



AN ECONOMIST'S VIEW ON POLICY POSSIBILITIES IN THE U.S. CATTLE INDUSTRY

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Background on GT's Approach

- Analysts as University Employees Should Avoid "Picking Winners"
- U.S. Beef-Cattle Industry is Large & Diverse
 - Seedstock, Cow-calf, Backgrounder/Stocker, Feedlot
 - Packer/Processor
 - Wholesale Meat Buyers, Final Domestic & Foreign Consumers
- Economists Frame Decisions as Trade-offs
 - Expected Benefits vs. Costs
 - Consideration of "Unintended Consequences"
 - Details Matter!

LOTS OF CALLS FOR CHANGE: LET'S CONSIDER THREE POLICIES...

- “50-14” [Bill](#) (Tester-MT & Grassley-IA)
- “Fischer & Wyden Transparency [Act](#)”
- “EATS [Act](#)” (Grassley & Ernst – IA)

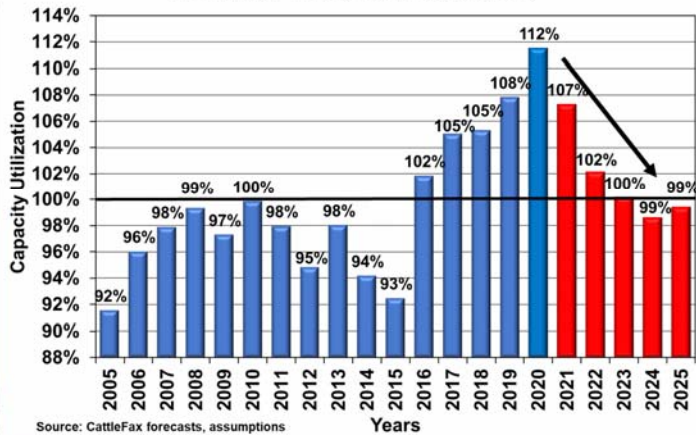
- Packing Capacity, Price Discovery, LMR
“Enhancement”, Interstate Commerce Issues...

Packing Capacity vs Fed Cattle Inventories: Recently Market's Most Influential Relationship

- 9/25/19 U.S. Senate Committee on Ag., Nutrition, & Forestry Hearing (Eaton, Kardel, Houston, Lusk, Pfliger, Thiele) <https://www.agriculture.senate.gov/hearings/perspectives-on-the-livestock-and-poultry-sectors>
- 3/24/21 KS House Ag. Committee Hearing (Tonsor) <https://www.youtube.com/watch?v=FcktRbRbi1&t=1037s>
- 6/23/21 U.S. Senate Committee on Ag., Nutrition, & Forestry Hearing (Aherin, Gardiner, Hendrickson, Tonsor, Tupper) <https://www.agriculture.senate.gov/hearings/examining-markets-transparency-and-prices-from-cattle-producer-to-consumer>
- 7/28/21 U.S. House Ag. Committee Hearing (Aherin, Jacobs, Lusk, van d Ligt) <https://agriculture.house.gov/calendar/eventsingle.aspx?EventID=2259>

Ongoing Evolution....

Fed Slaughter Capacity Utilization
Vs. Monday-Friday Packing Capacity



"Too many cattle relative to capacity"
- Wider beef-cattle \$ difference

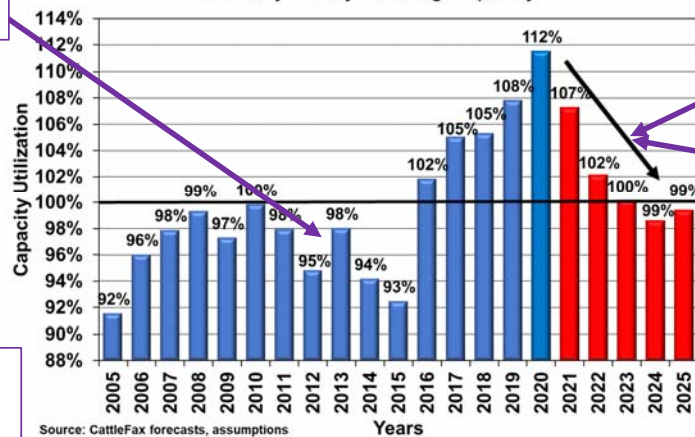
"Too much capacity relative to cattle"
- Narrower beef-cattle \$ difference

Source: CattleFax's December 2020 Long-Term Outlook; Text box points added by Tonsor

Ongoing Evolution....

