



Kansas Ag Bankers

A DIVISION of KBA

2023 Kansas *Ag Bankers* Conference

MARCH 1-2, 2023



**HILTON GARDEN INN CONFERENCE CENTER
MANHATTAN**

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
- Economists Frame Decisions as Trade-offs
 - Expected Benefits vs. Costs
 - Consider “Unintended Consequences”
 - Details Matter!



LOTS OF CALLS FOR CHANGE & PROPOSED
POLICIES IN RECENT YEARS

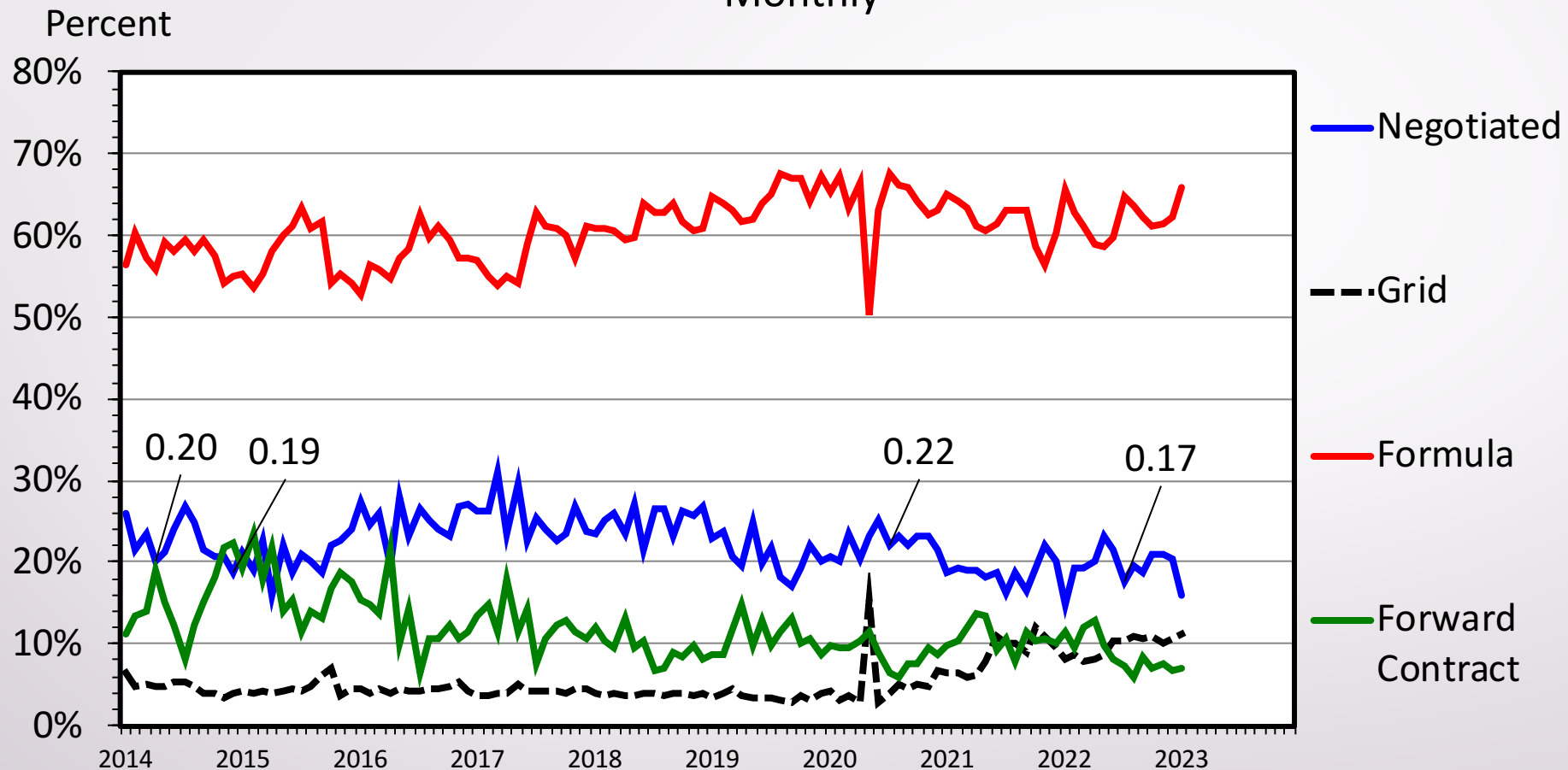


LOTS OF CALLS FOR CHANGE & PROPOSED POLICIES IN RECENT YEARS

- ❑ Price Discovery, Packing Capacity, LMR “Enhancement”, & Other Issues Underpin Fed Cattle Market Realities...

TOTAL CATTLE SOLD BY TRANSACTION

Monthly



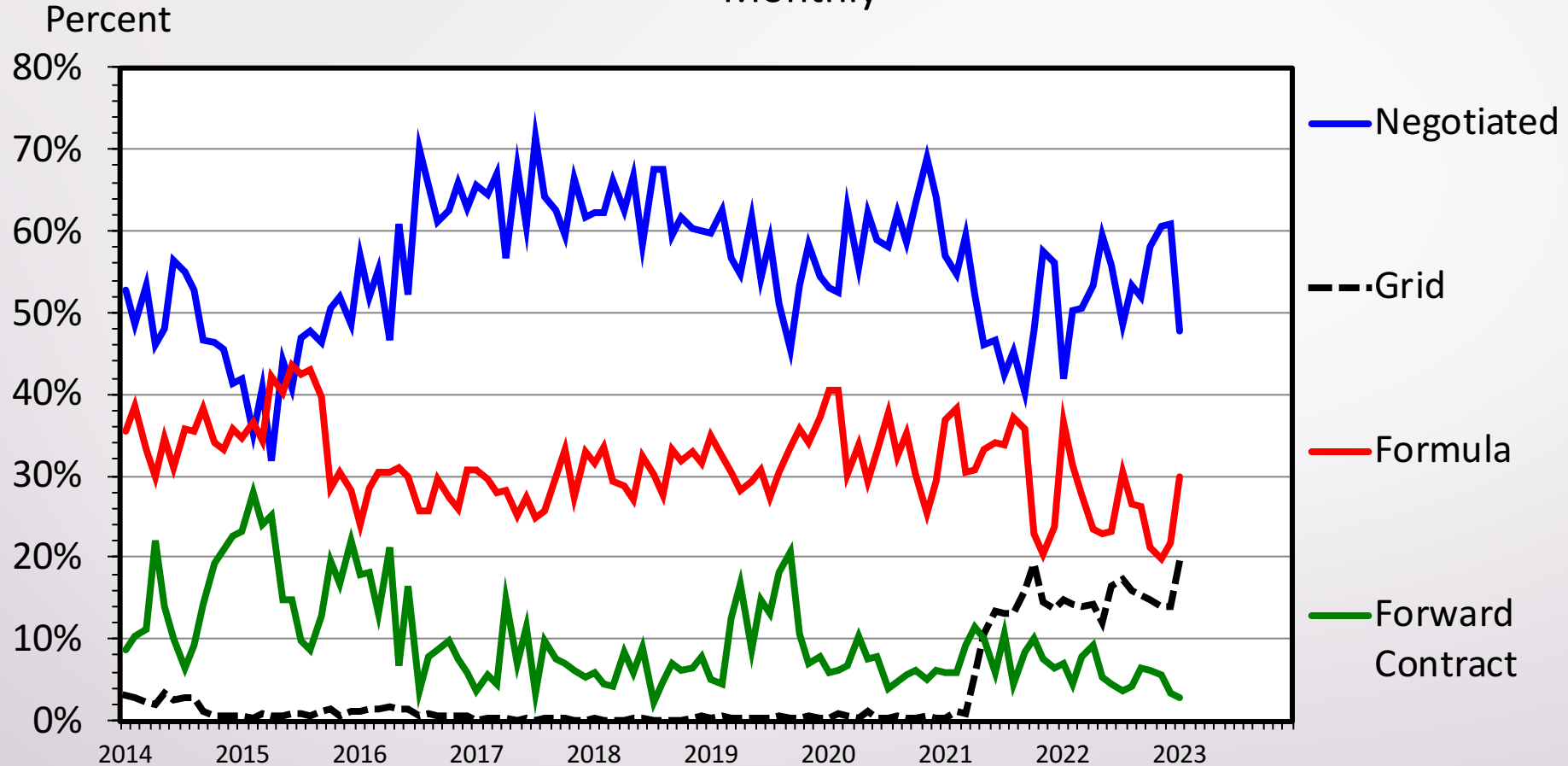
Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

