand is especially sensitive to income.

"Beef demand tends to get hit the hardest," Tonsor says. "It's one of the more expensive proteins on a per pound basis. If you need to squeeze $20 out of your household budget, you can get there quicker by taking one ribeye steak out and buying four chicken breasts. It's the more expensive protein, so it's the one that average-income households tend to pinch the hardest when there's an income squeeze."

Along with U.S. demand declining, Tonsor projects a decline in foreign demand. Tonsor says that while U.S. beef exports have been historically good, a decrease is likely.

"Foreign beef demand for U.S. beef has been very strong, but I would anticipate that to slip through 2023," Tonsor says. "Over the last three months, we were having some demand slip year over year. We kind of hit peak demand in June and July of this year."

He says it's important to understand the value of the U.S. dollar compared to other currencies, like the yen or euro. Until the U.S. dollar began strengthening a few months ago, international customers had more buying power and continued to import U.S. beef at a record pace.

"When our dollar is strong, it's harder to export because our products are more expensive to foreign consumers," Tonsor says. "But it appears that has caught up to us. The product is more expensive and global economic activity has slowed."

Like the U.S., foreign countries and their consumers are struggling with inflation, too. Additionally, beef cattle numbers are projected to decline in 2023, which further complicates supply and demand.

"Inflation is not just a U.S. thing," Tonsor says. "That's the case around the globe. Foreign demand has slowed, and I anticipate that will continue into 2023. The other part of this: the amount of cattle we have in our system that are going to be harvested in 2023 is already declining."

The USDA is projecting 2023 beef production at 26.27 billion pounds. That is 2.14 billion pounds less, or 7.5% less, than the 2022 estimate.

Producer impact

No matter the direction of beef demand, cow-calf producers are affected.

"Beef demand has a direct, one-to-one relationship with cattle prices," Tonsor says. "Economists have shown for over 50 years that when beef demand goes up, cattle prices go up. And when beef demand goes down, cattle prices go down."

Historically, he explains increasing beef demand benefits cow-calf producers more than anyone in the supply chain. They also bear most of the brunt of declining demand. This stems from the fact that producers are unable to respond quickly to shifting demand.

"When things are really good, like in 2014 when beef demand was good, the world wanted more beef. We can't create more calves overnight. The few calves that were available were worth a lot more, and that sent the signal to produce more calves," Tonsor says. "Conversely, when beef demand is poor, that sends the signal that we don't want as much beef. The cow-calf sector can't respond quickly."

Although beef demand may decline this year, keep in mind that it is projected to remain above pre-pandemic levels. HW