2013 Cargill Closed Plainview, TX Plant (~4,500 hd/day)

Fed Slaughter Capacity Utilization
Vs. Monday-Friday Packing Capacity



Lower FI Slaughter
2016 = 30.6 mil
2020 = 32.8 mil
2021 = 33.4 mil
2022 = 32.5 mil

Added (?) Slaughter Capacity

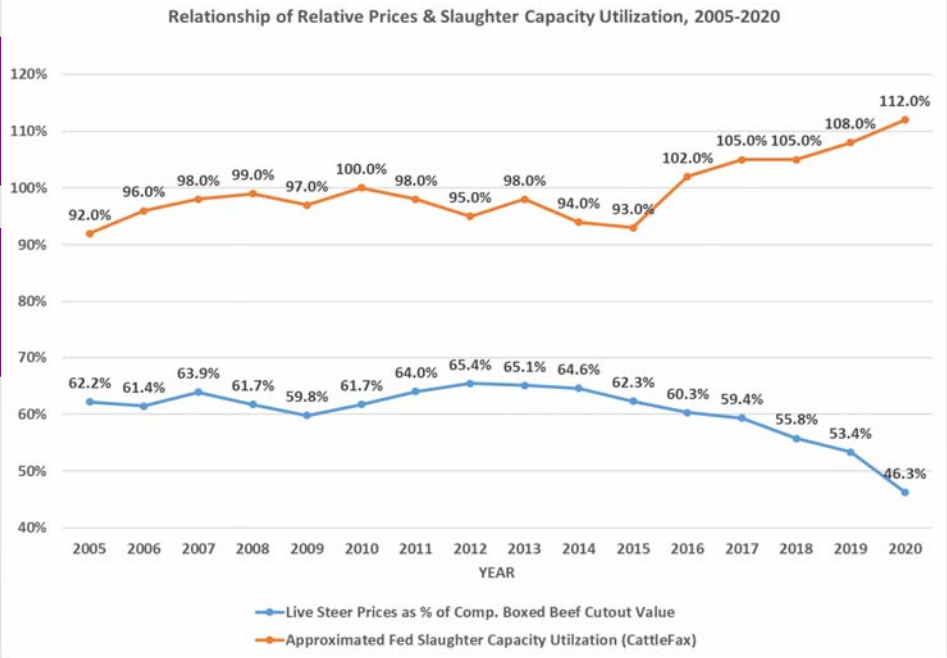
- Tama, IA 2nd shift, up to 2,500 hd/ day
- Jerome, ID new plant 500 hd/day
- North Platte, NE new plant 1,500/hd/day
- Many other announcements

Also note PHYSICAL Capacity is NOT OPERATIONAL Capacity

Source: CattleFax's December 2020 Long-Term Outlook; Text box points added by Tonsor

Correlation of Slaughter Capacity Utilization & Relative Prices (Live Steer vs Comp. Boxed Beef) = **-0.86**

