

Testimony of Glynn T. Tonsor, Ph.D.
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Forestry
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Producer to Consumer”

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Glynn T. Tonsor
Professor, Dept. of Agricultural Economics
Kansas State University
331-A Waters Hall Manhattan, KS 66506

Chairwoman Stabenow, Ranking Member Boozman, and Members of the Committee, thank you for inviting me to be part of this hearing. I currently serve as Professor in the Department of Agricultural Economics at Kansas State University where I have been a faculty member since 2010. Prior to 2010 I was on faculty at Michigan State University. I grew up on a hog farm in Missouri and that background is the foundation of my aspiration to provide a valuable economic resource that aides decision-making of industry stakeholders and policy makers.

The U.S. beef and cattle industry is arguably the country's most economically important agricultural sector with cash receipts exceeding \$66 billion in 2019.^{1,2} Besides the sheer size of the industry, the vast number and diversity of operations differs from many other agricultural sectors. The unique importance of the industry to society was reaffirmed with President Trump invoking the Defense Production Act classifying meat and poultry processors as essential infrastructure.³ The sheer size and economic importance of the U.S. beef-cattle industry must be appreciated before implementing any proposed policy changes as the potential exists to impact MANY members of society.

It is not surprising the U.S. beef and cattle industry's markets are complex. I often describe the industry operating as a rubik's cube – when one thing changes so do several others. Moreover, the array of interests spanning from seedstock operations to end consumers (both domestically and abroad) continues to evolve. Industry evolutions are accepted by some, but not all stakeholders – that is also to be expected in a large and diverse industry.

Perhaps no relationship is currently more central to economic discussions in the U.S. beef-cattle industry than the relationship of fed cattle inventories to processor capacity.⁴ This relationship is ever-evolving reflecting cattle cycles, drought-induced liquidation, investment interest, and many other dynamic factors. To briefly summarize, prior to 2016 it was estimated for many years there was more processing capacity than fed cattle inventories. That relationship subsequently changed such that since 2016 fed cattle inventories have often exceeded operational capacity to process them.⁵ The Holcomb

¹ Annual cash receipts by commodity are estimated by USDA ERS: <https://data.ers.usda.gov/reports.aspx?ID=17832>. Estimated cash receipts for cattle and calves are regularly larger than other industries including hogs, dairy, poultry and eggs, rice, wheat, corn, cotton, tobacco, oil crops, vegetables and melons, fruits and nuts, and other crops tracked by USDA ERS.

² Furthermore, while large in their own right, these cash receipts understate the industry's economic importance. When one also considers the impact on feed and other input suppliers along with the impacts of value-added activity occurring post farm-gate the economic importance of the U.S. beef-cattle industry is extensive.

³ Similarly the unprecedented societal interest in meat availability was affirmed by significant media attention (<https://time.com/5830178/meat-shortages-coronavirus/>).

⁴ Robust estimates of packing capacity do not exist and rather use of historical federal-inspected slaughter levels are often used as a proxy. For instance, Tonsor and Schulz (2020) used the maximum federal-inspected slaughter over the past three years to approximate current capacity (<https://www.agmanager.info/livestock-meat/marketing-extension-bulletins/price-risk/assessing-impact-packing-plant-utilization>).

⁵ Here the distinction between physical capacity (from an engineering, or optimal no-problems perspective) and operational capacity is important. Operational capacity is often below physical capacity given constraints on labor, maintenance schedules, etc. and the gap between physical and operational capacity expanded during the COVID-19 pandemic.

plant event of 2019 and developments during the COVID-19 pandemic occurred with this backdrop of fed cattle inventories being large relative to operational processing capacity. Economists expect lower fed cattle prices and higher beef prices when a system is at or near operational capacity - on balance that is what we have observed in markets.⁶ Going forward it is generally expected fed cattle volumes will decline and some physical processing capacity may be added – these are also expected market evolutions.⁷