CATTLE SOLD ON A LIVE BASIS

Monthly



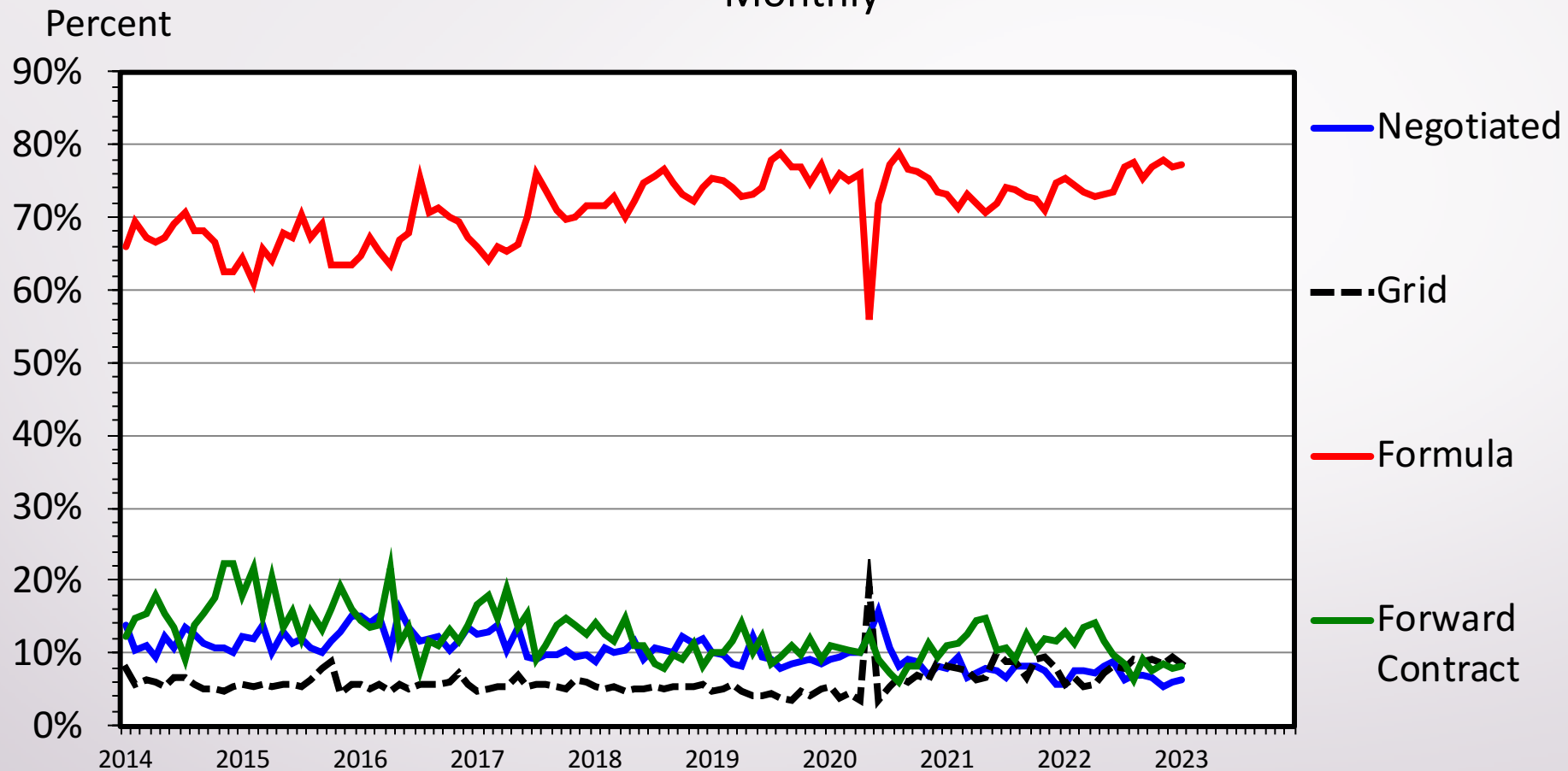
Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

CATTLE SOLD ON A DRESSED BASIS

Monthly



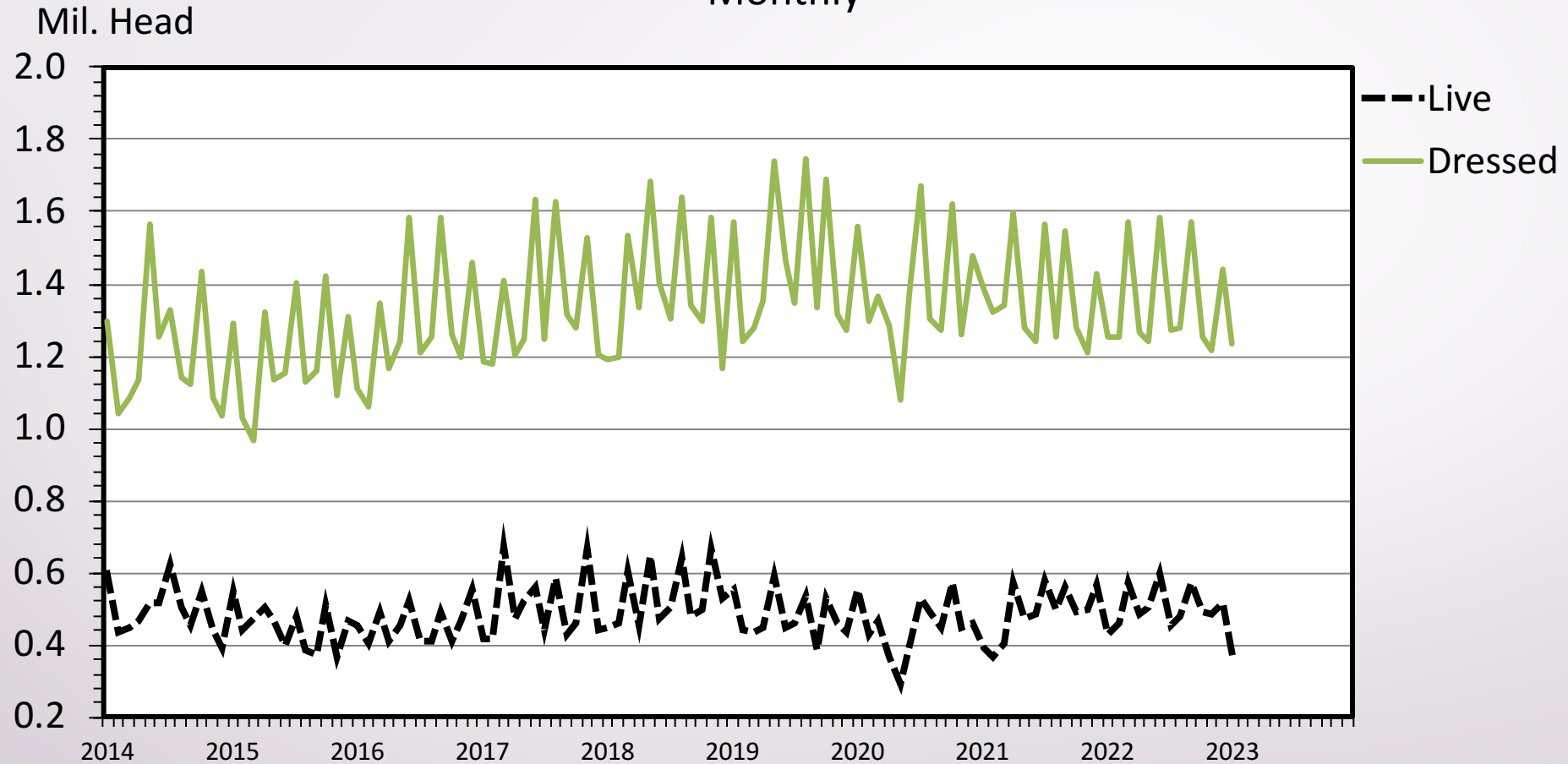
Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