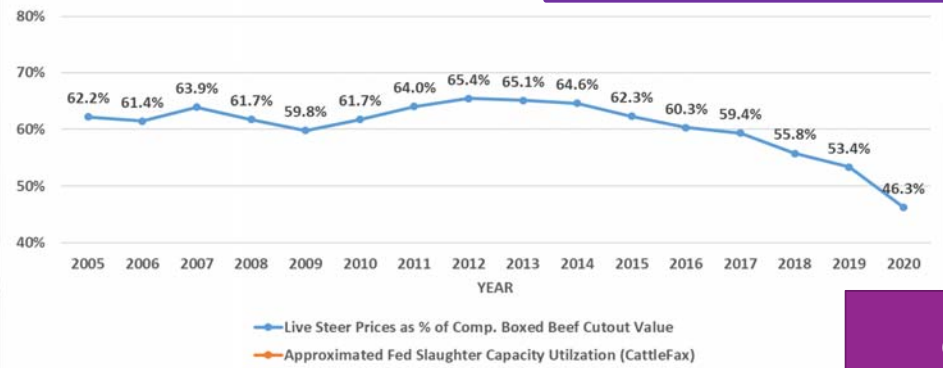
Also note this strong correlation makes no adjustment for cost changes (e.g. COVID PPE etc.)



Relationship of Relative Prices & Slaughter Capacity Utilization, 2005-2020

2005-2020 Simple Average: Live Steer Prices are 60.5% of Comp. Boxed Beef Price

Applied Economic Perspectives and Policy / Early View
 Featured Article | Free Access
Beef and Pork Marketing Margins and Price Spreads during COVID-19
 Jayson L. Lusk, Glynn T. Tonsor, Lee L. Schulz
 First published: 02 October 2020
<https://doi.org/10.1002/aapp.13101>



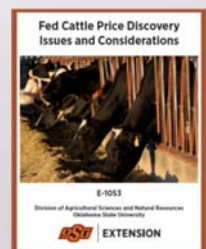
Rules of Thumb
 63% Hot Carcass Yield
 61% Cold Carcass Yield
 (2% Loss/Shrink)

Price Discovery vs Price Level

- Jargon-free distinction:
 - Price Discovery: process of buyers & sellers arriving at a transaction price
 - Price Levels: determined market price reflects interaction of broad supply & demand forces

Price Discovery vs Price Level

- Improved price DISCOVERY will not by itself change overall price LEVELS
 - Not just GT's opinion
 - Derrell Peel, David Anderson, John Anderson, Chris Bastian, Scott Brown, Steve Koontz, & Josh Maples in 2021 <https://extension.okstate.edu/fact-sheets/print-publications/e/fed-cattle-price-discovery-issues-and-considerations-e-1053.pdf>



Price Discovery vs Price Level

- “Confusion” & “Increased Interest” correlates with periods of lower farm prices

BEEF Register Log In

Animal Health Market Reports Management BEEF Vet Cow-Calf

BEEF VX News Our Events

Understanding Market Prices

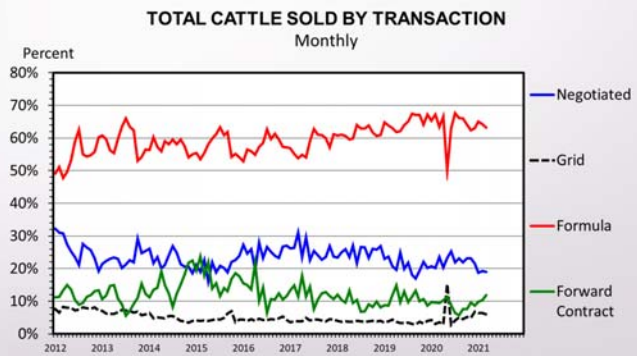
Price discovery and price determination are not the same thing. But both affect the value of your calves. You can affect the physical attributes of your calves by your breeding, cow management and calf handling programs. You choose when calves will be marketed, in what size groups and by what marketing method. Calf prices some years are \$90/cwt. and some years \$120/cwt. In a \$90 market, some producers

