



Observations From Cattle Mandatory Price Reporting

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Under the Livestock Mandatory Reporting Act of 1999, large packers of cattle, swine, and sheep must report data from purchases and processing with respect to price, volume, and grade. The U.S. Department of Agriculture's Agricultural Marketing Service (AMS) assembles and disseminates the price reports. Prices are now available for making annual observations and comparisons about industry trends. In addition, the recent high cattle prices and prospects of smaller supplies in the coming years make monitoring supply pertinent.

The purpose of this paper is to highlight cattle information available under national mandatory livestock price reporting. The understanding of mandatory reporting is particularly relevant given the "sunset clause" in the legislation, which means that mandatory reporting may end by October 2004. While only a portion of the reports are highlighted here, a list of all reports under mandatory price reporting can be accessed at the AMS website, www.ams.usda.gov. For clarity, the general name and specific number is given for the reports.

Purchase Methods and Prices

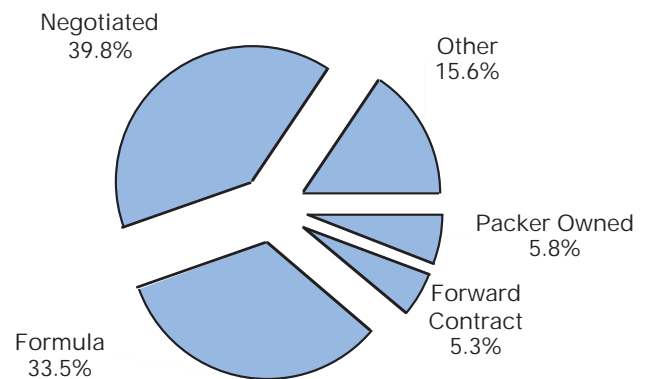
The weekly packer-owned cattle report, LM_CT153, has slaughter volume and characteristics for cattle owned by packers, but no prices. It also gives slaughter volume for cattle slaughtered that were purchased the previous week under formulas and forward contracts. The weekly negotiated purchases report, LM_CT154, gives a confirmed head count of cattle slaughtered during the prior week.

The weekly numbers were tallied for 2003 and compared with the total number of steers and heifers slaughtered under federal inspection as reported by the National Agricultural Statistical Service, NASS (Figure 1). Steer and heifer slaughter was 80 percent of total commercial cattle slaughter in 2003. A residual category for the remaining steers and heifers, categorized as "other," would include purchases made at auctions or by small packers.

Negotiated sales accounted for 39.8 percent of the number of head slaughtered. The next largest category was for formula purchased cattle at 33.5 percent. Auctions and small packers

accounted for 15.6 percent of purchases. Packer-owned slaughter was 5.8 percent and forward contract slaughter was 5.3 percent.

Figure 1. Steer and Heifer Slaughter by Purchase Type During 2003



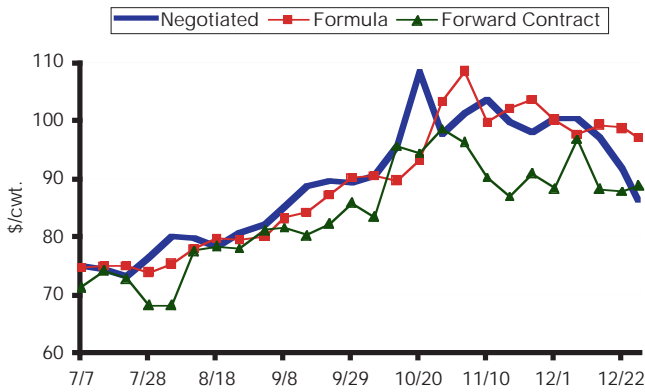
Data from AMS and NASS

There were anecdotal reports that feedlots had more market power during the latter half of 2003 and were thus more inclined to sell on a negotiated basis. The data support such a claim. While the number of head slaughtered during 2003 was lower than during 2002, the absolute number and percent sold on a negotiated basis was much higher. The largest absolute and percent decline was in the formula-purchased category. The absolute number and percent increased for the remaining categories.

The negotiated purchases report, LM_CT154, covers cattle purchased using a negotiated price and includes dressing percentage, weight range, weighted average weight, price range, and a weighted average price. The weekly formulated and forward contract report, LM_CT151, allows for a reasonable comparison of the prices paid for negotiated versus formulated cattle of similar quality sold at similar times. The negotiated weighted average price can be compared to similar classes of slaughter animals purchased on a formula or forward contract basis.