CATTLE SOLD: LIVE vs DRESSED

Monthly



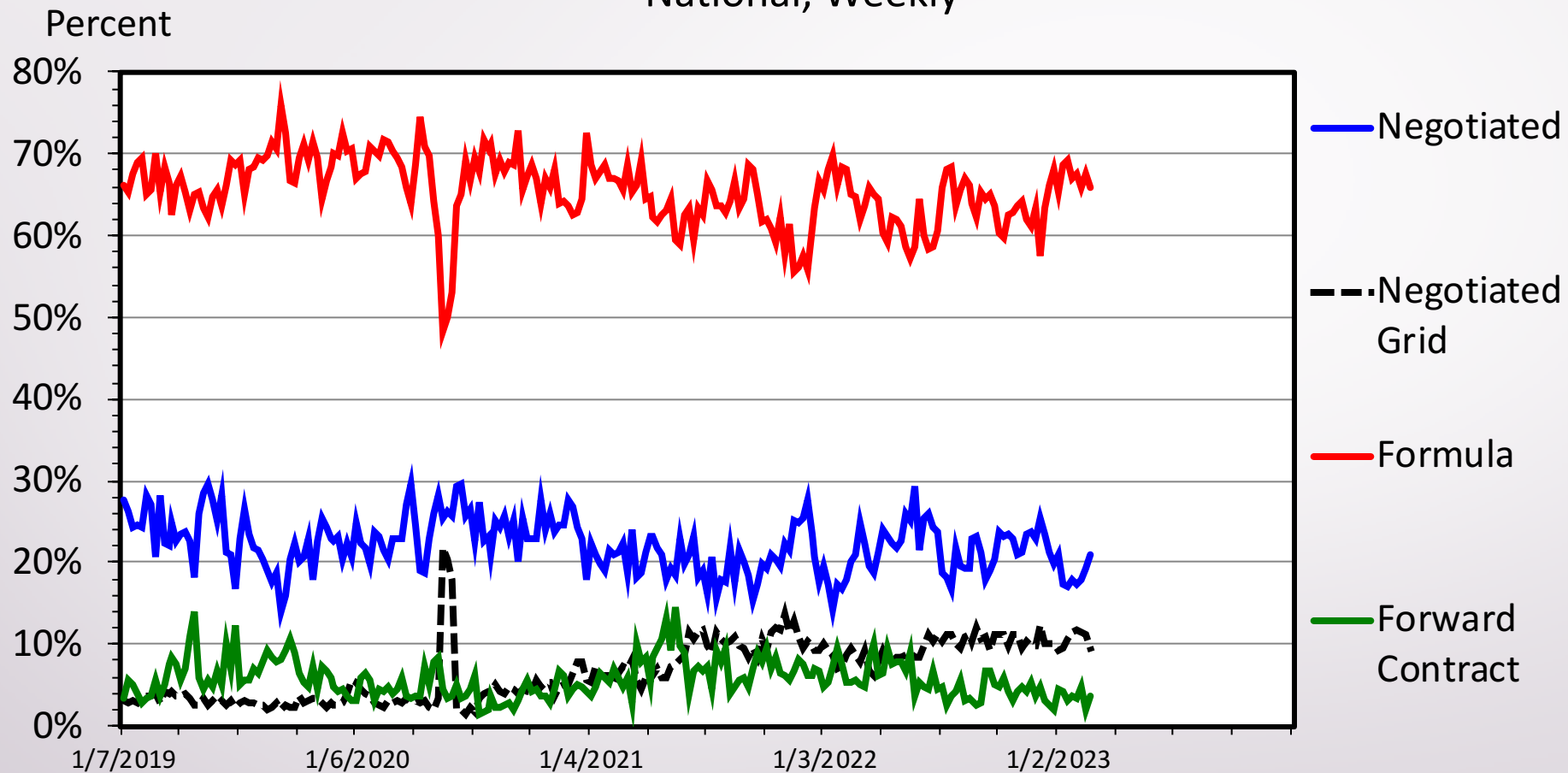
Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

STEERS/HEIFERS SOLD BY TRANSACTION

National, Weekly



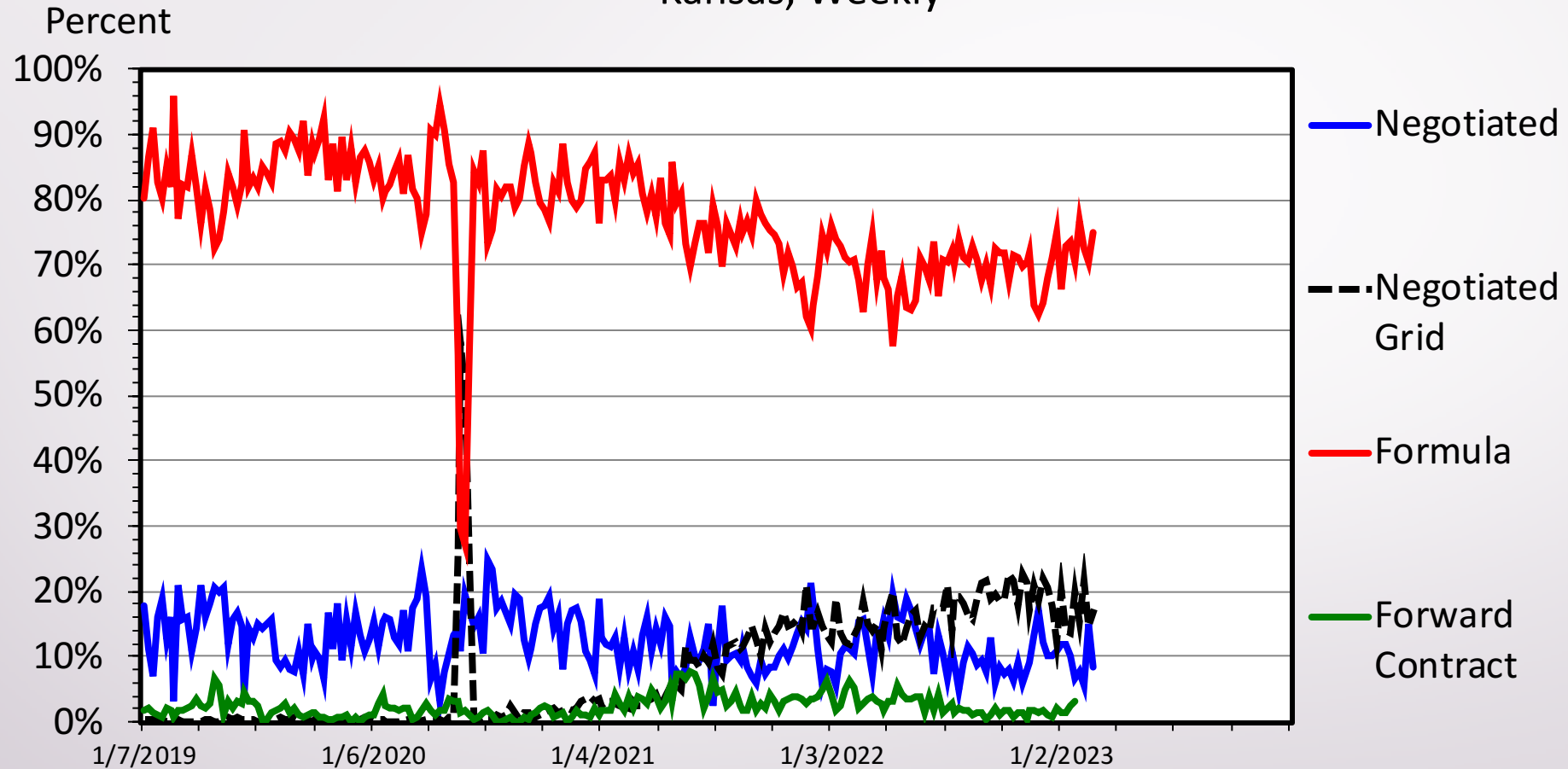
Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