Clement E. Ward, PhD Oklahoma State University Feb 15, 2001

https://www.beefmagazine.com/mag/beef_understanding_market_prices

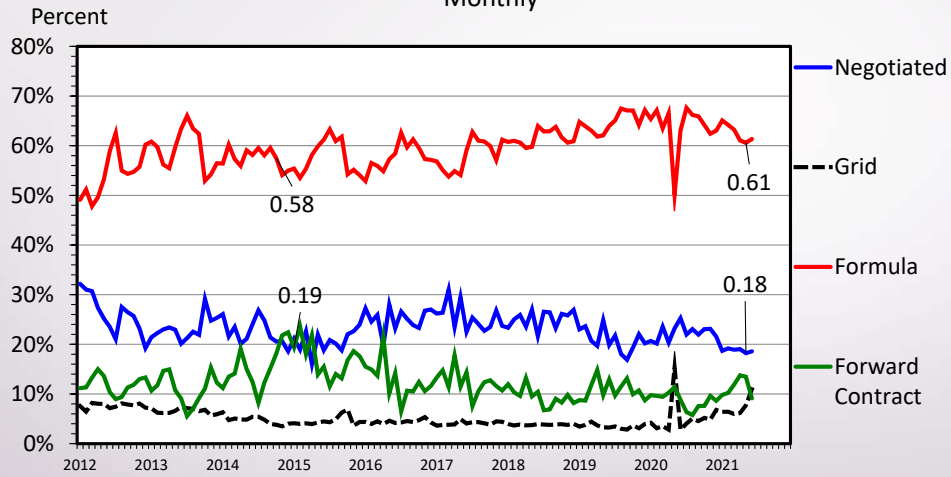
Price Discovery vs Price Level

- MANY sound economic reasons fed cattle marketing practices have evolved
 - Most of decline in % negotiated BEFORE 2012...



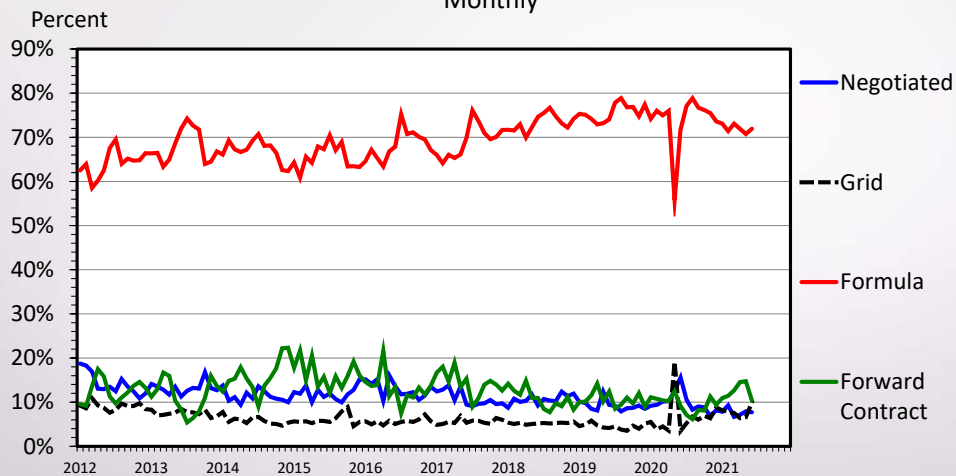
Source: Livestock Marketing Information Center & USDA-AMS

