



Baseline Study of Livestock and Meat Marketing Trends and Implications for Livestock Mandatory Reporting

Research Commissioned by the Agricultural Marketing Service
United States Department of Agriculture

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Acknowledgements

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LMR in a Dynamic Industry

Some industry changes occurred relatively quickly, and AMS was able to implement.

Some changes have been completely unforeseen, e.g., the current trend toward processors trimming grind at the plant instead of retail due to FSIS food safety concern.

The area of continued communication with industry and USDA-AMS is a fruitful area for additional effort. Ultimately any efforts by USDA-AMS to expand communication with the industry must be reciprocated by industry representatives to be successful.

Key Findings

Livestock and meat are being marketed in dramatically different ways today than in the recent past.

Negotiated trade has been rapidly replaced by **formula pricing, forward markets, and longer term marketing agreements.**

There is also an ongoing shift towards **pricing livestock using meat values.**

Traditional data providers are also increasingly LMR data users. This changes the form and role of LMR and USDA-AMS market reporting.

Trends & Observations

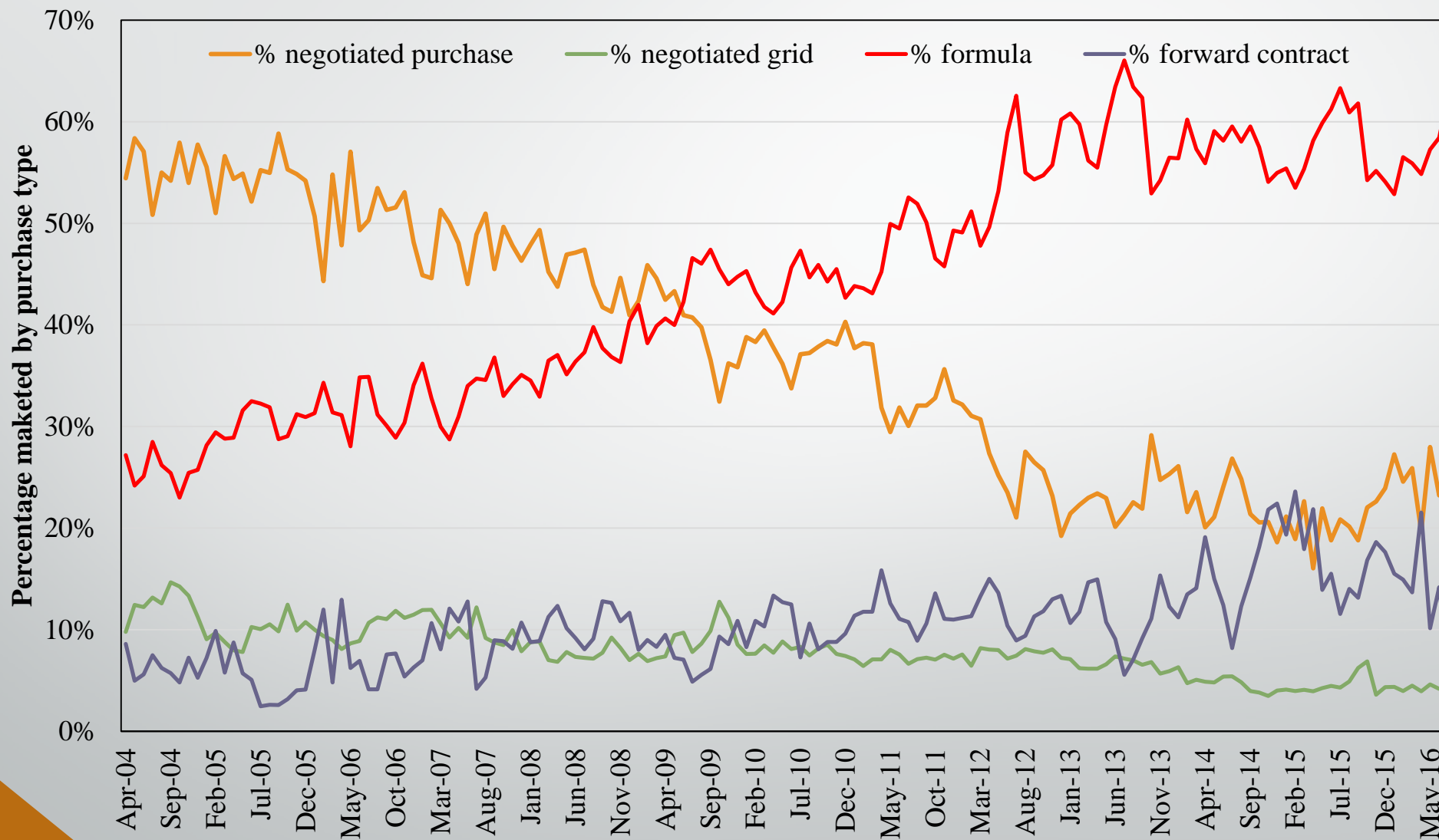
Increased consolidation directly affects confidentiality concerns in market price reporting.