The U.S. meat industry sells products into three main market channels: domestic retail (grocery), domestic food service (restaurants and institutions), and export markets. These three market channels disproportionately demand different parts of each animal. The industry maximizes overall revenue by producing, processing, and marketing distinct products for market channels with the greatest demand for that specific product. This results in higher overall carcass values and subsequently livestock prices. Historically individual meat products disproportionately relied on one of these three consumer markets. For instance, it is common for domestic consumers to buy ground beef at the grocery store and steaks at a restaurant while foreign customers buy variety meat items. One of the most drastic shocks from the COVID-19 pandemic was extraordinary disruption in relative demand across these three market channels and with-it unprecedented challenges for supply chains to adjust – nearly all these market channel adjustments occurred post-farm gate.⁸ These post-farm gate developments directly impact derived demand for livestock and hence livestock prices. Furthermore, these COVID-19 market channel shocks not only directly impact various aspects of the industry’s markets but also highlight the value of better data and information. The critical importance and need for high-quality data specific to each market channel (and level) continues to grow.

Over the years I have worked on multiple projects with various colleagues involving an array of specific aspects in the Livestock Mandatory Reporting (LMR) program as required by the Livestock Mandatory Reporting Act of 1999 and implemented by USDA’s Agricultural Marketing Service.⁹ It is important to appreciate with implementation of LMR a significant amount of market information is available in a manner much more trusted than was the case of voluntary reporting prior to LMR being implemented in April of 2001.¹⁰ LMR at best can work as a “mirror” on markets which themselves reflect fundamentals of supply and demand that underlie meat and livestock

⁶ Related research and past literature is provided by Lusk, Tonsor, and Schulz (2021):

<https://onlinelibrary.wiley.com/doi/full/10.1002/aepp.13101>

⁷ For instance, long-term projections (<https://www.usda.gov/sites/default/files/documents/USDA-Agricultural-Projections-to-2030.pdf>) suggest U.S. beef cow inventories may decline from 31.7 million in 2019 to 30.8 million in 2023.

⁸ Some of these changes are reflected in Meat Demand Monitor reports published since the pandemic’s inception (<https://www.agmanager.info/livestock-meat/meat-demand/monthly-meat-demand-monitor-survey-data>).

⁹ Additional details on LMR are available here: <https://www.ams.usda.gov/rules-regulations/mmr/lmr/background>

¹⁰ In the mid-1990s concerns were growing over packer concentration and asymmetric information between livestock buyers and sellers. Meanwhile a situation (not unlike recent years) of large livestock supplies relative to available processing capacity corresponded with lower negotiated livestock prices. Ultimately one outcome of this situation was Congressional action leading to the LMR program.

price levels. Economists have long recognized the substantial value of reliable, accessible, and timely market information because it critically guides all resource allocations. Going further, the specific details of how the LMR program works continue to evolve over time. On balance I believe USDA AMS does a sound job of implementing LMR and I encourage ongoing consideration of adjustments to reflect evolution of the industry and the value of market information.

Alternative marketing agreements (or AMAs) have grown in use in recent decades for several reasons.¹¹ Initial interest in AMAs from both fed cattle buyer and seller perspectives originated from cost efficiencies (coordinating logistics, lowering marketing and procurement expenses, etc.). Furthermore, consumer demand signals leading to proliferation of beef products concurrently elevated demand for specific cattle and with it, further use of AMAs. The above noted production of beef items for specific market channels would be seriously constrained without this increased use of AMAs. In short, increased use of AMAs reduces costs and enhances demand in some segments of the industry – both worthwhile outcomes that “increase the economic pie” for industry participants. Accordingly, it is important to appreciate the situation presented by AMAs: they present a multitude of well-documented economic benefits to the industry and society while by definition reducing the volume of traditional, spot-market negotiations that historically have been the base of valuing fed cattle. Understanding this situation underpins prudent assessment of any proposals that involve changes in how fed cattle are marketed.