TOTAL CATTLE SOLD BY TRANSACTION Monthly



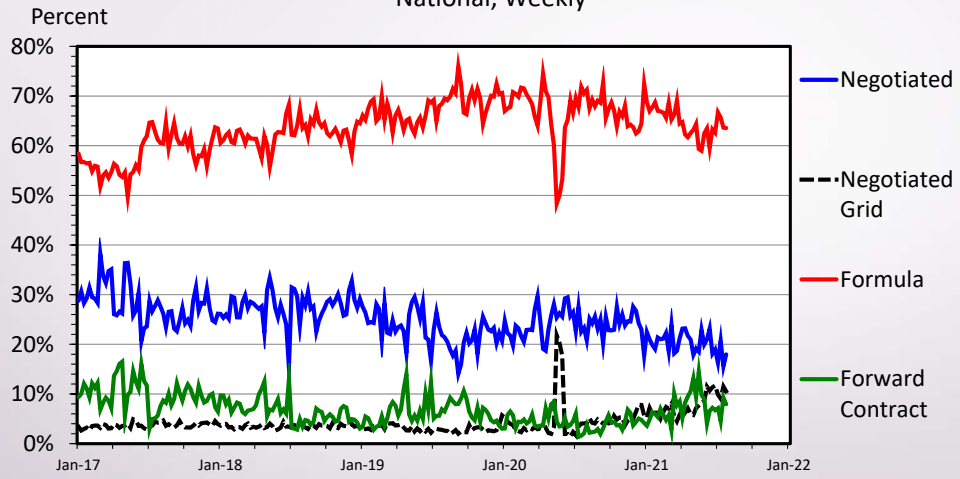
Data Source: USDA-AMS
Livestock Marketing Information Center

CATTLE SOLD ON A DRESSED BASIS Monthly



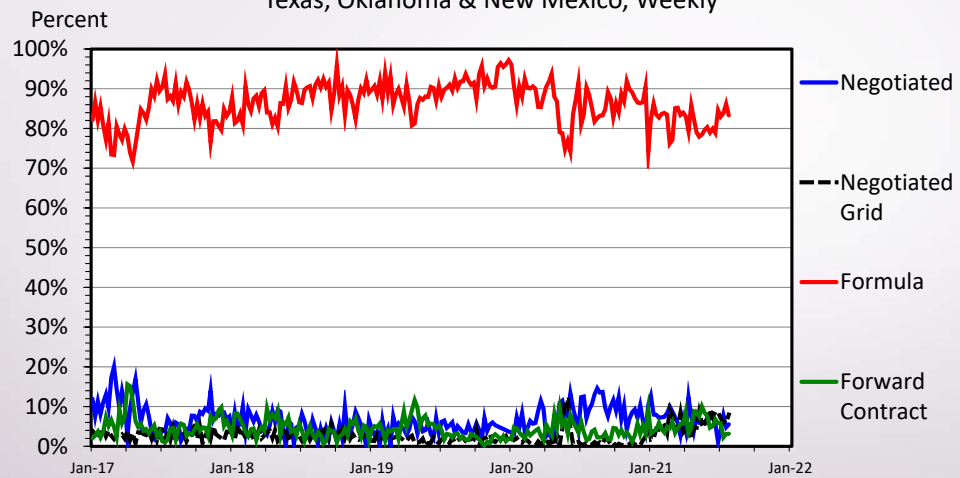
Data Source: USDA-AMS
Livestock Marketing Information Center

STEERS/HEIFERS SOLD BY TRANSACTION National, Weekly



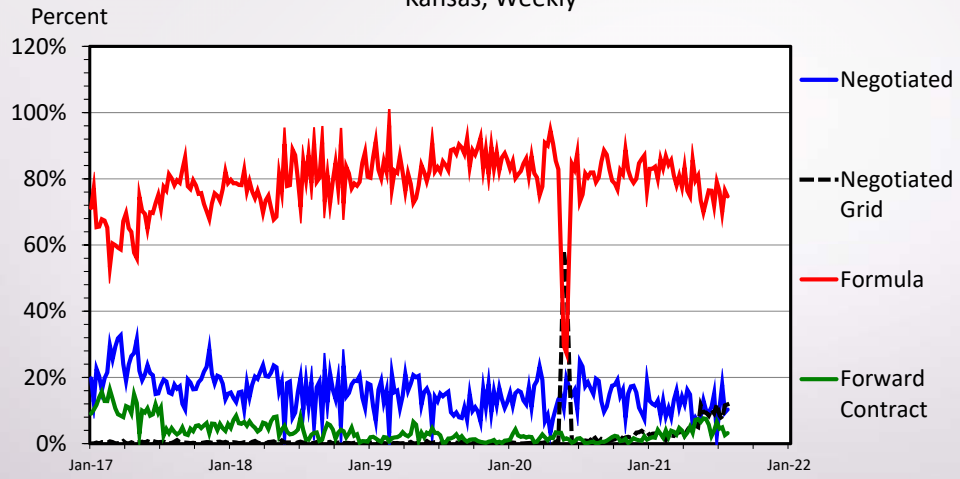
Data Source: USDA-AMS
Livestock Marketing Information Center

