Seasonal factor crucial in meat business

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Special to the Los Angeles Times

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The Administration's price freeze, announced by the President June 13, was good, if belated, news for the consumer in that for the next 60 days the budget squeeze will not get any worse. But for the meat industry it meant only that things will not get any better.

Don't shrug and think you could not care less whether things are tough for the beef packers. The industry is a complicated and delicately balanced economic organization that has evolved by the practice of practical, classic economics — and without governmental interference and bureaucratic planning — into an efficient mechanism for the distribution of the product of the livestock-grass-grain cycle.

If one segment of this finely-tuned machine were to break down, chaos would be the result and we'd all end up paying more for less beef.

The regulations promulgated in March by the Cost of Living Council (which are not superseded by the newly expanded price freeze order) do not take into account an historical fact of life in the beef industry — and this could lead to the death of a vital segment of the industry.

The fact of life is that the change of the seasons has always been reflected in the relative values of certain cuts of beef. Summer is steak time. On bright, blue days and balmy evenings, backyard barbecues are fired up and demand for steaks increases dramatically. At the same time, chuck roasts and stewing beef, which heat up the family kitchen, lose the appeal they had in cold weather.

High cost of stewing

The seasonal reality has been met over the years by lowering prices of the less desirable cuts to the point where economics overcame the discomfort of the heated kitchen, and by raising the prices of the steaks. This enabled the packer to recover the cost of the entire head of beef while selling all of it, with good chance of realizing a profit on the way.

Not this year.

When ceiling prices were set back in March, they reflected the conditions of the market at that time, and it could be assumed with some logic that those prices provided breathing room or they would not have been in effect in a practical industry. Theoretically, from the tower of power in Washington, meat ceiling prices were fair to all.

Now, though, the season has changed, and the beef industry has entered its Summer of Discontent. The segment of the industry that "breaks" beef is in a state of crisis and a time of decision.

Beef "breakers" do just that. They take dressed cattle and break them into the primal cuts of round, loin, flank, rib, chuck, plate and brisket.

They channel these cuts to retailers, restaurants, boners and processors, according to the requirements of these portions of the industry. By doing this, the breakers perform a valuable equalizing function in the balanced movement of beef into consumption, sort of a safety valve in the pressurized supply-demand cycle.

Hit the ceiling

This year, the breakers cannot raise the prices of the coveted cuts to compensate for selling the undesirable cuts at lowered prices. Today, only the beef rib and the beef loin are selling at the ceiling prices. The other 73 per cent of the head of the beef has to be sold below the ceilings to move it into consumption.

Granted that this might be great for the housewife, but it is creeping death for the beef breaker.

Why is the beef rib at the ceiling? The demand for steaks at retail has put rib steaks into supermarket showcase prominence. Now add to the seasonal demand for steaks for the family the insatiable needs of the restaurant industry for steaks and prime rib of beef, and it is easy to explain the free flow of these desirable cuts at the ceiling prices.

At the same time the breaker must discount the rest of the beef to force it into consumption.

The CLC has refused to consider applying any seasonal formula to its meat price regulations. This refusal forces the beef breaker to a point of decision — comply with the regulation and die, or live by violation.

The current attitude towards the law favors violation, and the pressures are very real. Besides, the chances of detection are slight.

The main control of the meat price ceiling regulation lies in profit per hundred pounds of incoming material to no more than that of a base period. Any violator who seeks not riches but survival will stay within his profit limit. All he really needs, or wants, is to balance out the prices of his cuts, which the Cost of Living Council says he may not do.

More firms must report to IRS under 'Phase 3½'

By JAMES L. ROWE JR.
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WASHINGTON — In the search for violations of the government's Phase III price and profit regulations, about 1,000 Internal Revenue Service agents will descend on the roughly 2,300 corporations with annual sales between $50 million and $250 million during the first two weeks of July.

The Cost of Living Council has already begun a preliminary examination of financial data filed by the giant companies with annual sales over $250 million. These companies had to have detailed financial reports in the mail to the Council by June 21.

William Walker, acting deputy director of the Council, said that more than 500 of the 800 companies required to file the reports had them in June 22.