Beef, pork, and lamb industries are all experiencing consolidation directly affecting current price reporting confidentiality restrictions.

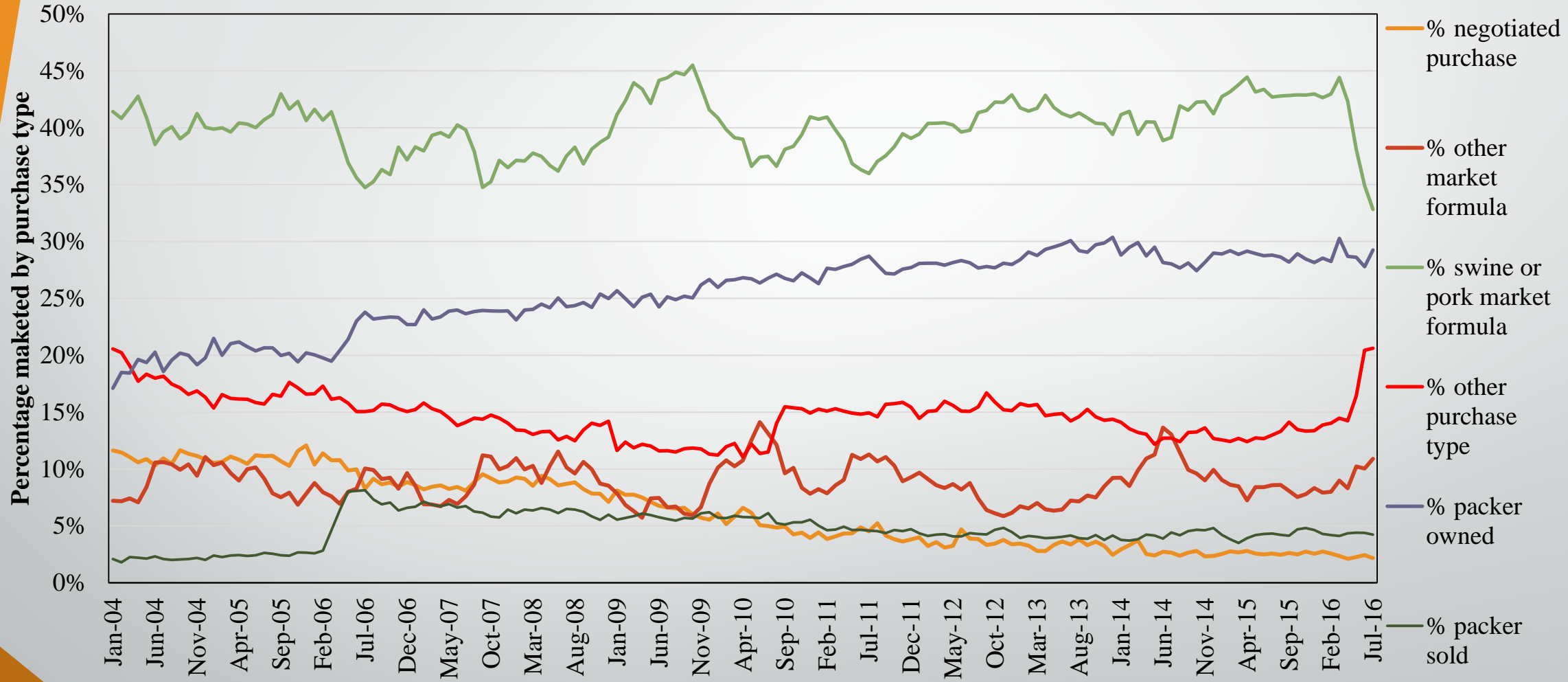
The same confidentiality guideline is applied across all three species (swine, cattle, and sheep) and associated meat sectors.

With markedly different industry structure and industry evolution, this is an issue many voiced as worthy of further consideration by LMR and USDA in the future.