STEERS/HEIFERS SOLD BY TRANSACTION Texas, Oklahoma & New Mexico, Weekly



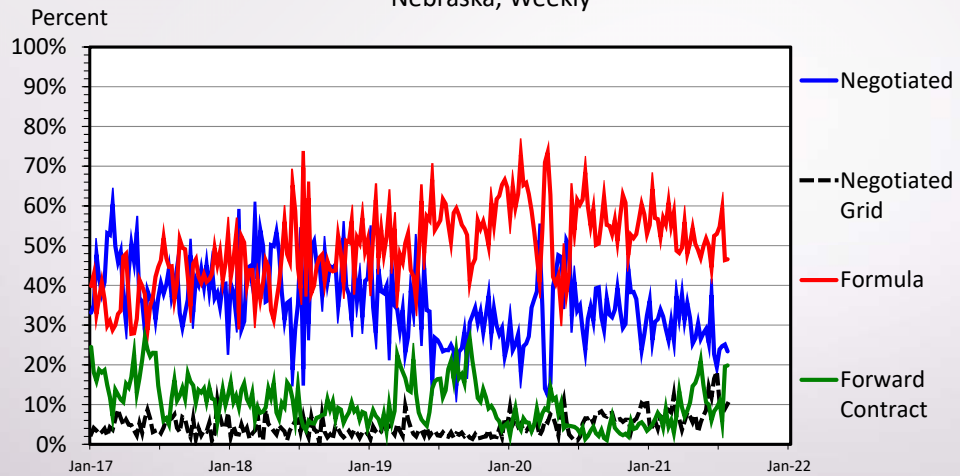
Data Source: USDA-AMS
Livestock Marketing Information Center

STEERS/HEIFERS SOLD BY TRANSACTION Kansas, Weekly



Data Source: USDA-AMS
Livestock Marketing Information Center

STEERS/HEIFERS SOLD BY TRANSACTION Nebraska, Weekly



Data Source: USDA-AMS
Livestock Marketing Information Center

Livestock Mandatory Reporting

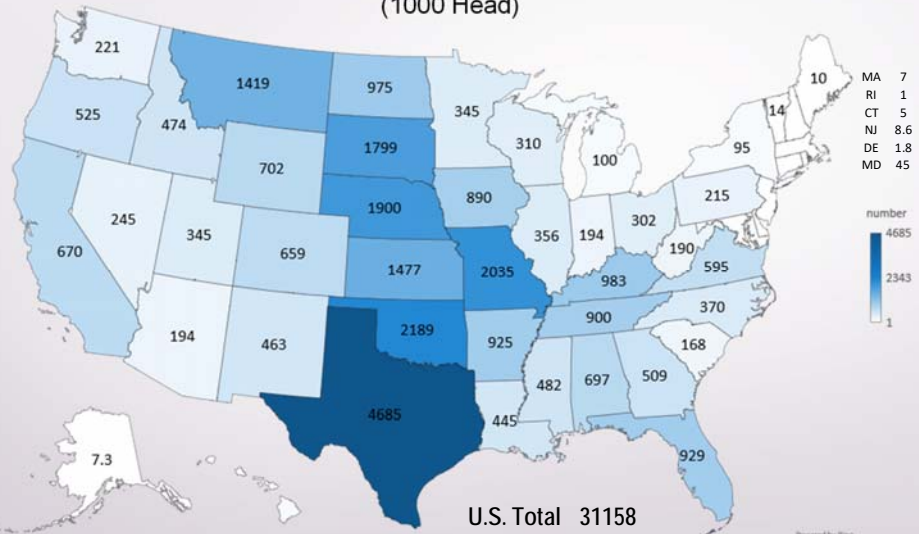
- Packer > USDA > Public
 - Carefully distinguish: Reporting vs. Printing/Publishing
- LMR has evolved notably over past 20 years
 - August 21' USDA AMS added two reports to “enhance price transparency”
 - [National Daily Direct Formula Base Cattle](#)
 - [National Weekly Cattle Net Price Distribution](#)
- Sept. 30th deadline for reauthorization following 1-year extension in 2020

