

The Economics of Lean Finely Textured Beef

Iowa State University Department of Economics Professors Dermot Hayes, Ph.D., and Daniel Otto, Ph.D., were asked by The Beef Checkoff to assess the potential economic fallout from recent devaluing of lean finely textured beef. Their modeling suggests economic consequences at all levels.

Job losses

- More than 600 direct jobs at processing plants may ultimately be eliminated as a result of this situation. In addition, nearly 2,000 total jobs nationally – in the areas of transportation, handling, construction and public utilities as well as retailers and foodservice businesses – are affected, and nearly \$90 million in payroll is lost.¹
- The most dramatic effect is in the communities that were home to lean finely texture beef production facilities, where other businesses or industries are unlikely to set-up and offset the job losses and the value of those jobs to their community.

Economic value

- Jobs equal economic activity. For each employee out of work, it means a change in the available taxable income for public services on the state and national level, a decline in purchases of consumer goods and services, etc. So it's easy to see how the effects of one laid-off employee multiply quickly, let alone hundreds.
- Society has effectively rejected a product that contributed as much as 850 million pounds to the annual beef supply in 2011. The 300 million pounds of lean finely textured beef that would have been produced through the end of 2012 was worth \$273 million in added value to the agricultural economy, and through economic multiplier effects, an additional \$300 million in lost sales to the rest of the economy.²

Imports

- The availability of lean finely textured beef was associated with a 455 million pound reduction in U.S. beef exports from Australia between 2001 and 2011. As the U.S. supply of lean beef trim for ground beef tightens, imports will again increase so companies can meet consumer demand.
- Importing lean finely textured beef instead of producing it domestically effectively shifts the \$273 million in added economic value for this product from U.S. companies, communities and workers to those overseas.

Consumers

- Consumer demand for leaner ground beef options has inspired products like lean finely textured beef. Ironically, consumer rejection of lean finely textured beef will, in the short-run, result in the increased availability of, and the price-incentive for consumers to purchase higher fat ground beef options.
- A 1 percent change in available beef supplies results in a 1.33 percent increase in retail prices.³ Decreasing beef supplies by 300 million pounds (or 1.2%) increases retail prices by 1.6 percent, or \$.06/lb. based on the \$3.47/lb. estimated Feb. 2012 average price for ground beef in retail.⁴
- Although the impact on consumer prices in the grocery store will be less than 2 percent, remember this is just one of many factors putting pressure on the U.S. beef supply this year and that rising food and gas prices overall are stretching already tight consumer budgets.

1. Impacts calculated using the IMPLAN Input Output modeling system, originally developed by the U.S. Forest system and currently maintained by the Minnesota IMPLAN Group.

2. Based on independent estimates of annual lean finely textured beef production and an estimated net value of .91 per pound.

3. Food and Agriculture Policy Research Institute or FAPRI model, jointly maintained by Iowa State University's Center for Agriculture and Rural Development and the Center for National Food and Agriculture Policy at the University of Missouri-Columbia.

4. FreshLook Marketing Retail Scanner Data/VM Meat Solutions, Total US, Four Weeks Ending 02/19/12.