FROM RANCH TO ROAST: THE HOW AND WHY OF BEEF MARGINS

The price of beef has become—and is likely to remain—a much-discussed issue among farmers as well as the general public.

Beef margins, or the farm-to-retail price spreads, are central to the question of beef prices. Here's how they work:

Between the live steer and the retail meat counter, beef is moved long distances, processed, and packaged in a variety of retail cuts and a range of package sizes that consumers choose from at the supermarket.

These marketing services entail marketing costs—and that's where price spreads come in.

Trends in overall marketing costs are depicted in price spreads between the fed steer at the feedlot and the supermarket meat counter. USDA publishes price spreads for beef, pork and other important farm foods each month.

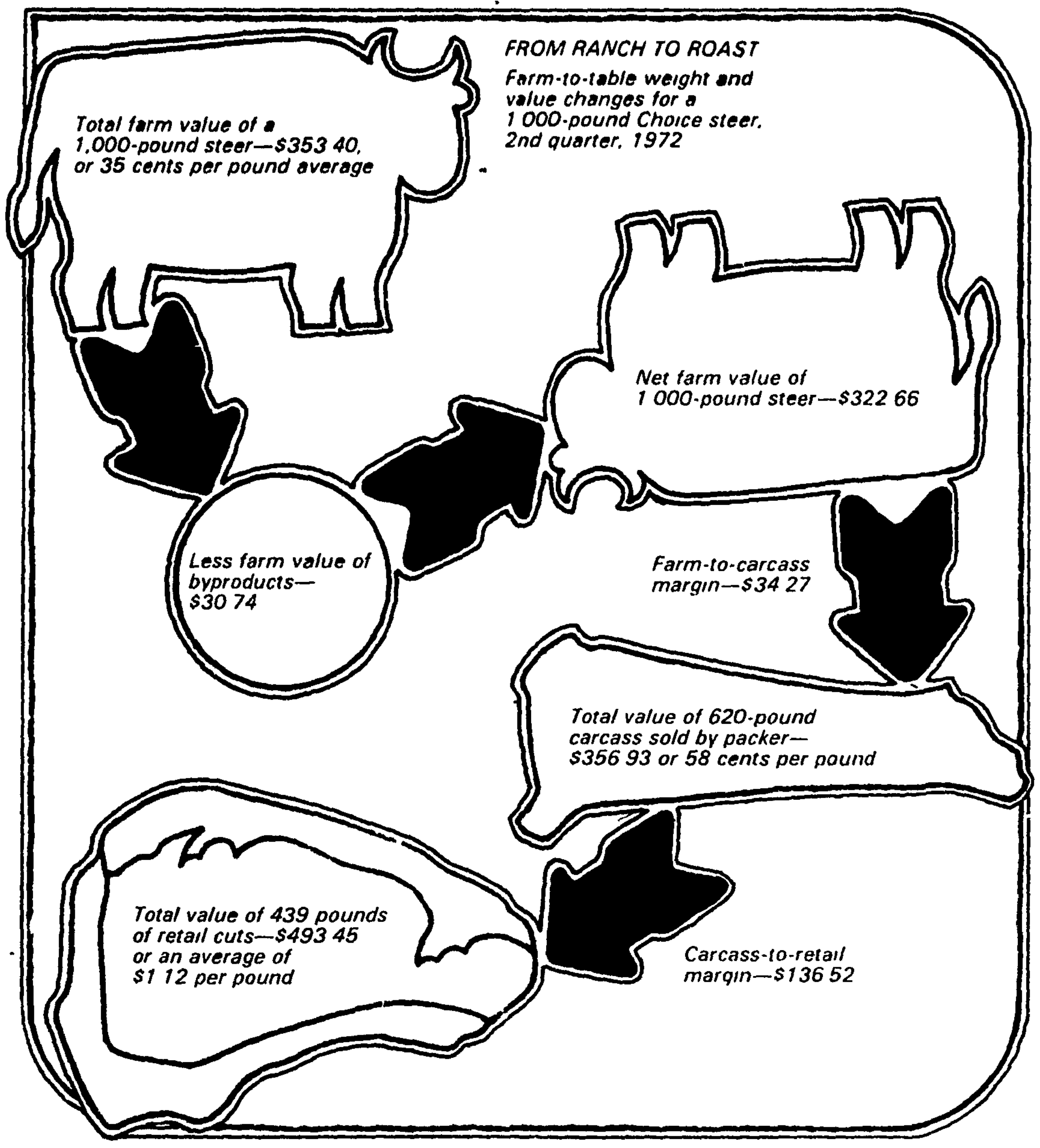
For beef, two gross margins are calculated—farm-to-carcass, and carcass-to-retail. Together, they add up to the farm-to-retail margin.

The farm-to-carcass margin is the difference between the farmer's return for the carcass beef portion of his steer (referred to in USDA data as the net farm value) and the packer's gross return for that carcass. It excludes hides and other byproduct items.

Likewise, the spread in value between the packer's price for the carcass and final returns from consumer purchases is the carcass-to-retail margin.

Put together, they make up the farm-to-retail margin: the beef value sold by retailers less the net farm value.

To make a ready comparison between live weight and retail prices per pound, the diagram here illustrates the value per head during the second quarter of 1972 for a 1,000-pound Choice steer for the live animal, the beef carcass, and the corresponding retail cuts.



During second quarter 1972, the farmer sold his 1,000-pound Choice steer to a packer for an average of $353.40, or about 35 cents per pound, taking into account about $5.80 for transportation and marketing charges.

Of this total, $30.74 was the farm value of byproducts not sold as retail cuts—hide, tongue, tripe, liver, etc.

To arrive at the farm value of the beef portion of the steer, the byproduct value is subtracted from the live weight selling price: $353.40 - $30.74 = $322.66.

After removal of byproducts and waste, the steer carcass weighs 620 pounds. At a carcass price of 58 cents per pound, the packer's return for the dressed carcass would be $356.93. Thus, the farm-to-carcass margin was $34.27 ($356.93 less $322.66).

The retailer trimmed the 620 pound carcass into 462 pounds of cuts, but because of a 5-percent shrink, he sold only 439 pounds. (Retail shrink includes losses in value from spoilage and pilferage.)

The retail gross value for 439 pounds of meat—sold at an average of $1.12 per pound—was $493.45. The margin from carcass to retail was $136.52.

Since 1967 the greatest increase has been in the carcass-to-retail margin. Into this goes the cost of breaking the carcass, transporting, local delivery, and retail cutting and packaging, as well as retail costs

The retailers' share averages about one-third less than the carcass-to-retail margin.

The widening spread may be explained in part by factors that have tended to push up costs along the marketing chain· longer distance shipments to consumer centers, higher labor costs, interest and overhead, for example

Rising incomes coupled with mounting consumer demand have also played a role in the overall meat price rise.

Per capita consumption of beef has more than doubled in the past 20 years—from 56 to 113 pounds. While the supply of beef has more than kept pace—going from 8.8 million to 21.9 million pounds in the last two decades—increases in population are swallowing up production gains as fast as they occur.

Even so, beef is not likely to become a scarce commodity soon. Predictions from USDA's Economic Research Service are that cattlemen will rise to the challenge of upping beef output by a third by 1980.

"Cameo Role"

To popularize a production, famous actors often take roles that require their appearance on screen for only four or five minutes. Hence, any famous "face" seen briefly on a screen is considered a "cameo" ..