STEERS/HEIFERS SOLD BY TRANSACTION

Kansas, Weekly



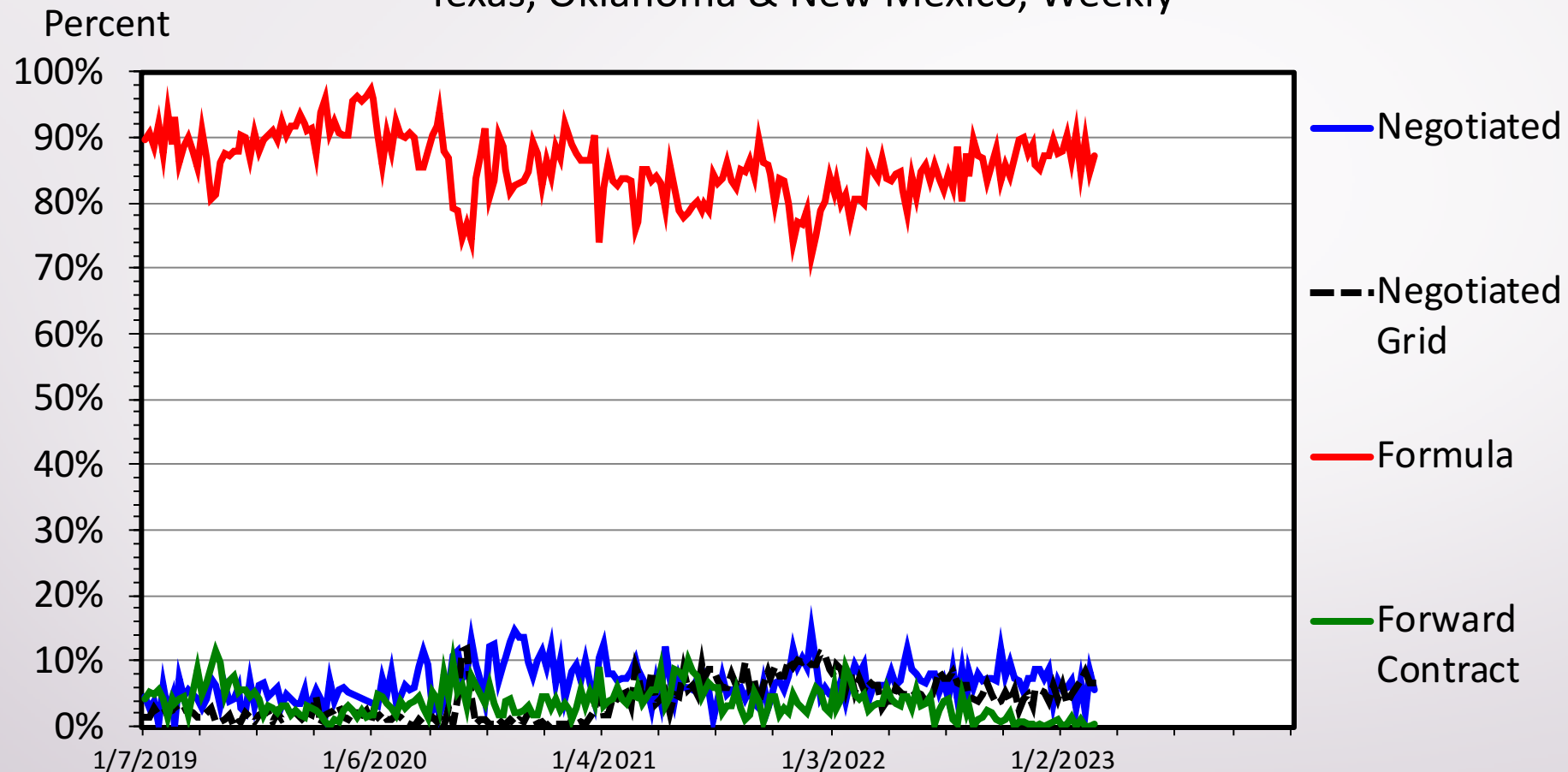
Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

STEERS/HEIFERS SOLD BY TRANSACTION

Texas, Oklahoma & New Mexico, Weekly



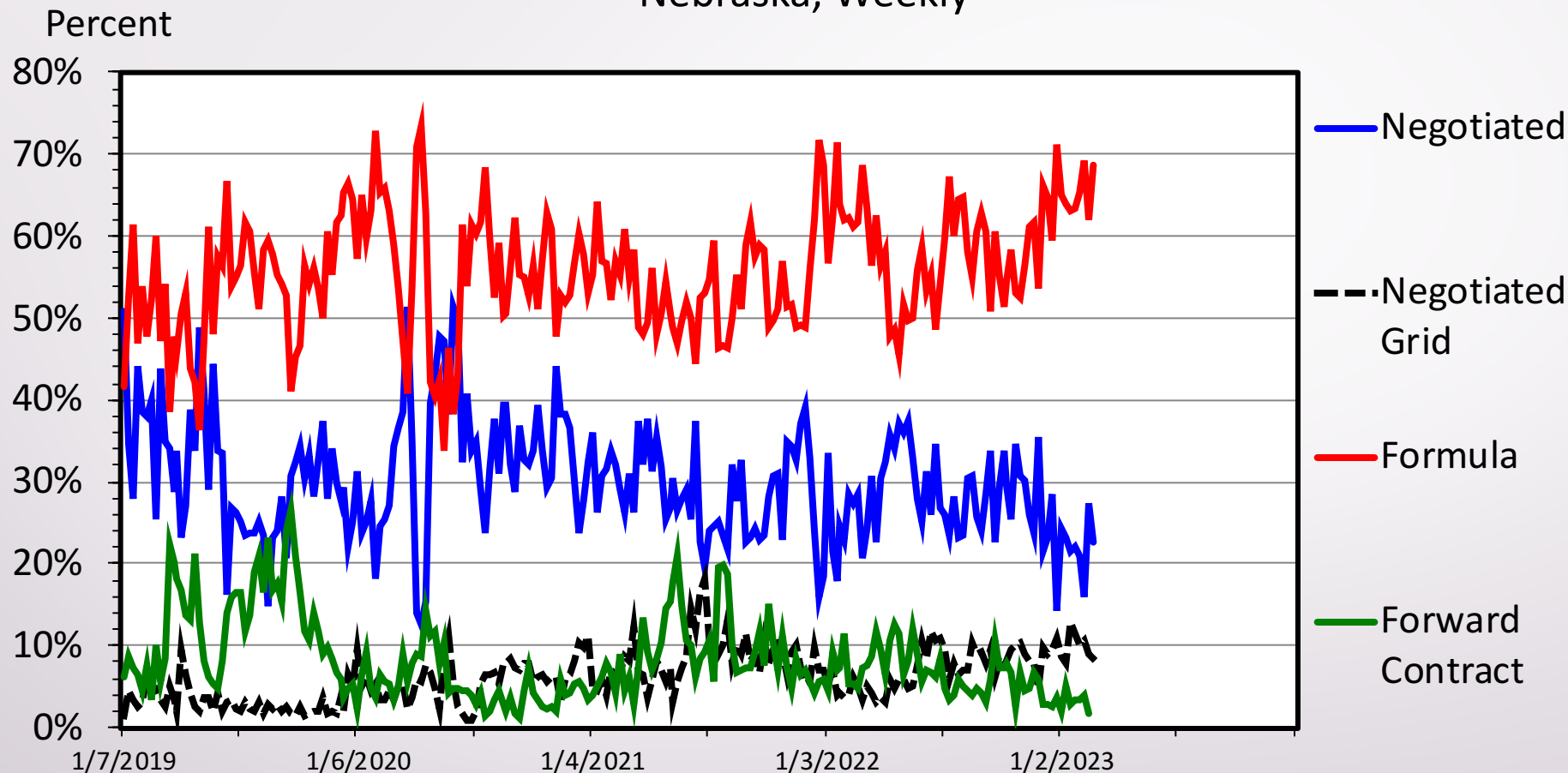
Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

