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Cattle feeder perceptions of mandatory price reporting

Abstract

Livestock price reporting mandated by the USDA was designed to increase available price data with the intent of providing producers with information to facilitate price discovery. Has the program been effective at accomplishing this goal? This study determined how cattle feeders, a primary target of the program, feel about mandatory price reporting effectiveness. This study reports results from a survey of cattle feeding companies located primarily in Kansas, Nebraska, Texas, and Iowa. Results indicate a diversity of opinions regarding the effectiveness of mandatory price reporting. On average, producers are neutral to slightly negative regarding the value of mandatory price reporting. Some of the dissatisfaction was associated with excessive or unrealistic expectations. Feedlot size, amount of custom feeding, and the percentage of cattle sold by the feedlot to its largest buyer had little systematic relationship to the manager's perceptions regarding the usefulness of mandatory price reporting. In contrast, feedlot location and feedlot manager opinions about market structure were related to their opinions regarding mandatory price reporting.

Keywords

Cattlemen's Day, 2003; Kansas Agricultural Experiment Station contribution; no. 03-272-S; Report of progress (Kansas State University. Agricultural Experiment Station and Cooperative Extension Service); 908; Beef; Mandatory price reporting

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CATTLE FEEDER PERCEPTIONS OF MANDATORY PRICE REPORTING

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Summary

Livestock price reporting mandated by the USDA was designed to increase available price data with the intent of providing producers with information to facilitate price discovery. Has the program been effective at accomplishing this goal? This study determined how cattle feeders, a primary target of the program, feel about mandatory price reporting effectiveness. This study reports results from a survey of cattle feeding companies located primarily in Kansas, Nebraska, Texas, and Iowa. Results indicate a diversity of opinions regarding the effectiveness of mandatory price reporting. On average, producers are neutral to slightly negative regarding the value of mandatory price reporting. Some of the dissatisfaction was associated with excessive or unrealistic expectations. Feedlot size, amount of custom feeding, and the percentage of cattle sold by the feedlot to its largest buyer had little systematic relationship to the manager's perceptions regarding the usefulness of mandatory price reporting. In contrast, feedlot location and feedlot manager opinions about market structure were related to their opinions regarding mandatory price reporting.

Introduction

Providing timely, reliable, and relevant livestock market information is an important function of the USDA. In April 2001 the USDA launched the Livestock Mandatory Re-

porting Act of 1999. This new information reporting law was enacted to directly address a perceived need to provide more market information to livestock producers in light of substantial changes that have occurred in livestock market structure and marketing institutions. The primary purpose of mandatory reporting was to enhance livestock market information that would allow producers to better determine prevailing prices, conditions, and arrangements pertinent to the marketing process. The Mandatory Reporting Act was a stark contrast in the process of collecting information compared to previous voluntary reporting methods used by the USDA Agricultural Marketing Service to report livestock prices and sales.

The livestock mandatory price reporting policy proposal was strongly contested by the packing industry, but supported by producers. The purpose of this study was to assess cattle feeder perceptions regarding the effectiveness of mandatory price reporting for fed cattle. This policy is scheduled for review by USDA and, therefore, having a better understanding of its effectiveness and problems would be valuable as modifications to the policy are considered.

Experimental Procedures

To discern cattle feeder perceptions regarding mandatory price reporting, a survey was conducted in March 2002 of cattle feed-

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lots located in Kansas, Iowa, Texas, and Nebraska. Overall, 1501 feedlots were surveyed and 316 returned useable responses (21% response rate). Response rates by state were 152/970 in Iowa (16%), 50/131 in Kansas (38%), 66/250 in Nebraska (26%), and 48/150 in Texas (32%).

The questionnaire asked for feedback on the usage of mandatory price reports, and whether the new reports have enhanced feedlot negotiations with packers for base prices, quality premiums and discounts, and cash prices. The questionnaire also asked where the operation is located, cattle ownership, how prices are negotiated, and marketing arrangements. Opinion questions were answered using a scale of 1 (strongly disagree) through 9 (strongly agree).