It is useful to briefly note national trends in negotiated transactions with formula transactions.¹² In 2014, 23% of domestic fed cattle were sold on a negotiated basis while 58% were sold via formulas. Negotiated rates were 21% (23%) and formula rates were 66% (65%) in 2019 (2020), respectively. The core point is that while cattle prices, beef prices, and estimated margins in the industry certainly differed in recent years from 2014, it is dangerous and inaccurate to assert this simply reflects changes in how fed cattle are marketed. Rather in my opinion, consistent with a large and ever-growing body of published research, core differences in supply and demand underlie these market changes. Stated directly – without contemporary use of AMAs I believe cattle prices would be lower as production efforts would not align as well with consumer demands.

I encourage the industry to proceed forward in a manner that does not deteriorate economic benefits of the industry’s evolution in recent decades to improve beef quality

¹¹ Details on AMAs are available from multiple sources. This includes the 2007 GIPSA Livestock and Meat Marketing Study prepared for the Grain Inspection, Packers and Stockyard Administration (https://www.gipsa.usda.gov/psp/publication/livemarketstudy/LMMS_Vol_1.pdf) and the broad discussion recently provided on fed cattle price discovery issues by seven other land-grant economists (<https://extension.okstate.edu/factsheets/print-publications/e/fed-cattle-price-discovery-issues-and-considerations-e-1053.pdf>).

¹² Here formula trade represents cattle committed for slaughter by any means other than cash negotiated, forward contract, or negotiated grid trade. This leads to, suspected but not formally confirmed due to current procedures, wide heterogeneity in transaction types and hence prevalent wide ranges in reported formula trade prices.

and align effort with beef demand signals. This pursuit can also include regularly assessing the viability of ways to enhance the information content available on actively negotiated cattle and/or consider increased use of alternatives to traditional, spot markets in establishing base cattle values. To this later point, the above noted evolution in LMR is important.

I encourage LMR to not only be reauthorized but for enhancements to be considered. More research is needed on the types of information contemporary markets need and how to most effectively collect and disseminate that information. Potential exists for the industry to largely sustain practices desired by many buyers and sellers while gaining confidence in reported market information. The ceiling on market information content feasible under LMR is impacted not only by well documented confidentiality protocols but by the depth of information obtained in raw LMR data submitted to USDA AMS.

Candidate adjustments (in no particular order) include:

- report percentiles (e.g. 15th and 85th percentile) to increase informational content of reports
- remove forward contract data from the currently reported weekly fed cattle comprehensive report to better reflect the current price environment
- aggregate some categories to increase reporting frequency (e.g. perhaps merge steer and heifer values) without losing critical information
- alter regions to improve information quality and/or merging regions to increase volume reportable
- report price information using statistical methods such as hedonic models that produce new information while retaining confidentiality
- periodic reassessment of procedures used to assure confidentiality
- consider adjusting collection of raw LMR data
 - gather details required to possibly support narrowing how formula transactions are reported and improve on the current large, “catch all” category
 - gather meat yield data more frequently and/or completely
 - refine location information (e.g. whole state vs. by zip code) to enable alternative approaches to current whole-state aggregations

Each of these candidate adjustments warrants prudent assessment.¹³ Beyond sheer feasibility of implementation, the net gain in reporting frequency and quality of information subsequently reported needs examined. Answers in these assessments are bound to be dynamic and evolve as the industry itself evolves. To that end, I encourage explicit consideration of support for ongoing assessment of LMR – this suggestion

¹³ Several of these possible adjustments are further discussed in previous reports provided to USDA AMS (<https://www.ams.usda.gov/rules-regulations/mmr/lmr/generalinfo>).

reflects both the essential role LMR plays in the industry and the need for LMR to “keep up” with the industry’s evolution.

I will end by highlighting all revenue available to industry participants ultimately originates from consumers - hence aligning industry efforts with realities of consumer demand is of paramount importance. Fortunately, the U.S. beef-cattle industry is the envy of other countries in several ways. Comparative advantages include being a global leader in production of high-quality, grain-finished beef desired by consumers throughout the world. I encourage today’s discussion and other related conversations to be mindful of the factors which favorably distinguish the U.S. industry and are core to the prosperity prospects of not only today’s industry participants but those of future generations. In truth, with collective recognition of the industry’s many strengths and contemporary opportunities with an eye forward to the future, I believe current challenges can be reasonably addressed.