STEERS/HEIFERS SOLD BY TRANSACTION

Nebraska, Weekly



Data Source: USDA-AMS

Livestock Marketing Information Center

2/23/23

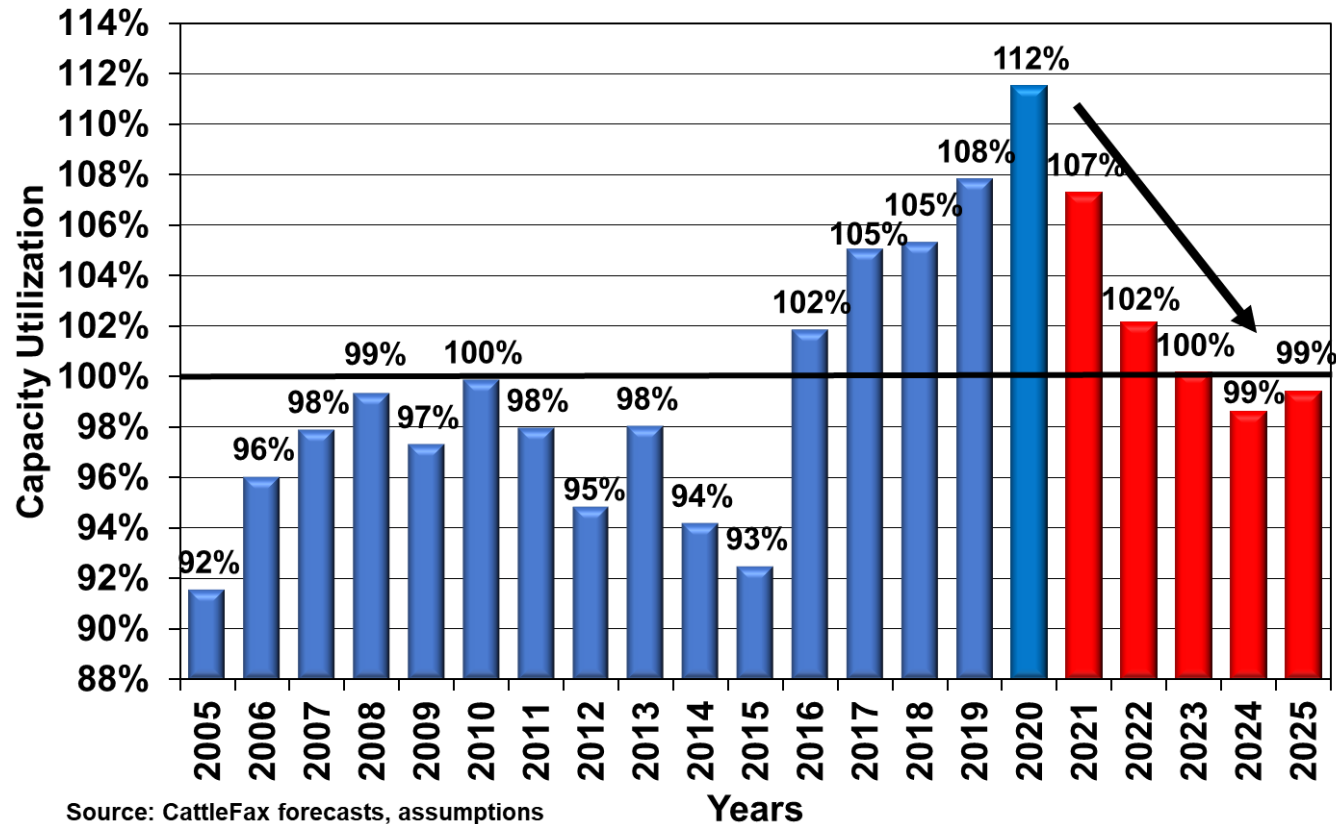
Packing Capacity vs Fed Cattle Inventories: Recently Market's Most Influential Relationship

- 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=FcktRbRbi1I&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



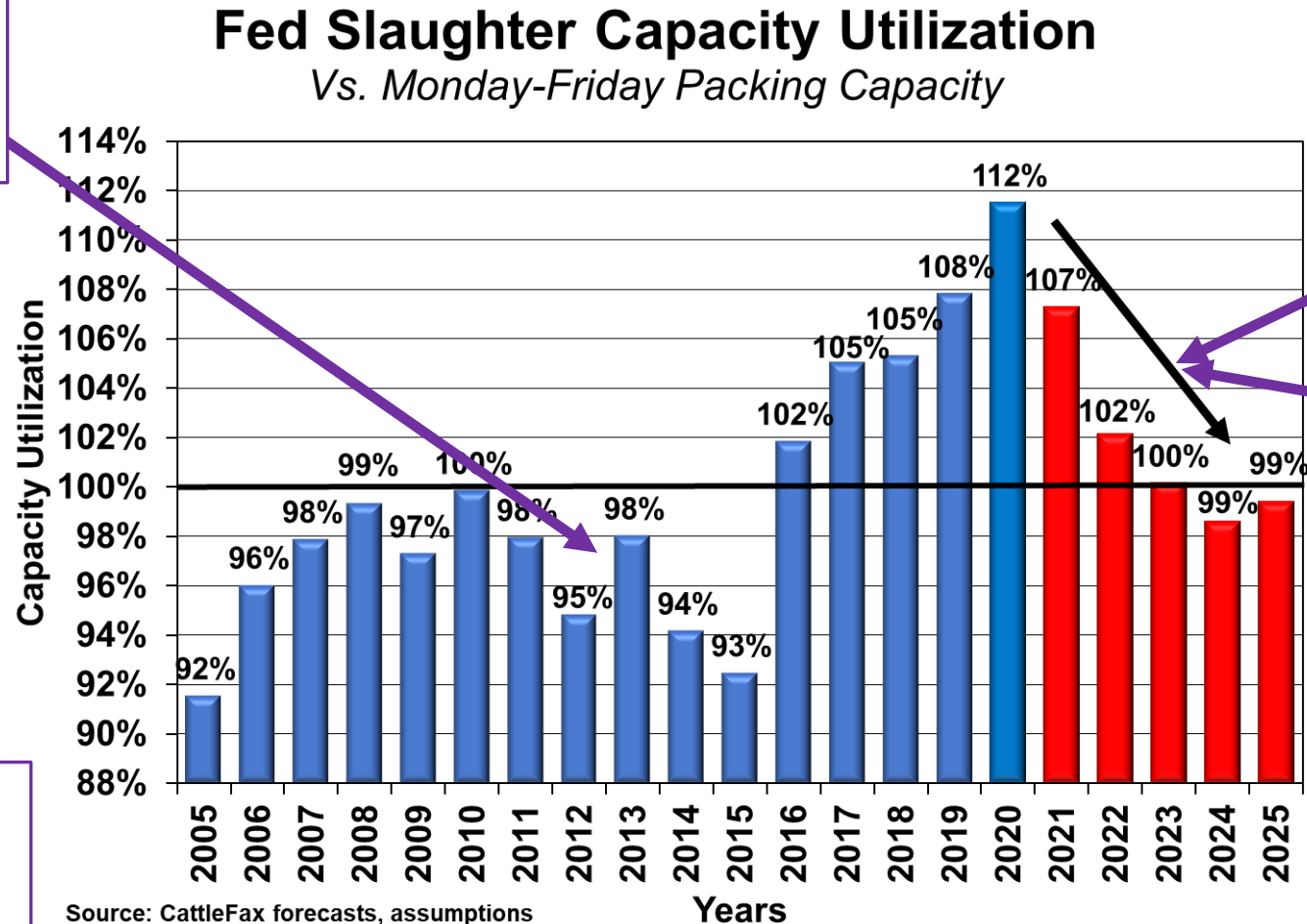
“Too many cattle relative to capacity”
- Wider beef-cattle \$ difference

“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)



