Cow Country Reporter

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News from your CEO

June is the month where we in the cow/calf business need to make some marketing decisions for our calf crop. Do we sell our Fall-born calves this month or next or do we hold on to them until mid-September? Our Spring-born calves have some flexibility. We can sell them in August/September (no later than early October) or we can put them on ryegrass and sell them next year (better talk to your tax person before you do this). So today, pick up the phone and contact your sales rep. and get posted on the market. Here we are with 2021 almost half in the history books and boy has it been challenging with snow and ice storms, abundant rain and less than normal days of sunshine. Crops were late getting planted (cotton still less than 50%), hay harvesting behind due to wet hay fields and cattle prices disappointing. Will there be a "light at the end of the tunnel"? Many "experts" think that there will be a "hole" in the fat cattle market which will cause packers to pay more for finished cattle coming out of the feedlots. There has been adequate moisture in the wheat grazing areas that our good, weaned Louisiana calves in August and September should see good demand. Also, in June and July demand for lightweight calves to graze on summer pasture should be good. Keep those calves alive and growing and enjoy the start of summer.

Dave Foster, CEO

Feedlot Situation Improving

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

The latest USDA Cattle on Feed report pegs May 1 feedlot inventories at 11.725 million head, 104.7 percent of last year. A more useful comparison is to 2019 levels with the 2021 May 1 total down 0.7 percent from May 2019. After a February feedlot inventory that was the highest of any month since February 2006, strong marketings the past two months have reduced feedlot inventories below 2019 levels in April and May. April feedlot placements were larger than expected at 127.2 percent of year ago placements. However, April placements were 1.1 percent smaller than April 2019 placements.

April feedlot marketings were up 32.8 percent year over year and up 0.5 percent from the 2019 level. The April marketings total was the highest April level since 2008. This follows the March marketings total that was the highest for March since 2000. These marketing levels confirm that feedlots are making progress working through large feedlot inventories. Feedlot inventories have declined 3.2 percent since the February peak. On average, feedlot inventories typically increase early in the year to an April peak before beginning a seasonal decrease into late summer. The current relative marketing rate suggests that feedlots will pull inventories down on a sustained basis in the next two or three months and reflect cyclically tighter cattle numbers at some point in the second half of the year.

The bottleneck in fed cattle markets this year has been the capacity constraints that limit the ability of beef packers to process feedlot cattle. Limited packing infrastructure, combined with chronic labor issues have made it impossible for packers to process cattle at an even faster rate. Total cattle slaughter is up 1.8 percent for the year to date compared to 2019. Comparisons to 2020 are not meaningful given the massive pandemic disruptions last year. Year to date steer plus heifer slaughter is up 1.6 percent compared to 2019. Average weekly steer plus heifer slaughter for the first 18 weeks of 2021 is 496,051 head, up 2.0 percent from 2019 levels. In fact, the 2021 year to date weekly average is the highest since 2011.

A look a daily slaughter statistics reveals the beef packing capacity challenges. Although the average weekly total is larger thus far in 2021, daily averages reveal the struggles to maintain slaughter levels. Compared to 2019, average daily slaughter is down four of five days per week, with Mondays down 4.3 percent, Wednesdays down 1.0 percent, Thursdays down 1.3 percent, and

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Feedlot Situation Improving

Fridays down 7.1 percent. Tuesday slaughter has averaged 3.1 percent higher thus far in 2021 compared to 2019. The big change is Saturday slaughter, which has averaged 62.7 percent higher thus far in 2021 compared to 2019. Maximum weekly slaughter thus far in 2021 is 3.5 percent less than 2019 despite a larger weekly average. Maximum daily slaughter is lower for all days except Tuesday, which is 0.3 percent higher thus far this year. Even Saturday slaughter, which is averaging 62.7 higher this year compared to 2019, has a daily maximum that is 25.6 percent less than 2019. All of this means that packers have less total capacity but are using the available capacity more consistently thus far in 2021. The reliance on Saturday slaughter this year will be increasingly difficult to maintain going forward. Not only are labor agreements and the willingness of labor to work Saturdays a concern, but persistent Saturday shifts reduce opportunities for packing plant maintenance and could lead to more breakdowns and disruptions in operations at some point.