Statistical models were used to determine how feedlot size, location, marketing methods, custom feeding practices, and feedlot manager opinions about market structure issues were related to feedlot manager perceptions regarding three issues: 1) whether mandatory price reporting is benefiting the beef industry; 2) whether information has increased regarding regional/national daily fed cattle cash prices, base prices used in grid pricing, premiums/discounts used in grid pricing, and boxed beef prices; and 3) whether mandatory price reporting has enhanced producer ability to negotiate cash prices, base prices or formulas, or grid premiums/discounts with packers.

The average feedlot respondent marketed approximately 18,300 head in 2001 with a standard deviation of more than 36,000 head. The respondents included large yards as well as many smaller yards (54% of respondents marketed less than 2,500 head).

Results and Discussion

Producers were split in their opinion regarding whether mandatory reporting was benefiting the beef industry. About 9% were

at the upper limit strongly agreeing (response of a 9) and 22% at the lower limit strongly disagreeing (response of a 1) (Figure 1). Statistically significant factors ($P<0.10$) related to manager perceptions mandatory reporting feedlot location and the manager's perception of whether large packers should be broken into smaller packers, whether packers should be allowed to feed cattle, and whether summary reports are timely enough for decision making needs.

Cattle feeders located predominantly in Kansas and Texas were prone to most strongly disagree that mandatory reporting was benefiting the industry relative to those located in Iowa. The probability that a respondent answered this question with a response of 1 (strongly disagree), was 0.30 for Kansas feedlots and 0.15 for Iowa firms. However, overall regional differences in response to this issue were subtle. Managers that are more concerned about beef packer concentration and cattle ownership by packers or contracting are more likely to feel mandatory price reporting is beneficial to the industry.

Only a few variables explaining cattle feeders' thoughts regarding whether information on fed cattle cash prices, base prices, grid premiums and discounts, and boxed beef prices had increased were statistically significant ($P<0.10$) (see Figure 2 for response distribution). As the opinion that captive supplies depress cash market prices increases, respondents were less likely to agree that more information is available as a result of mandatory reporting. Respondents that felt timeliness of daily summary reports was adequate were more likely to agree that mandated reporting has resulted in increased information. This indicates that some cattle feeder dissatisfaction with mandatory reporting is related to inadequate timeliness of reports. Cattle feeders that felt packers should not be allowed to feed cattle were more likely to respond that information had increased with mandatory reporting. The only other statistically signifi-

cant variable was that cattle feeders located primarily in Nebraska were less likely to strongly disagree that information had increased.

A major motivation of producers supporting mandatory price reporting was that cattle feeders felt increased information available to them regarding non-cash terms of trade could provide them increased leverage in the price discovery process. However, 38% of cattle feeder respondents indicated that they strongly disagreed (response of 1) that mandatory price reporting had helped them negotiate more effectively with beef packers (Figure 3). Like other opinions regarding mandatory reporting, there was considerable variability across respondents. Three factors were statistically significant ($P < 0.10$) in explaining differences in respondents' opinions regarding the effectiveness of mandatory reporting to enhance their negotiations with packers. Feedlot location, opinions that the manager had about breaking up large beef processors, and opinions regarding timeliness of reports were statistically significant. Cattle feeders located in Kansas and Texas held stronger opinions that mandatory reporting had not enhanced their ability to negotiate terms of trade with beef processors than those located in Iowa; there was more than 0.70 probability of observing a response of 1 (strongly agree) for feedyards located in Kansas and Texas relative to 0.56 for Iowa firms. However, when responses of 1 through 3 were combined, the cumulative response was similar across all four regions. Cattle feeders that thought large processors should be broken up and that reports are

timely enough for decision making needs were more likely to agree that their ability to negotiate has improved. Again, part of the sentiment that price negotiating leverage of feeders had not been enhanced was attributable to concerns regarding timeliness of reports.

Mandatory price reporting of beef and fed cattle was designed to improve information available to cattle producers to facilitate the price discovery process. It was supported by producer organizations but not supported by the beef processing industry. The answer to the question, "Has mandatory reporting accomplished its intended goal?" depends on who answers the question. Overall, many producers may have had unrealistic expectations regarding what the Act was to accomplish. Approximately 75% of survey respondents moderately to strongly agreed that mandatory price reporting was not as beneficial as they expected. With just under half of fed cattle being sold on a non-cash basis and not being reported, producers may have felt increased reporting of these prices would reveal information they could use in price discovery. Results of this survey suggest it did not.