Lower FI Slaughter

2016 = 30.6 mil
2020 = 32.8 mil
2021 = 33.4 mil
2022 = 32.5 mil

Added (?) Slaughter Capacity

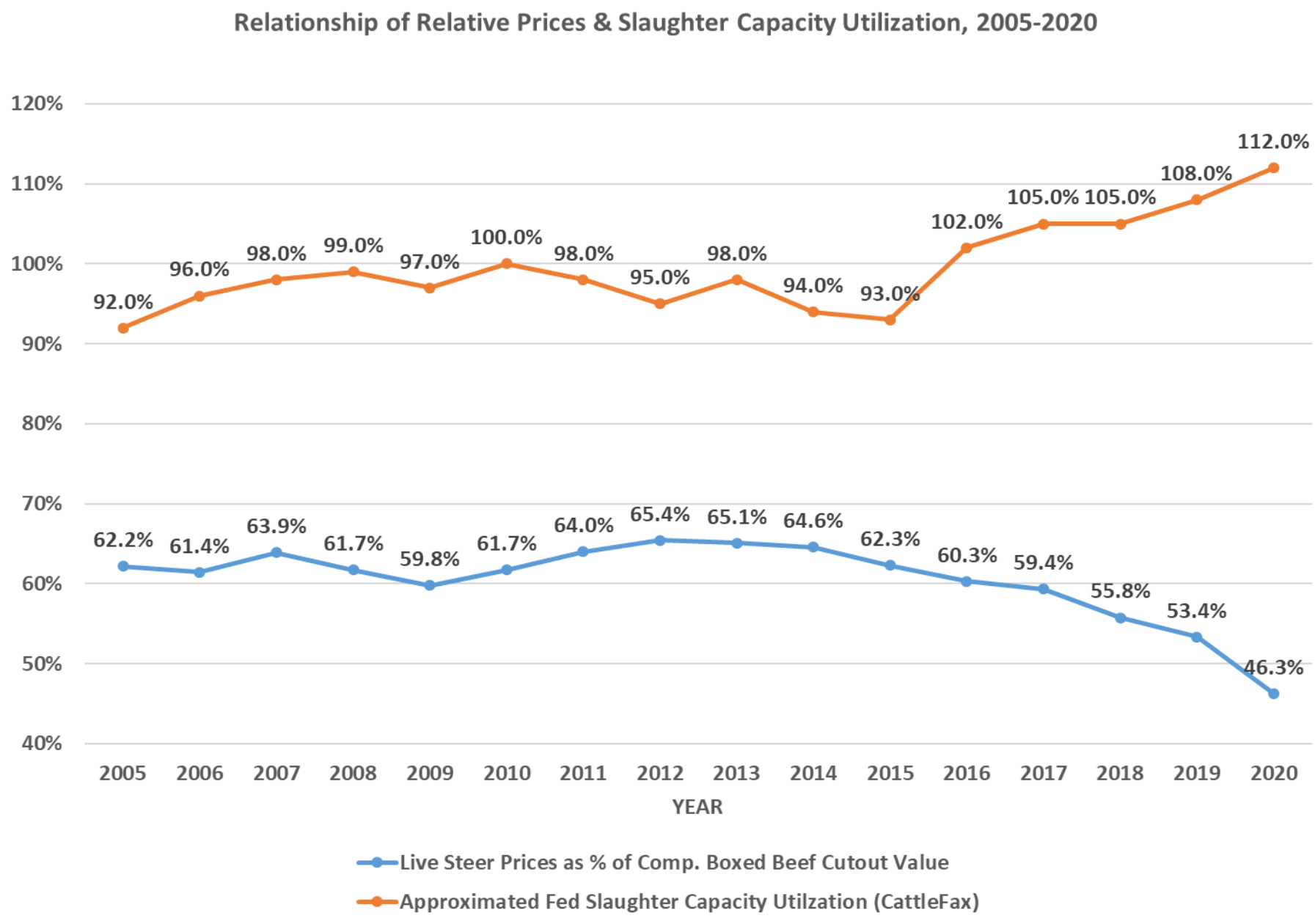
- Tama, IA 2nd shift, up to 2,500 hd/ day
- Jerome, ID new plant 500 hd/day
- North Platte, NE new plant 1,500/hd/day
- Many other announcements

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

Applied Economic Perspectives and Policy / Early View

Featured Article | [Free Access](#)

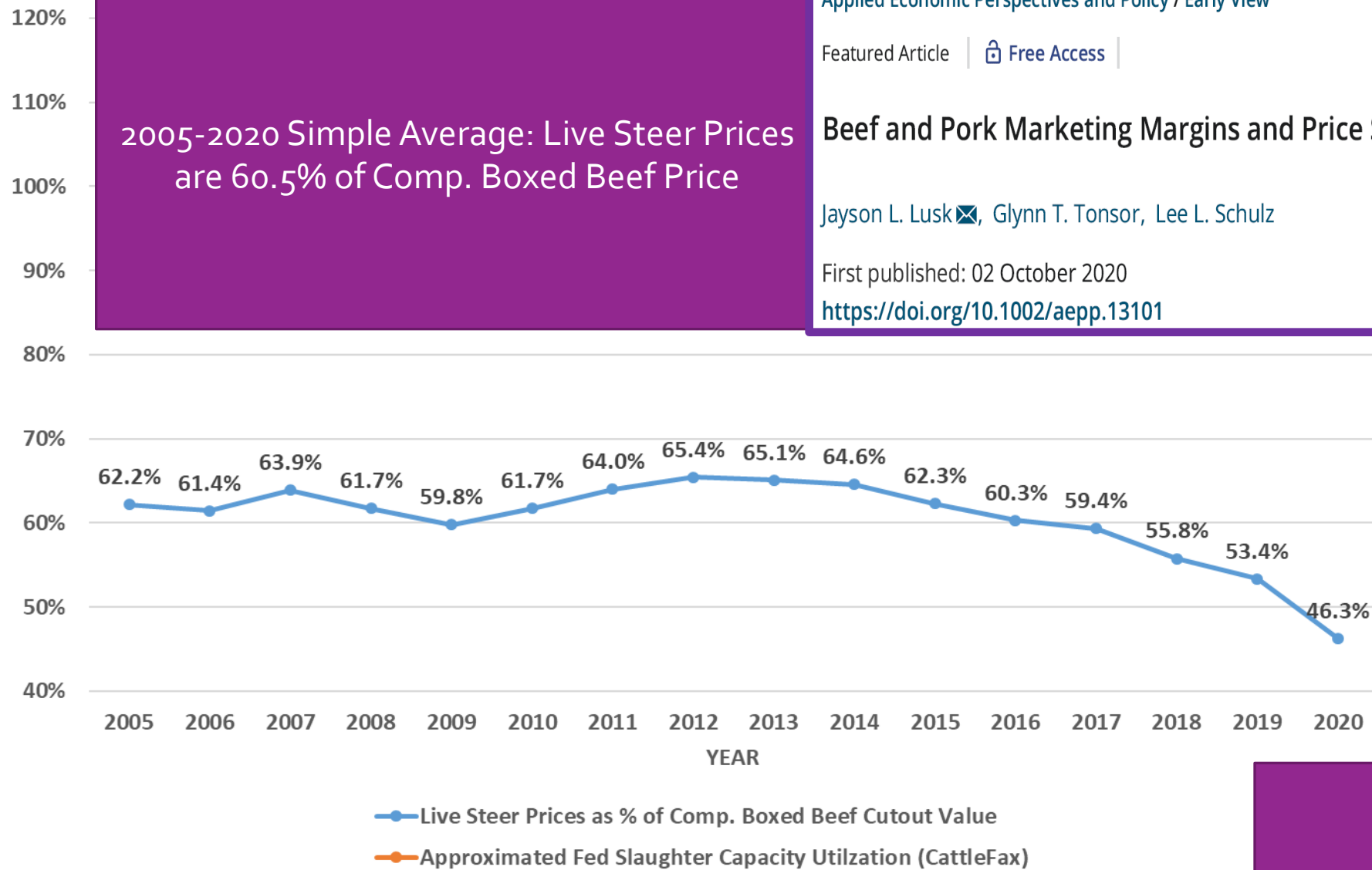
Beef and Pork Marketing Margins and Price Spreads during COVID-19