Comparisons of weekly purchased cattle are shown for the second half of 2003, using weighted average prices for domestic 35-65% Choice steers bought on a live-weight basis (Figure 2).

Figure 2. Weekly Live Slaughter Steer Prices from July through December of 2003



Data from USDA-AMS

The prices are those paid for cattle slaughtered during the week reported. As such, there is a timing issue when comparing the prices, particularly for forward contract purchases. Packers paid a relatively low price for forward contract cattle as futures prices tended to trade low relative to cash prices during much of the time period. There seem to be relatively large swings in the forward contract prices, but they only comprise a small percentage of slaughter. The formula prices lag the negotiated prices, which is understandable if the formulas tie to observed cash prices. It is not clear what final price, across all purchases, packers are paying over time. As long as packer cost information is obscured, cattle feeders will not know the margin on which to negotiate.

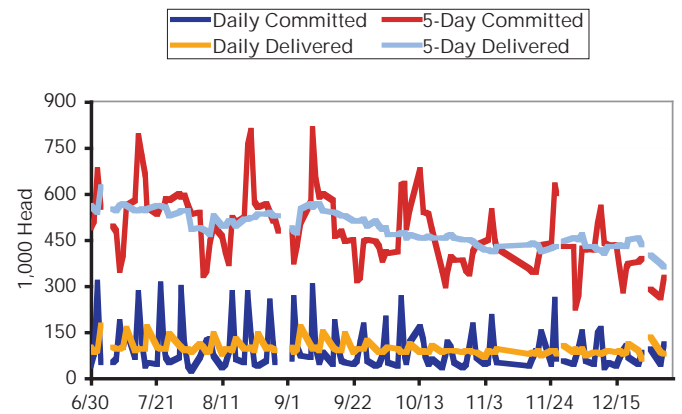
Committed and Delivered Information

AMS reports supply information that was not available before mandatory reporting. The committed and delivered cattle reports give summaries of cattle classified by purchase type and by cattle type (steer, heifer, etc.). Specifically, cattle to be delivered within the next seven days are considered committed. If a large number of cattle were reported as committed for a particular day, then one would know that these cattle would be delivered sometime in the next week. This gives an indication of the short-run supply conditions relevant for price discovery and efficient planning or timing of feedlot sales.

Examining the total number committed and delivered from the daily summaries, LM_CT106, clarifies purchasing patterns in the industry. Packers purchase a large number of cattle on a given day of the week, then smooth out deliveries throughout the following week. There are typically spikes in the daily committed level and little variability in the daily delivered level (Figure 3). Because of the difficulty of pinpointing specific cattle committed to the exact day they are delivered, running totals are necessary to see how committed and delivered levels correspond to each other.

Because AMS reports say committed cattle are “generally for slaughter in seven days,” a five-calendar-day tally is used to give a running total of committed and delivered cattle (Figure 3). The 5-day delivered total would roughly equal a moving total of weekly slaughter. The 5-day committed total indicates whether or not packers are “short-bought,” meaning that a small 5-day committed total implies packers may need cattle to maintain slaughter plant efficiency and be willing to pay higher prices to achieve such efficiency. Such times would show as valleys where the 5-day committed total is below the 5-day delivered total. Producers should also monitor other industry news as packers could scale back slaughter and not need as many animals. Prices do not necessarily increase following a period where packers are short-bought.

Figure 3. Committed and Delivered Volume from July through



Data from USDA-AMS

December of 2003

AMS currently reports week-to-date totals in a morning review report, LM_CT130. In addition, other data that may be useful are the breakdowns of the committed and delivered cattle from each state. Such a breakdown might prove insightful for modeling movements of cattle through time and across different regions. Knowing the source of marketings may improve projections of cattle-on-feed statistics.

Implications and Conclusions

The information available surpasses the scope that was accessible to producers before mandatory reporting. At least at the national level, a comparison of prices is possible across purchasing methods. However, producers remain concerned about accepting formula prices where the base price may be determined by potentially inferior cattle. The short-run supply situation is also more transparent. In particular, the committed and delivered reports provide a significant amount of new, non-price information that should be useful for gauging short-term supply situations.

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