U.S. Beef Industry: Cattle Cycles, Price Spreads, and Packer Concentration. By Kenneth H. Mathews, Jr., William F. Hahn, Kenneth E. Nelson, Lawrence A. Duewer, and Ronald A. Gustafson, Market and Trade Economics Division, Economic Research Service, U.S. Department of Agriculture. Technical Bulletin No. 1874.

Abstract

In early 1996, the peak in the current cycle of cattle inventories coincided with a long list of negative factors--negative returns at the farm and feedlot, record-high feed grain prices, a severe drought in 1995-96, widening farm-retail price spreads, a low farmers' share of the consumers' Choice beef dollar, and reports of high profits for beefpackers. This confluence created an atmosphere in which some producers and members of Congress questioned whether the cattle industry was adversely affected by high packer concentration and market power. In this report, we examine the cattle cycle of the 1990's to determine if there are differences from previous cattle cycles and, if so, how and why they are different. We found that values for many variables at the 1996 cyclical peak in cattle inventories, while bad, were not the worst on record. Further, price levels during the cattle cycle of the 1990's were better, our models suggest, than they could have been, given earlier patterns of price adjustment. Finally, despite the growth of packer concentration, we failed to demonstrate large negative effects of packer concentration on cattle prices during the 1991-to-present cattle cycle.

Keywords: Cattle cycles, price spreads, packer concentration, cattle slaughter, steer and heifer slaughter, and cow slaughter.

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Summary

Is the cattle cycle that began in 1991 worse than previous cycles? This is the question that some financially stressed cattle producers asked when they called on the Federal Government to intervene in cattle markets. This report, a study of relationships among cattle cycles, price spreads, and market concentration, concludes that the 1970's cattle cycle was worse for ranchers than the current cycle, and that farm prices in the current cycle may actually be better than one might expect.

Cattle producers generally accept cattle cycles. However, in 1996, a combination of events created an atmosphere in which some producers charged that the cattle industry was adversely affected by high concentration and market power of beef-packing firms. These events included low cattle prices and widening farm-to-retail beef price spreads, a low farmers' share of the consumer spending on Choice beef, negative returns to cattle producers, and reports of high profits for beefpackers. In addition to these perceptions, peak cattle inventory numbers for the cattle cycle of the 1990's coincided with record-high feed grain prices. The U.S. farm price of corn, which averaged $2.26 per bushel in 1994/95, rose to a peak of over $5.00 in July 1996. Further, the severe drought in 1995 and 1996 in some major cattle-raising areas forced many producers to reduce cow herds as forage supplies declined. Allegations were made that packers were using their market power to lower bids for cattle, thus lowering prices that producers received.

Several test results indicated that the link between the cattle cycle and increasing concentration in the beefpacking sector runs counter to these perceptions. The study results indicate that the cycle of the 1970's was worse than the cycle of the 1990's, with average estimated losses for cow/calf producers almost twice as bad per cow at the low point in the 1970's as in 1996. Further, while overall price spreads for Choice, yield grade 3 steers are growing wider over time, the farm-to-wholesale portion is only slightly wider than its narrowest levels since at least the 1970's in nominal dollars. In real dollars, the spread is at its narrowest levels since before the 1970's. Test results showed no evidence to support the assertion that increasing slaughter concentration results in lower farm prices. The wholesale-to-retail portion of the price spread is growing because of costs for additional packing services and new products in the packing industry.