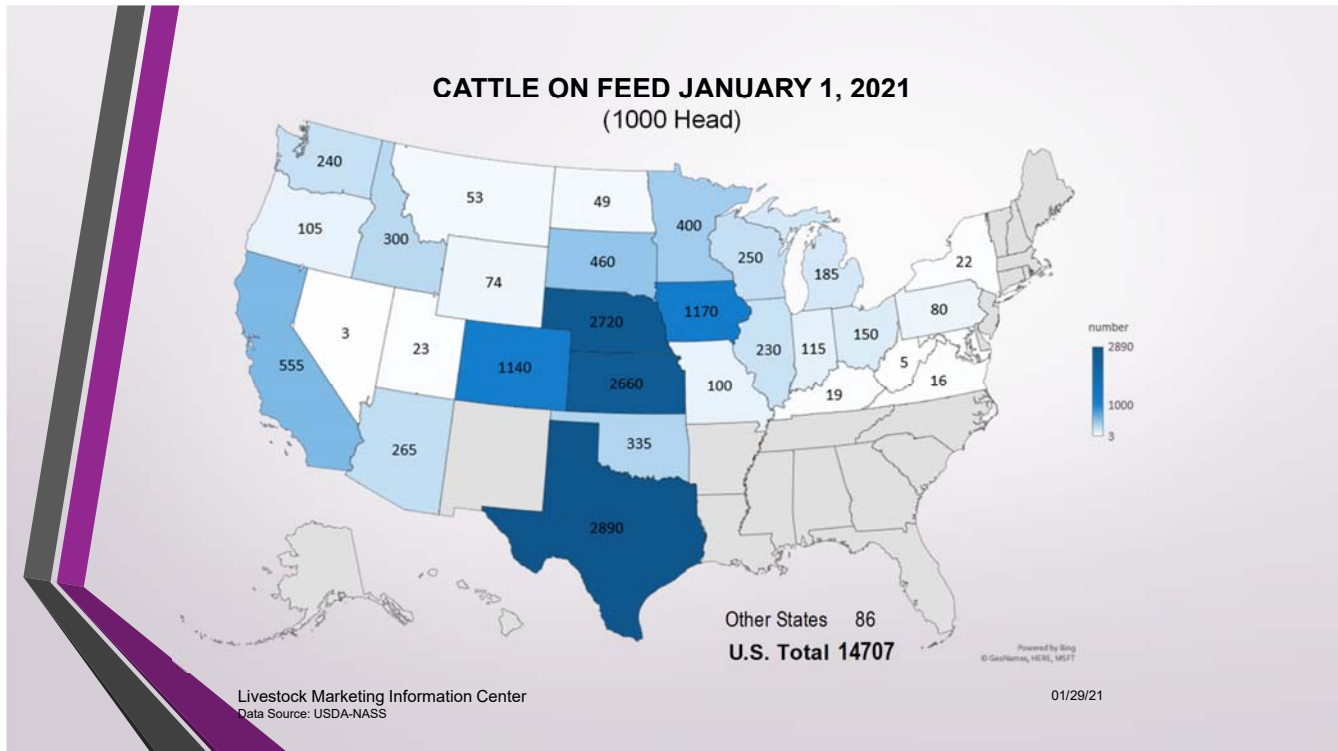
Missouri is a Livestock/Protein Exporter: BOTH to Foreign and Domestic (non-MO) Consumers