Total Cattle Sold by Transaction

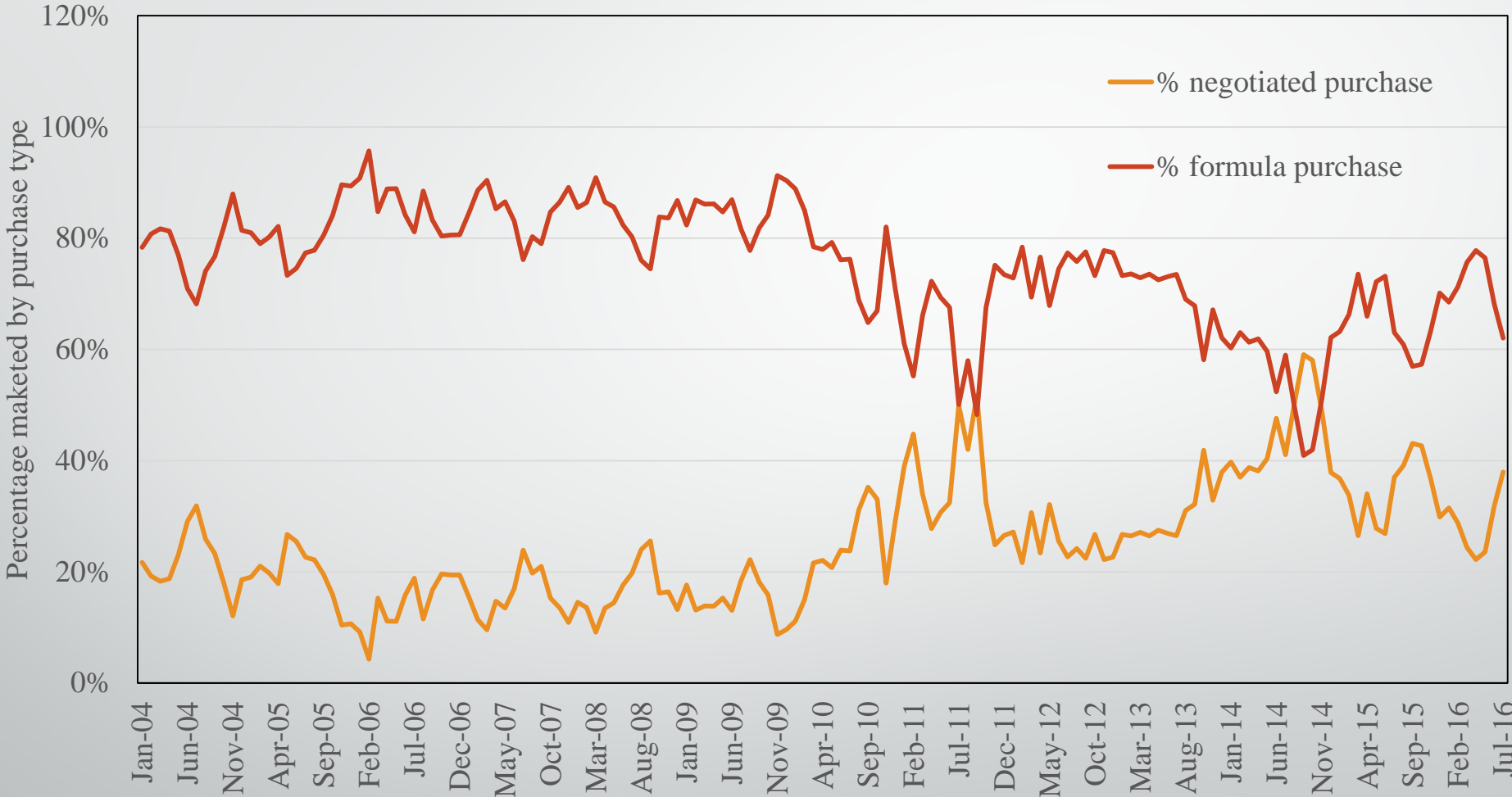


Hogs Sold by Transaction



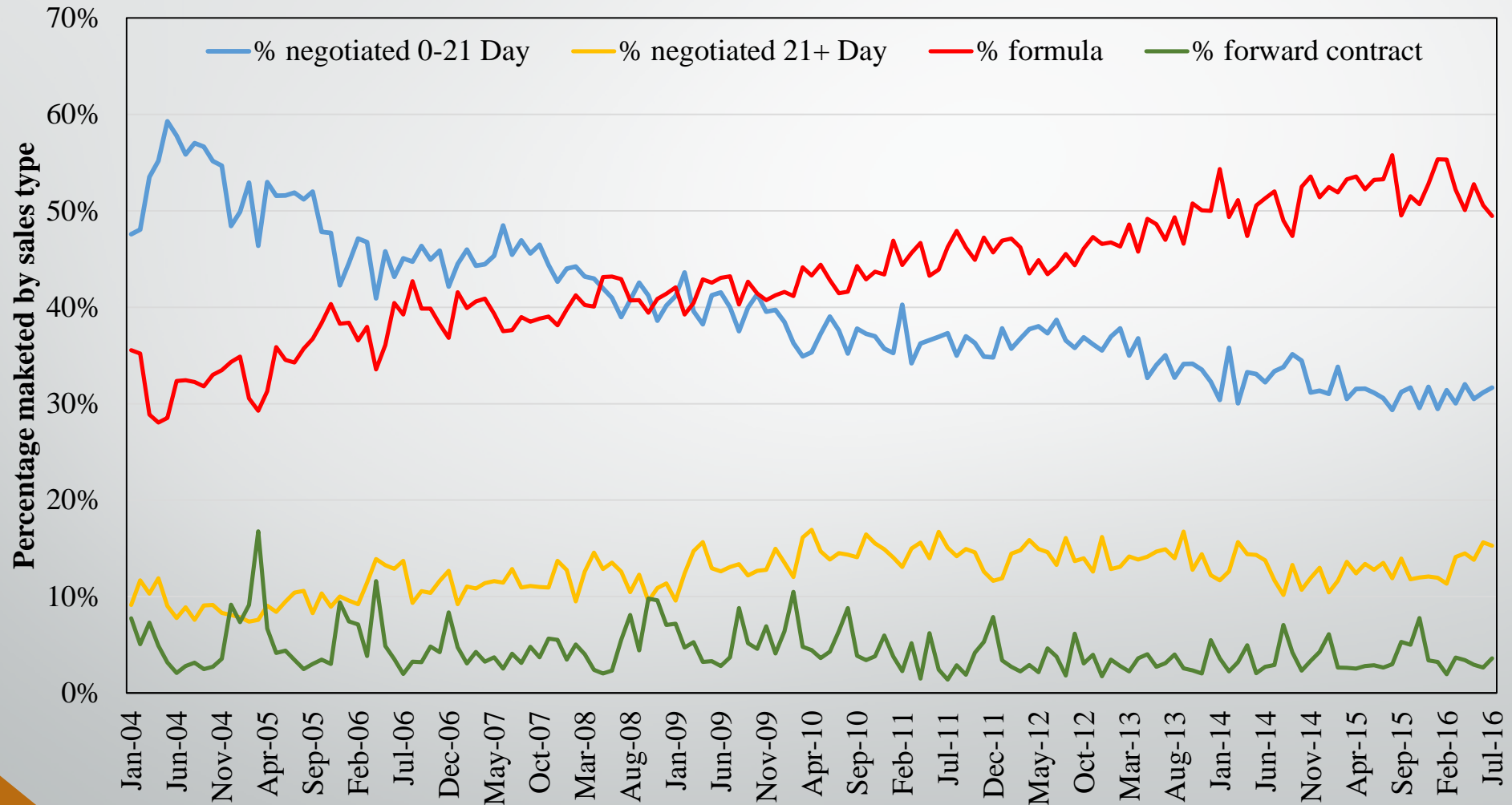
Data Source: USDA-AMS

Lambs Sold by Transaction



Data Source: USDA-AMS

Beef Sales by Transaction



Data Source: USDA-AMS

Trends & Observations

Formula pricing is becoming more common. Much of **formula pricing uses negotiated reported prices** as the base in the formula. Thus, negotiated trade is being leveraged more heavily even as it declines in volume.

This has shifted the role of LMR for negotiated prices more to price discovery in addition to price reporting. Any changes in LMR rules or **USDA-AMS reporting protocols for negotiated prices directly impact many formula trades.**

Industry must carefully weigh the cost versus the benefit of a change before recommending adjustments to AMS or the LMR Act.

