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Cornhusker Economics

August 6, 2003

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Is Mandatory Price Reporting Good for the Cattle Industry?

Market Report	Yr Ago	4 Wks Ago	8/1/03
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$62.35	\$75.06	\$80.42
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	82.00	93.00	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	90.63	*	*
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	97.60	117.76	125.46
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	36.50	45.00	38.25
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	17.06	30.00	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	105.11	102.17	97.08
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	80.25	90.00	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	162.86	197.61	180.89
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.86	3.10	3.49
Corn, No. 2, Yellow Omaha, bu	2.36	2.17	1.96
Soybeans, No. 1, Yellow Omaha, bu	5.58	6.12	5.27
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.43	3.75	3.73
Oats, No. 2, Heavy Minneapolis, MN, bu	1.86	1.58	1.60
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	105.00	127.50	117.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	82.50	70.00	58.75
Prairie, Sm. Square, Good Northeast Nebraska, ton	117.50	*	*
* No market.			

On April 2, 2001 the Agricultural Marketing Service (AMS) implemented the Livestock Mandatory Price Reporting Act, mandating collection and reporting of transaction data for cattle, swine, lambs and other livestock products. What prompted the Act, which was pushed through Congress by some livestock organizations, was concern over price discovery in the light of increased concentration in the livestock industry and increased use of captive supplies. As more and more animals are transacted through contracts, the argument goes, less and less price information becomes available for independent livestock producers.

The Act mandates reporting of transaction data only by beef-packers who slaughter annually an average of 125,000 cattle, pork packers who slaughter annually 100,000 swine, or lamb packers who slaughter 75,000 lambs.¹ Although the thresholds exempt close to 94 percent of cattle packers, 93 percent of pork packers and 97 percent of lamb packers, mandatory reporting accounts for 80-95 percent of the cattle, boxed beef, slaughter hog, sheep and lamb.

The Act was intended to provide more information to livestock producers, and thereby enhance transparency and competition in livestock markets. However, there are reasons, at least in theory, to suspect that transparency may backfire given the high level of buyer and seller concentration among meat packers. If the information disseminated by AMS provides a packer useful knowledge about its rivals, market transparency may in fact promote tacit collusion, resulting in less, not more competition in livestock markets.

The Act has now been in effect for approximately two years, and yet little is known about whether or not it has achieved its main objective, namely to make livestock

¹ Firms who annually import an average of 5,000 metric tons of lamb meat products are also mandated to report the information to AMS.



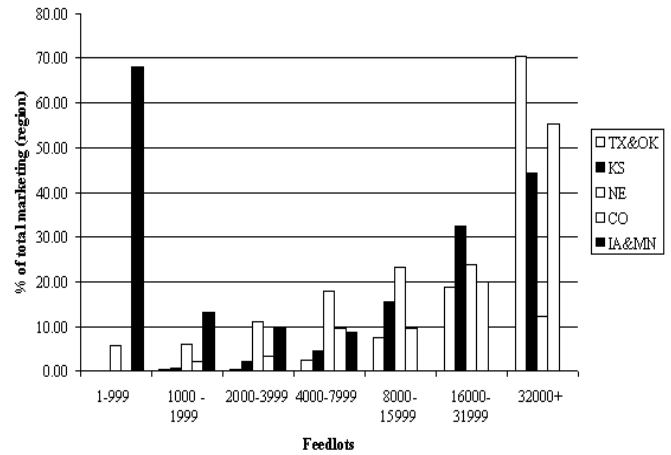
markets more competitive. In fact, in a recent questionnaire on livestock marketing by the House Agriculture Committee, one of the questions asked was “What has been the effect of mandatory price reporting on producer prices?” Therefore, we thought it would be timely to determine whether the performance of cattle markets in particular, has improved since the Act was passed.

Our analysis² considered the five regions used by the Agricultural Marketing Service to report the mandatory information. Those regions also happen to contain the seven major cattle feeding states: Texas-Oklahoma, Kansas, Nebraska, Colorado, Iowa-Minnesota. The seven states slaughter close to 75 percent of all cattle in the country.

What we found was that the Act was pro-competitive in Nebraska only! It did not make a difference in the other states. We don't know exactly why, but one plausible explanation is the linkage between the structure of the cattle feeding industry in Nebraska and availability of information before and after the Act. When reporting was voluntary, both packers and feeders who chose to report, reported to AMS. In that setting, one would expect relatively less reporting from states with a more dispersed feedlot structure than from states where feedlot structure is skewed toward larger feedlots. The reason, according to AMS, is that larger feedlots market cattle more frequently than smaller feedlots, resulting in more frequent reporting of cattle prices.³ Now that reporting is mandatory and is required from packers only, one would expect mandatory reporting to generate more information and hence, more transparency than voluntary reporting, especially in states with a relatively more dispersed feedlot structure.

The difference between the dispersion of feedlot structure between the regions is shown in Figure 1 for the year 2000, the year before the Act. The figure shows the percentage distribution of the total number of cattle marketed by feedlot size for the five regions. Notice that, with the exception of Nebraska, the other states either have a feedlot structure that is skewed toward the larger producers (Colorado, Kansas, Texas and Oklahoma), or skewed toward the smaller producers (Iowa-Minnesota). Nebraska is the only state that markets cattle in all size categories, and has the second lowest share of cattle marketed in the larger categories (16,000 head and above); 90 percent for Texas-Oklahoma, 77 percent for Kansas, 36 percent for Nebraska, 75 percent for Colorado and none for Iowa-Minnesota.

Figure 1. Cattle Marketing (All Regions, 2000)



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Deb Rood, a member of the Agricultural Economics Department and *Cornhusker Economics* author was fatally injured in a car accident August 1. The Department joins with the University and the agricultural community in expressing our sympathies to her family. We will miss her many contributions to the Department and Women in Ag programs and her enthusiasm for family, work and life.

² The technical details are reported in Santiago Salvador, “Mandatory Price Reporting and Collusion: An Empirical Test.” Master’s Thesis, August 2003. (Advisor: Azzeddine Azzam).

³ Personal communication with Dr. Warren Preston, Agricultural Marketing Service.