	Resident Population (July 19')	Beef Cows (Jan. 21')	COF (Jan 21')
CA	12%	2%	4%
NY	6%	0%	0%
MO	2%	7%	1%
KS	1%	5%	18%
NE	1%	6%	18%
TX	9%	15%	20%

	Resident Population (mil. / July 19')	Beef Cows (000s / Jan. 21')	COF (000s / Jan 21')
CA	39.51	670	555
NY	19.45	95	22
MO	6.14	2,035	100
KS	2.91	1,477	2,660
NE	1.93	1,900	2,720
TX	28.99	4,685	2,890

BEEF COWS THAT CALVED JANUARY 1, 2021
(1000 Head)





"50-14" [Bill](#) (Tester-MT & Grassley-IA)

- Of volume slaughtered by covered packer each reporting week in each plant, the covered packer shall slaughter no less than 50 percent of the quantity through spot market sales from nonaffiliated producers

"50-14" [Bill](#) (Tester-MT & Grassley-IA)

- Of volume slaughtered by covered packer each reporting week in each plant, the covered packer shall slaughter no less than 50 percent of the quantity through spot market sales from nonaffiliated producers
- Other Details:
 - Does not include a packer that owns only 1 livestock processing plant
 - Does not include pork, poultry, dairy-bred, dairy-beef cross, beef over 30 months of age
 - Non-affiliated producers: less than 1% equity in covered packer
 - Spot-market: agreement specifies a firm base price; livestock are slaughtered not more than 14 days after the date of agreement

"50-14" [Bill](#) (Tester-MT & Grassley-IA)

- Benefit of increasing spot-mkt volume to 50% ?
 - If market is "too thin" then increasing spot-volume could be beneficial
- VS
- Costs of increasing spot-mkt volume to 50% ?
 - Incurred costs depend on specifics of implementation
 - Revealed preference of buyers & sellers over time guarantees a cost
 - GT perhaps most concerned about impacts on quality & alignment with consumer signals

“Fischer & Wyden Transparency Act”

- Establish regional minimum thresholds of negotiated cash & neg. grid
- Create & maintain a library of marketing contracts
- Mandate packer report to USDA # of cattle schedule for delivery for each day for next 14 days
- Prohibit USDA from using confidentiality as justification for not reporting & make clear USDA must report all LMR information and do so in a manner that ensures confidentiality

“Fischer & Wyden Transparency Act”

- Benefit vs Cost of increasing spot-mkt volume to 30% (or another region-specific threshold) ? (details will really matter)
- Verbiage around confidentiality seems self-conflicting
 - Must assure confidentiality while also not using conf. as reason to not report...
- Cost of providing contract library (likely low) vs benefit (GT suspects also low)
- Cost of packers reporting upcoming volumes (perhaps low) vs benefit (hard to project)

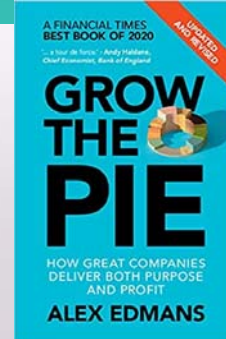
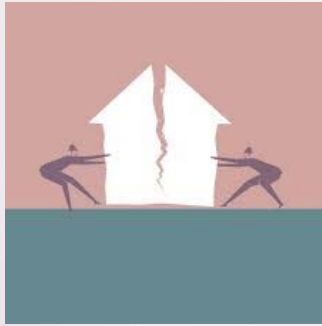
“EATS [Act](#)” (Grassley & Ernst – IA)

- Exposing Agricultural Trade Suppression (EATS) – August 5, 21 introduction
- “To#prevent#States#and#local#jurisdictions#from#interfering#with#the#production and distribution of agricultural products in interstate commerce, and for other purposes.”
 - Motivated,#most#recently#at#least,#by#Proposition#12#in#CA

What is the U.S. beef-cattle industry’s future?



What is the U.S. beef-cattle industry's future?



More information available at:



This presentation will be available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

Host of additional industry resources are cross-linked as well