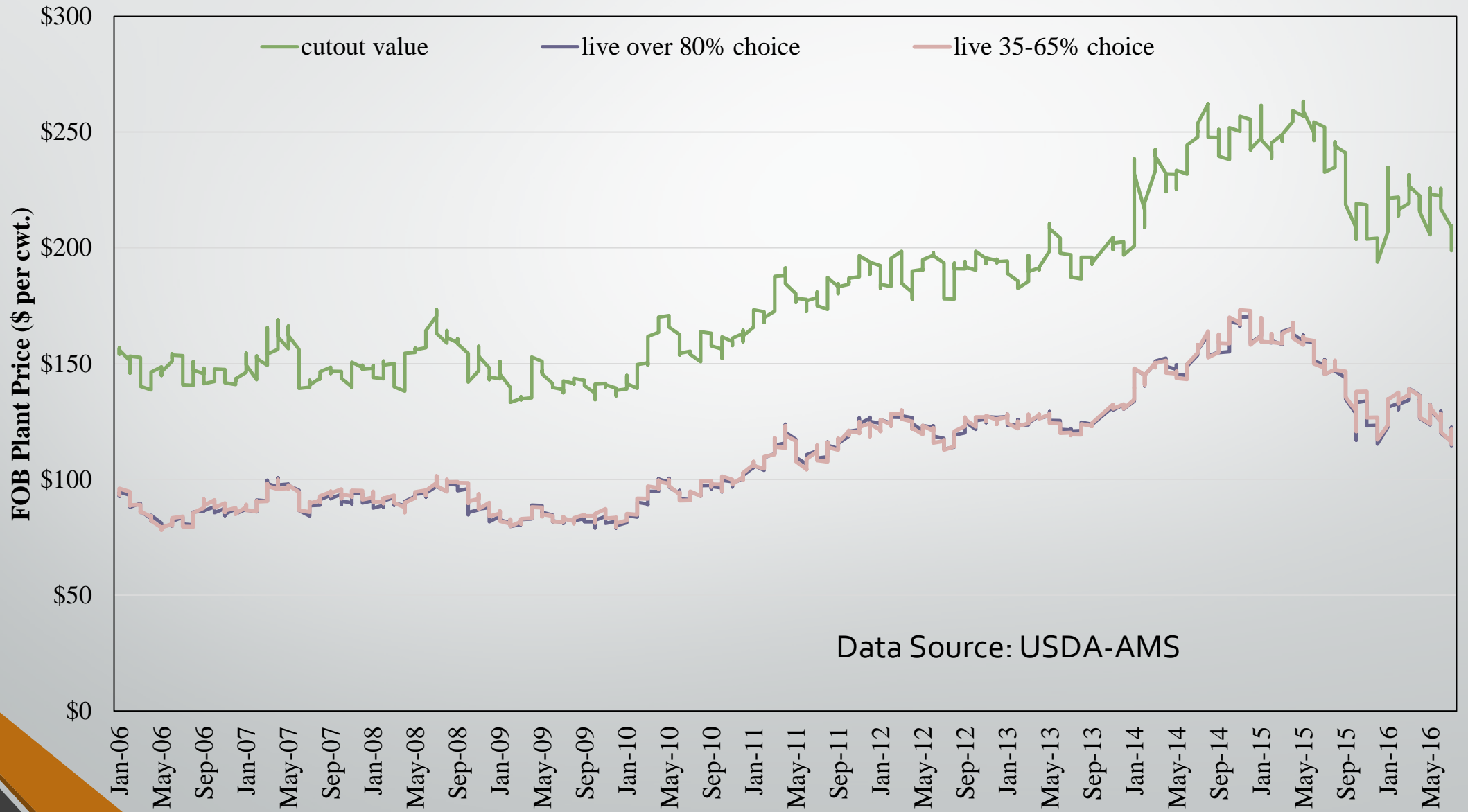


Trends & Observations

There will be increased use of meat prices to establish the base price of live animals.

This will magnify the scrutiny of calculations like composite and cutout values, as many producers will lack the knowledge of processing and fabrication costs, yields, and processes.

Choice Beef Cutout & Selected Choice LC Prices



Data Source: USDA-AMS

Trends & Observations

Several participants mentioned a desire to potentially **include negotiated transactions** from intra-company transfers in AMS reports.

Some participants went further and suggested that one party to the transaction be an **independent producer**, i.e., exclude packer intra-company transactions.

Trends & Observations

The issue of reporting packer intentions in MPR has raised concerns about the original intent of MPR.

To enhance strategic planning, producers will increasingly look to LMR information to shed light on forward trends in volume and prices.