Jayson L. Lusk✉, Glynn T. Tonsor, Lee L. Schulz

First published: 02 October 2020

<https://doi.org/10.1002/aepp.13101>

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



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>

Fed Cattle Price Discovery Issues and Considerations



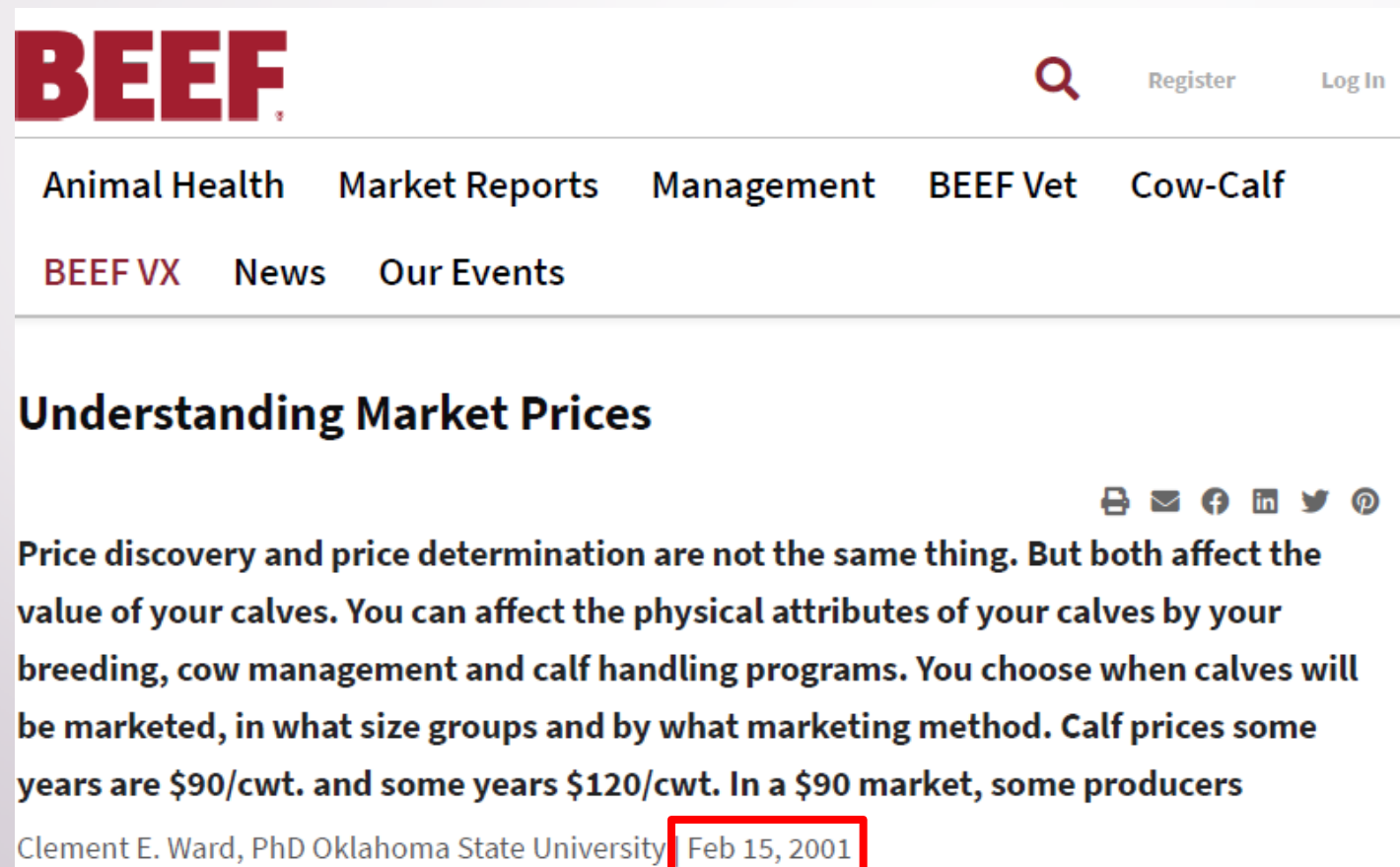
E-1053

Division of Agricultural Sciences and Natural Resources
Oklahoma State University


OSU | EXTENSION

Price Discovery vs Price Level

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









The screenshot shows the BEEF magazine website. The header features the BEEF logo in red, a search icon, and links for Register and Log In. Below the header is a navigation bar with links for Animal Health, Market Reports, Management, BEEF Vet, and Cow-Calf. A secondary navigation bar includes BEEF VX, News, and Our Events. The main content area displays the article title "Understanding Market Prices" in bold. To the right of the title are social media sharing icons for print, email, Facebook, LinkedIn, Twitter, and Pinterest. The article text begins with "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". The author information at the bottom reads "Clement E. Ward, PhD Oklahoma State University" followed by the date "Feb 15, 2001", which is highlighted with a red rectangular box.

BEEF  [Register](#) [Log In](#)

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Understanding Market Prices

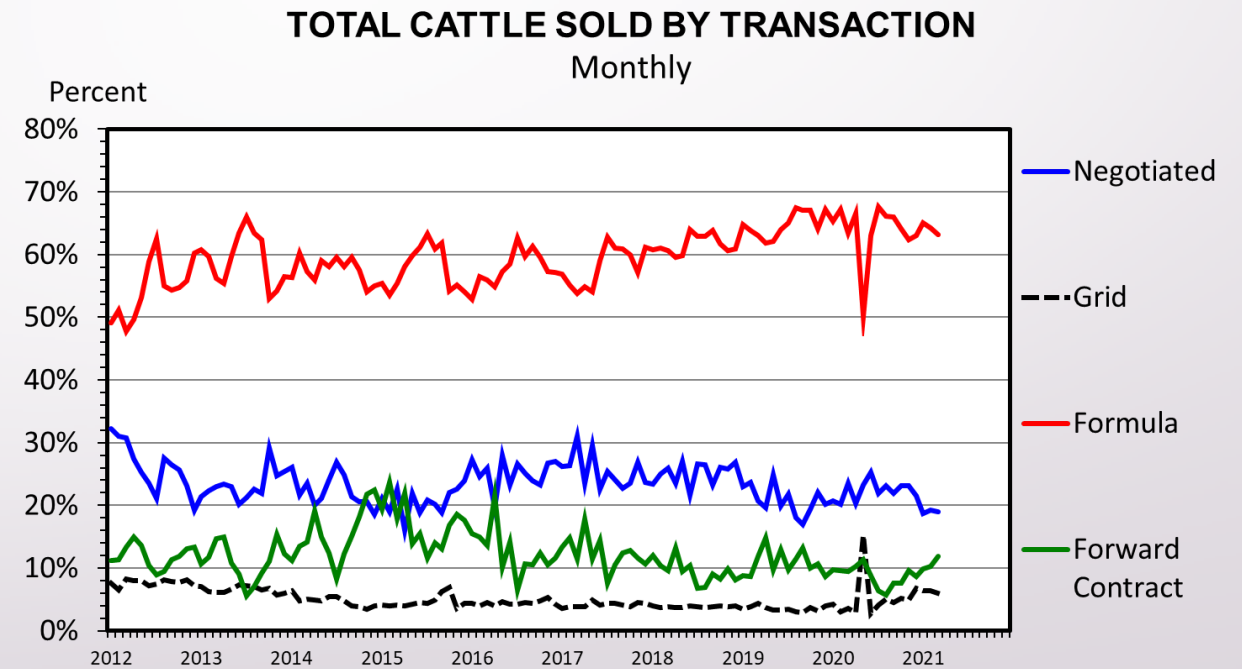
Price discovery and price determination are not the same thing. But both affect the value of your calves. You can affect the physical attributes of your calves by your breeding, cow management and calf handling programs. You choose when calves will be marketed, in what size groups and by what marketing 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

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](#)

LOTS OF CALLS FOR CHANGE & PROPOSED POLICIES IN RECENT YEARS

- ❑ “S.228 Cattle Price Discovery and Transparency Act of 2023” (GT jumping over past renditions)

- ❑ <https://www.congress.gov/bill/118th-congress/senate-bill/228?s=1&r=23>

 - Introduced in Senate on Feb 2, 2023

S.228 Cattle Price Discovery and Transparency Act of 2023"

□ Immediate, up-front statement is:

"To amend the Agricultural Marketing Act of 1946 to establish a cattle contract library, and for other purposes."