This is not necessarily a condemnation of mandatory reporting. Not revealing information can be, in itself, useful information. That is, if mandatory price reporting did not reveal that non-cash marketings were receiving different terms of trade than what was being reported under voluntary reporting, the perception that "special deals" were being made is not correct.

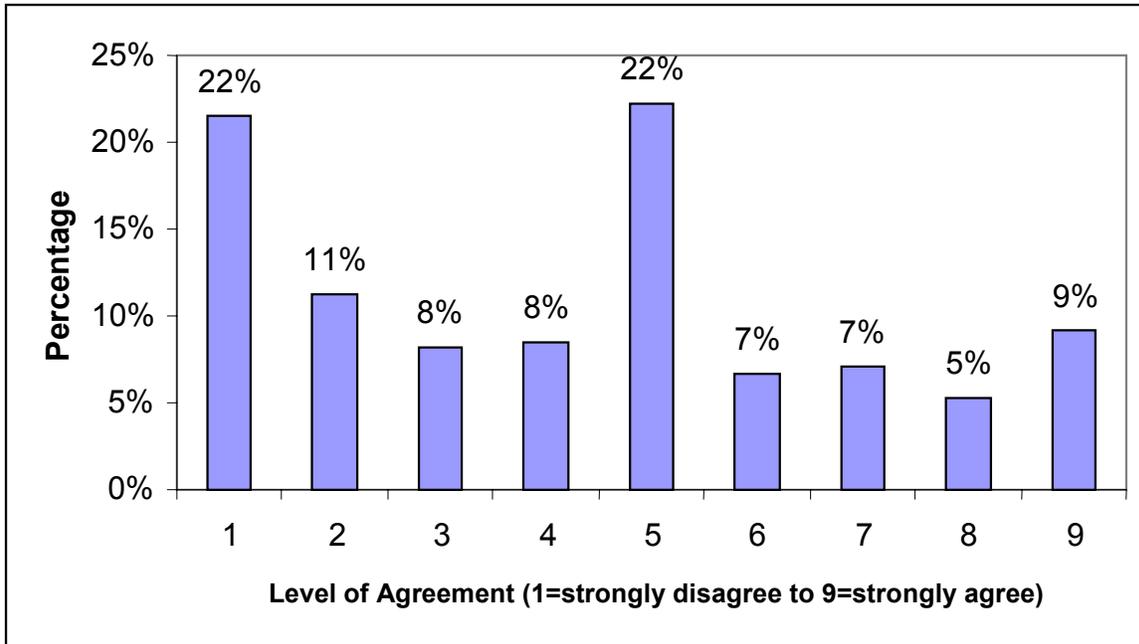


Figure 1. Survey Response Distribution to Statement: *Mandatory Price Reporting is Benefiting the Beef Industry.*