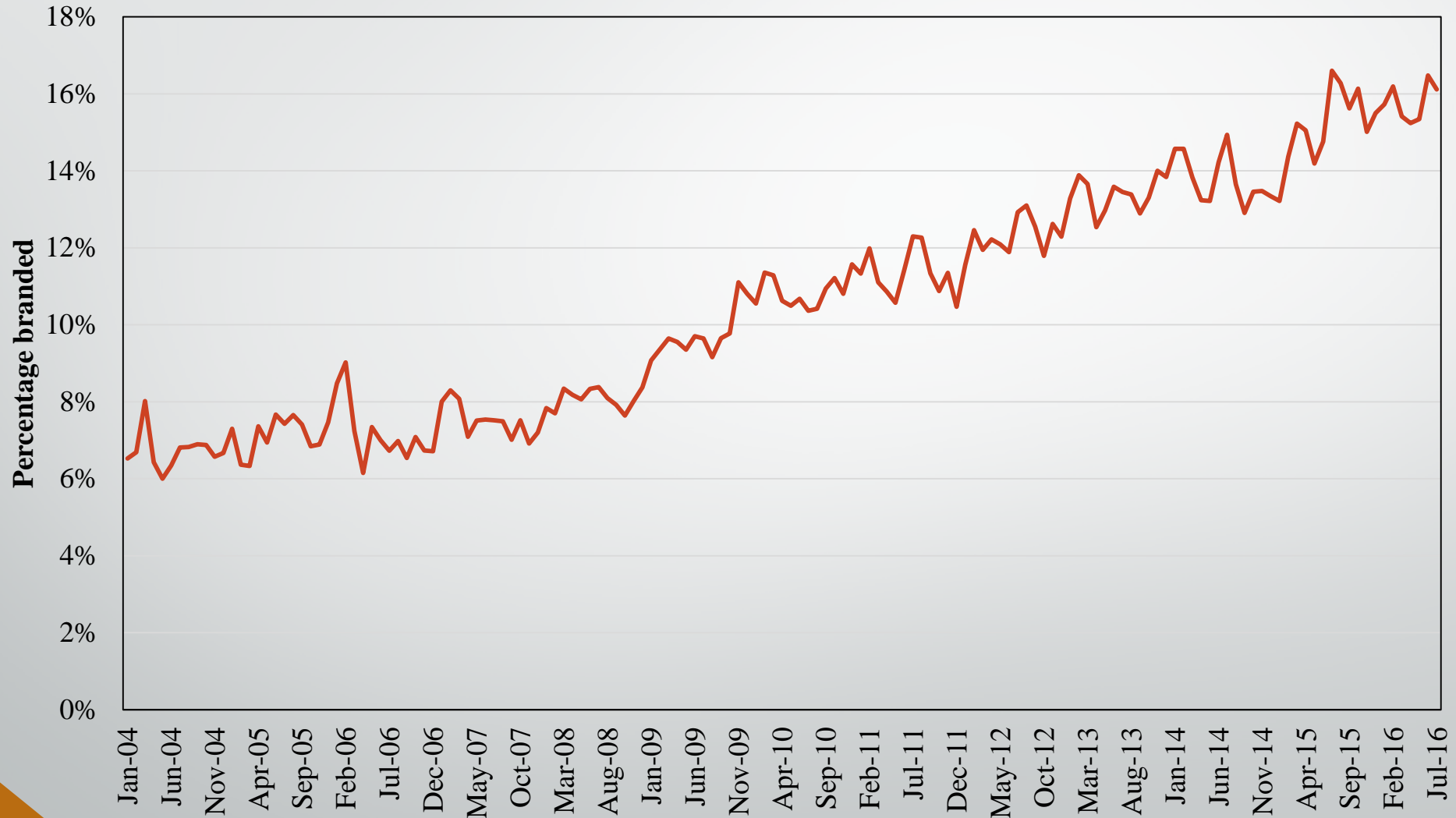
Intentions and plans for scheduled slaughter delivery by packers goes beyond being a mirror of what prices have been paid for livestock and associated volume in these transactions.

Key Findings

Changing domestic and global meat customer and consumer demands are driving the meat industry to be more responsive to consumer interests.

Leading to **increased product differentiation, more vertical coordination and integration,** and relative to when the Act was established generally **a much different product mix is being produced** by meat packers who report information to USDA-AMS under LMR.