S.228 Cattle Price Discovery and Transparency Act of 2023"

DEFINITIONS

- *APPROVED PRICING MECHANISM*.—The term ‘approved pricing mechanism’ means a purchase of fed cattle made—
 - “(A) through a [negotiated purchase](#);
 - “(B) through a [negotiated grid purchase](#);
 - “(C) at a stockyard (as defined in section 302 of the Packers and Stockyards Act, 1921 ([7 U.S.C. 202](#))); or
 - “(D) through a trading system or platform for the purchase or sale of cattle, or for an arrangement to purchase or sell cattle, through any means in which multiple buyer and seller participants have the ability to, and regularly and consistently, make and accept bids and offers on or at the trading system or platform.”;

S.228 Cattle Price Discovery and Transparency Act of 2023"

DEFINITIONS

- *MANDATORY MINIMUM.*—The term ‘mandatory minimum’ means, of the quantity of fed cattle purchased for slaughter by a covered packer (as defined in section 221) for each processing plant, the **minimum percentage of such cattle that are required to be purchased through approved pricing mechanisms from producers that are not packers.”**; and

S.228 Cattle Price Discovery and Transparency Act of 2023"



DEFINITIONS

- *COVERED PACKER*.—The term ‘covered packer’ means a packer that has slaughtered during the immediately preceding 5 calendar years an average of not less than 5 percent of the number of fed cattle slaughtered nationally during the immediately preceding 5 calendar years.”

S.228 Cattle Price Discovery and Transparency Act of 2023"

Section 3: 14-DAY CATTLE SLAUGHTER REPORT

- number of cattle scheduled for delivery to a packer processing plant for slaughter for each of the next 14 calendar days

S.228 Cattle Price Discovery and Transparency Act of 2023"

SECTION 4: EXPEDITED CARCASS WEIGHTS REPORTING

- “(1) DETERMINATION.—Not later than 180 days after the date of enactment of the Cattle Price Discovery and Transparency Act of 2023, the Secretary shall determine the minimum amount of time needed by the Secretary to publicly report the daily average carcass weight of cattle slaughtered by packer processing plants.
- “(2) REPORTING.—Not later than 180 days after the Secretary has made a determination under paragraph (1), the Secretary shall begin publicly reporting the information described in that paragraph within the time determined under that paragraph.”.

S.228 Cattle Price Discovery and Transparency Act of 2023"

SECTION 5: MANDATORY REPORTING OF CUTOUT YIELD

S.228 Cattle Price Discovery and Transparency Act of 2023"

☐ SECTION 6: CATTLE CONTRACT LIBRARY.

☐ (a) IN GENERAL.—Not later than 120 days after the date of enactment of the Cattle Price Discovery and Transparency Act of 2023, the Secretary shall establish and maintain, through the Livestock Mandatory Price Reporting program, a library or catalog (referred to in this section as the 'library'), of each type of covered contract entered into between packers and producers for the purchase of fed cattle (including cattle that are purchased or committed for delivery), including any schedules of premiums or discounts associated with the covered contract.

☐ ...

☐ "(e) CONFIDENTIALITY.—The reporting requirements for packers under this section shall be subject to the confidentiality protections provided under section 251.

S.228 Cattle Price Discovery and Transparency Act of 2023"

□ SECTION 7: MARKET ACQUISITION OF FED CATTLE

- (a) SENSE OF THE SENATE.—It is the sense of the Senate that—
 - (1) all participants in the fed cattle market have a responsibility to contribute to sufficient levels of negotiated trade of fed cattle in all cattle feeding regions in order to achieve competitive bidding and maximum transparency in all relevant markets and robust price discovery for the benefit of all market participants;
 - (3) the Department of Agriculture should examine academic literature regarding minimum levels of negotiated transactions necessary to achieve robust price discovery, eliminate the potential for price manipulation, and enhance cattle producer leverage in the marketplace in each of the cattle marketing regions.

S.228 Cattle Price Discovery and Transparency Act of 2023"

❑ MANDATORY MINIMUMS.

- (a) PURPOSE.—The purpose of this section is to establish mandatory minimums—
 - “(1) to enhance price discovery, transparency, and cattle producer leverage for cattle market participants; and
- “(b) ESTABLISHMENT.—
 - “(1) IN GENERAL.—Not later than 2 years after the date of enactment of the Cattle Price Discovery and Transparency Act of 2023, the Secretary shall establish—
 - “(A) 5 to 7 contiguous regions (referred to in this section as ‘covered regions’) that—

S.228 Cattle Price Discovery and Transparency Act of 2023"

☐ MANDATORY MINIMUMS.

- “(B) a mandatory minimum—
- “(i) for each covered region established under subparagraph (A); and
- “(ii) that shall be applicable with **respect to each processing plant of a covered packer** located in that covered region; and
- “(3) PUBLIC INPUT.—In carrying out this subsection, **the Secretary shall make all proposed mandatory minimums subject to notice and comment rulemaking and a cost-benefit analysis.**

S.228 Cattle Price Discovery and Transparency Act of 2023"

□ MANDATORY MINIMUMS.

- “(5) INITIAL MANDATORY MINIMUM REQUIREMENT.—The **initial mandatory minimum** established under paragraph (1)(B) for each covered region shall be—
- “(A) not less than the average percentage of negotiated purchases and negotiated grid purchases made in that covered region between January 1, 2020, and January 1, 2022; and
- “(B) not more than 50 percent.

S.228 Cattle Price Discovery and Transparency Act of 2023"

□ SECTION 8: ALTERNATIVE MARKETING ARRANGEMENTS FEASIBILITY REPORT.

- Not later than 180 days after the date of enactment of this Act, the Secretary of Agriculture, acting through the Administrator of the Agricultural Marketing Service, **shall publish a report analyzing the feasibility of alternative marketing arrangements with a base price tied to the price of boxed beef**, which shall include information on—
 - (1) the benefits and limitations of such alternative marketing arrangements;
 - (2) barriers limiting adoption of such alternative marketing arrangements;
 - (3) potential educational needs relating to the use of such alternative marketing arrangements for industry participants; and
 - (4) risk management needs to increase the adoption and facilitate the ongoing delivery of benefits of such alternative marketing arrangements to industry participants

S.228 Cattle Price Discovery and Transparency Act of 2023"

□ SECTION 9: MODIFICATIONS TO LIVESTOCK MANDATORY REPORTING REGIONS.

- Not later than 1 year after the date of enactment of this Act, the Secretary of Agriculture, acting through the Administrator of the Agricultural Marketing Service, shall realign the livestock mandatory reporting regions established pursuant to subtitle B of the Agricultural Marketing Act of 1946 ([7 U.S.C. 1635 et seq.](#)) by—
- (1) modifying the existing Colorado cattle reporting region to include the State of Wyoming; and
- (2) modifying the existing Iowa-Minnesota cattle reporting region to include the States of Illinois and South Dakota.

Also see Nov 2019 Schroeder, Schulz, & Tonsor report to AMS:

<https://www.ams.usda.gov/sites/default/files/media/FinalReportNegotiated5AreaCattleStudy.pdf>

Analysis of the Cattle Price Discovery and Transparency Act of 2021

John D. Anderson, James L. Mitchell, and Andrew M. McKenzie

Agricultural Economics & Agribusiness Department
and the
Fryar Price Risk Management Center of Excellence,
Dale Bumpers College of Agriculture Food & Life Sciences
and
University of Arkansas System Division of Agriculture

FC-2022-001

January 2022



“... even small increases in negotiated trade volumes through mandates could reduce Arkansas cattle value by \$4 million to \$6 million per year.”

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