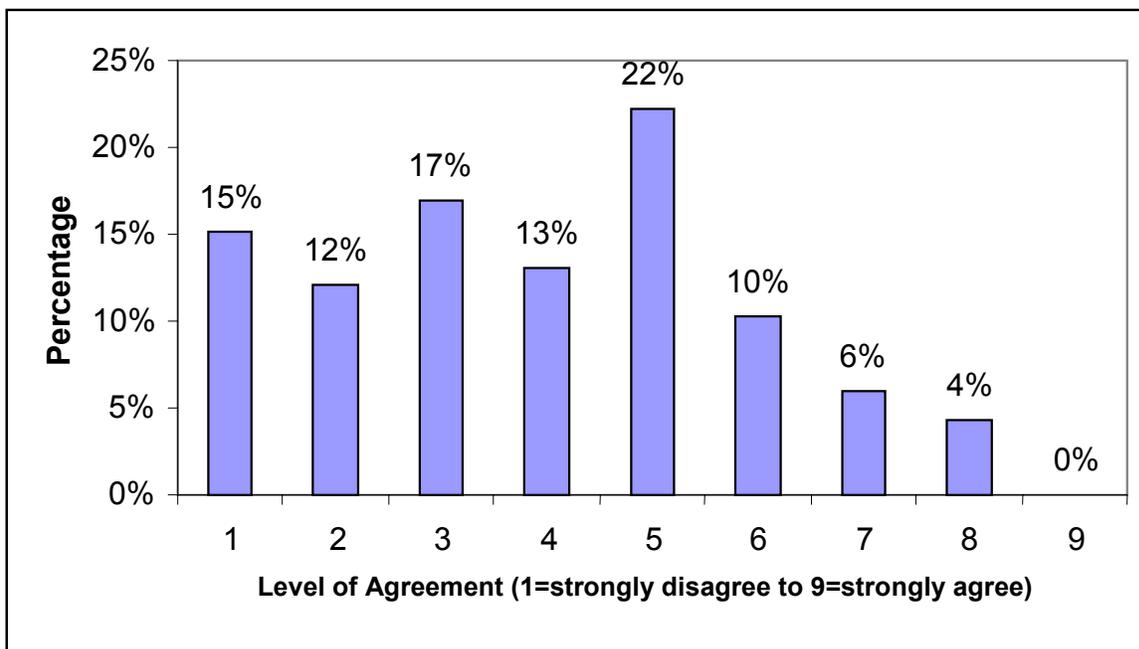


Figure 2. Survey Response Distribution to Statement: *Information on Regional/National Daily Fed Cattle Cash Prices, Base Prices Used in Grid Pricing, Premiums/Discounts Used in Grid Pricing, and Boxed Beef Prices has Increased.*

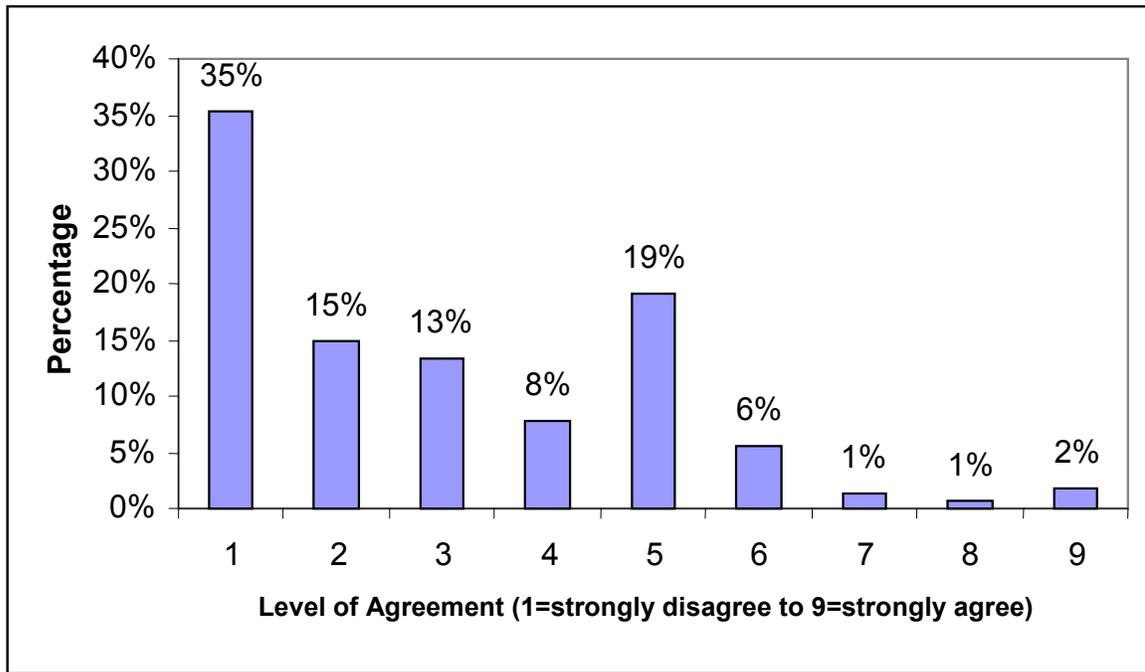


Figure 3. Survey Respondent Distribution to Statement: *MPR has Enhanced My Ability to Negotiate Cash Prices, Base Prices or Formulas, Grid Premiums/Discounts with Packers.*