Branded Beef Sales



Data Source: USDA-AMS

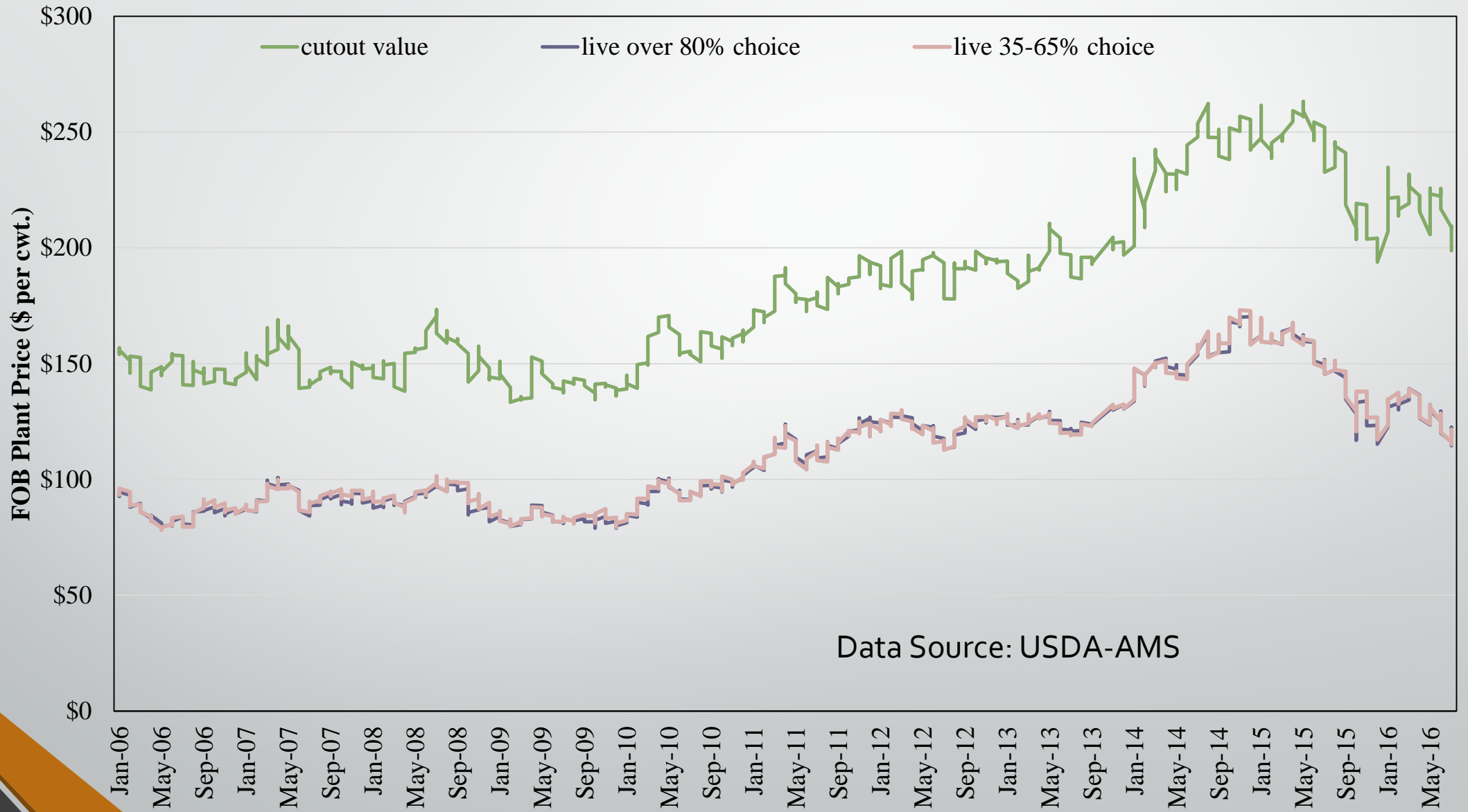
Trends & Observations

An increasing number of both livestock and meat alternative marketing arrangements are using USDA-AMS published weekly/rolling averages or are computing rolling averages for their own use in commerce and decision making.

This can work during periods of stable markets, but when markets are moving up or down rapidly, **increasing the length of time included in a report greatly reduces the value of the report.**