The council said the review of all companies with annual sales of more than $50 million is part of the "profit sweep" announced by the President in his June 13 speech which imposed a 60-day price freeze. The IRS — as in Phases I, II, and III — is acting as the enforcement agency of the freeze.

Phase III rules require the largest, or Tier I, companies to file a quarterly financial report with the council. Following Nixon's speech, those requirements were extended to the Tier II companies, those with annual sales between $50 million and $250 million. These companies had to file with the Council by June 30.

Walker said that even though Tier II companies are now required to file with the Council, on-site inspections of their financial records by IRS agents are necessary because the quality of financial reports filed during Tier II "left something to be desired."

Walker said that firms found in violation would be ordered to roll prices back. He said that after July 15, IRS agents would conduct at least a month of intensive investigations following up on the possible violations uncovered during the audits of early July. Firms which cannot document their financial reports will be the first targets during these follow-up investigations.

Walker and other officials at the briefing said the information they had on Phase III violations was still too sketchy to project where or how many violations the President's profit sweep would uncover.

However, James McLane, deputy director of the Council, and head of its special price-freeze group, said at least nine industries were expected to have widespread violations. He cited the electrical equipment industry by name.

It costs more to live, sure 'nuf

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WASHINGTON — Propelled by higher food and fuel prices, the Consumer Price Index shot up another 0.6 per cent in May, the Bureau of Labor Statistics reported.

The increase, which is adjusted for seasonal variation, matched the April jump but was smaller than the increases recorded in February and March. The Index stood at 131.5 per cent of its 1967 average, meaning that a bundle of goods which cost $10 in 1967 would cost $13.15 today.

None of these figures reflects the effects of the price freeze imposed last month by the President. The Labor Department said that the June Index, which will be released in late July, will be based on data collected both before and after the June 13 price freeze.

At the same time, the Labor Department reported that real spendable earnings declined 0.4 per cent in May and were 0.3 per cent less than a year ago.

AFL-CIO president George Meany noted that while workers can buy less with their paychecks, "Profits and interest rates, as well as prices, have been soaring . . . The test of equity and fairness calls for all segments of the economy to share equally in the burden of fighting inflation."

At the same time, the Committee on Interest and Dividends, an adjunct of the administration's anti-inflation program, announced that it would liberalize its "voluntary" guidelines on corporate dividend payments.

Seasonal factor

For the three months ended in May, consumer prices have increased at an annual rate of 9.2 per cent. In that same three-month period, the cost of food in grocery stores has risen at an annual pace of 24 per cent.

Meat prices fell 0.1 per cent on an adjusted basis, but usually fall much more in May. As a result, on a seasonally adjusted basis, meat prices rose 0.6 per cent in May.

The increase in the food component of the consumer price index rose 1.1 per cent over April. Although large, that was the smallest increase this year. In May 1972, the food portion did not increase at all on a seasonally adjusted basis.

The retail price of commodities other than food increased at a seasonally adjusted rate of 0.4 per cent in May, the same as in April. The price of services, which are not adjusted for seasonal variation, increased 0.4 per cent in May, compared with a 0.3 per cent increase in both March and April.

The labor department noted a sharp increase in gasoline for the second consecutive month and pinpointed non-seasonal increases in prices of fuel oil and new cars — which failed to fall as they usually do in May.

The 0.4 per cent increase in services was accounted for primarily by increases in rent, mortgage interest costs, home maintenance services and housekeeping services. In addition, physicians' fees and laboratory test prices were higher, while hospital rate boosts slowed down.

Herbert Stein, chairman of the President's Council of Economic Advisers, said that the May CPI shows the "effect of the ceiling prices imposed on meat in March 29." He noted that the "rate of increase of prices for non-food items remained about where it had been for several months."

Music to our ears

In a separate statement, Stein said that the President imposed the price freeze for mainly psychological reasons — to inform the nation "that he did not intent to pursue any longer the course of gradual, limited and uncertain reduction in the rate of inflation along which we seemed to be moving."

Stein called the freeze "only the first overture, necessary to create the atmosphere for the opera that follows, but disappointing if the opera does not satisfy. The opera is Phase IV."

He said Phase IV will bring the rate of inflation down to about 3 per cent — from the recent 9 per cent — and will stabilize the price of food at the retail level. What policies will be necessary to stabilize food prices, he said, "are not yet clear."