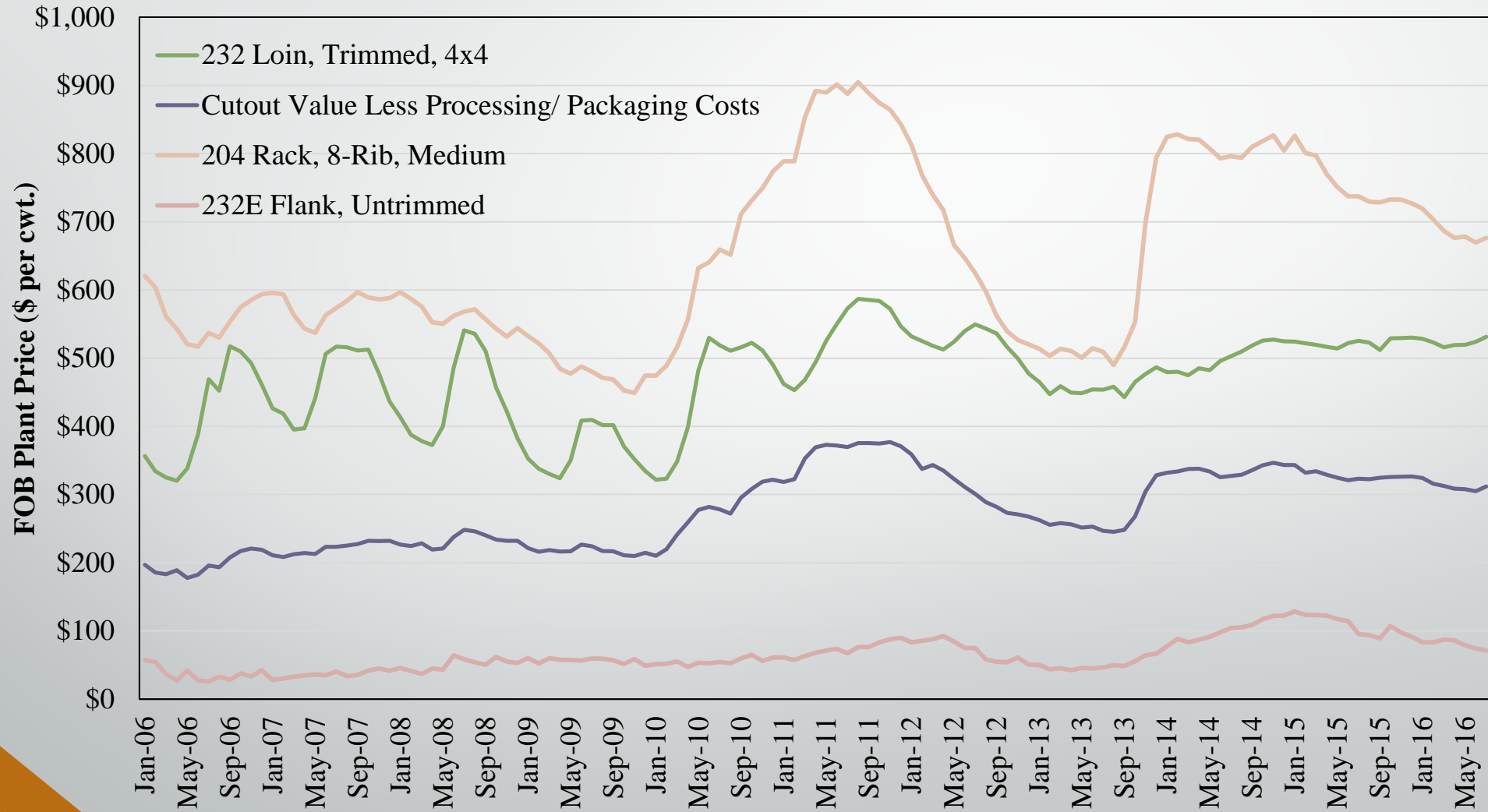
Industry stakeholders have differing perspectives on what time period constitutes establishing a market price.

Choice Beef Cutout & Selected Choice LC Prices



Data Source: USDA-AMS

Lamb Primal and Cutout Prices



Data Source: USDA-AMS



Trends & Observations

Understanding the marketing mix of medium-size meat processors is important to know whether they are able to add volume of meat to LMR or if their products are subject to confidentiality exclusion.



Trends & Observations

Producers focused on an economies of size supply chain system will increasingly look to vertical business relationships to maintain competitiveness.

Key Findings

Major structural shifts have occurred over the past 15 years in the meat packing and processing sectors in cattle, swine, sheep, beef, pork, and lamb.

Meat packing firms

Producers

Wholesale and retail

The use of LMR information has expanded beyond pricing to include establishing insurance contracts, futures contract settlement, indemnity loss payment determination, and for policy analysis.

Key Findings

New methods for pricing livestock and meat products, such as internet based auctions, are being launched in industries that do not necessarily conform to traditional LMR or USDA-AMS practices.

These types of marketing institutions will likely see continued interest as a way to provide lower cost opportunities for producers, packers, processors, and others to participate in price discovery instead of direct negotiation.

Key Implications

The importance of LMR to the livestock industry, domestic and international commerce, and to rural communities was made most obvious by the shutdown of LMR during the October 2013 federal government shutdown.

Structural changes in livestock and meat markets are **testing confidentiality** structures in market information reporting.

Key Implications

Changes in products being produced by packers through **value added, branding, specialty programs, and other differentiation** challenges market information reporting.

The importance of **international trade** is elevating in meat markets. Continued efforts to provide timely market information related to products moving into and from international markets is a worthwhile endeavor.

Key Implications

Capability for USDA-AMS together with industry to quickly **assess new market developments** in the livestock and meat sectors and to **determine how to modify reporting** accordingly will be an important dimension of the effectiveness of LMR in the future.