The feedlot situation is improving but it will take additional time to process current feedlot supplies and the stress and challenges at the packing level will slow the process for at least several more weeks.

Cattle Groups Say Historic Meeting to Fight Market Monopoly is Just the Start

By: Tyne Morgan

Calls for change came to a head this month, as cattle groups held an industry-wide meeting making history.

“It was a historic meeting,” says Brooke Miller, president of U.S. Cattlemen’s Association. “And in my lifetime, nothing like this has ever happened before.”

As six livestock groups held a closed-door meeting, individuals representing the U.S. Cattlemen’s Association were alongside representatives from R-CALF USA, National Cattlemen’s Beef Association (NCBA), American Farm Bureau (AFBF), National Farmers Union (NFU) and the Livestock Marketing Association (LMA). Those involved called it an unprecedented move.

“This was a pretty drastic meeting, because never before have we had six groups meet together like this, and there been so much consensus and agreement. It was rather refreshing,” says Miller.

The six groups typically at odds, found common ground with a meeting spearheaded by the Livestock Marketing Association (LMA), a group that says the idea to collaborate was born from conversations with lawmakers.

“When you bring those issues up during our Congressional fly-ins, and they say ‘how can we help?’ Well, when we tell them that maybe they ought to address the issue one way, they say ‘well, that sounds real good, but last week we had an organization in here that said we should do this thing. And there’s one coming in next week and they’re going say something different. Why can’t you guys ever get together and agree on something so we can help you?’” Larry Schnell, president of the Livestock Marketing Association told AgriTalk’s Chip Flory.

As the groups all sat around the same table, U.S. Cattlemen’s says LMA took the needed first step.

“They brought basically the major players in the cattle world together all the organizations together and try to build some consensus on what our market is,” says Miller. “We’re in such a terrible way right now as far as our market conditions and the sustainability of production agriculture and livestock production in this country, something drastic needs to be done.”

Addressing Claims of Market Monopoly

The headline from the meeting was one echoed by every group: how to address packer concentration.

“We have four major multinational packers that control well over 80 to 85% of the market,” says Miller. “It’s obvious through the market fundamentals where we’re hearing they’re making profits of up to $1,000 a head on these animals. Feedlot operators, feeders, cattle producers, backgrounders and stockers out there going out of business because it’s not profitable.”

Miller says instead of a free, capitalistic market, U.S. cattle producers are faced with packer concentration.

“We have a monopolized market, and everything we do has something to do with trying to level the playing field,” says Miller.

The six groups agreed on five other focus areas:

- Packer concentration; Price transparency and discovery; Packer oversight; Packers and stockyard act enforcement; Level of captive supply; and Packer capacity

“We basically worked a lot on trying to improve price reporting and also getting the Department of Justice to follow through with their investigation,” says Miller.

Those same issues are now also in the spotlight by lawmakers as the issue is front and center for some Senators on Capitol Hill.

“One is a transparency issue, but I think it goes beyond that,” Senator John Thune (R-SD) told AgDay’s Clinton Griffiths. “And the question of whether or not packers are in a position to be able to manipulate prices in a way that is averse to the profitability of those who are in production agriculture, those who are actually out there raising livestock.”

Calls for Continued Investigations

Thune was one of several lawmakers who sent a letter to the DOJ last week, urging the Department to move forward with their investigation in the meatpacking industry.

“We’re trying to rectify that by building additional pressure on the Department of Justice to take a look at this issue, and really do an examination of whether or not there are violations of anti-trust laws here,” says Thune.

He says the investigation was jumpstarted a year ago, but the Department has yet to produce results.

“We think they need to renew this investigation and get some answers,” he adds.

Thune says the issue is rooted from complaints he’s hearing from ranchers in his home state and acknowledges the issue is nothing new, but says there’s a renewed focus in Washington, which is being pushed directly from ranchers.

“They see that the disruption that’s been caused by the volatility in the pricing and the spreads that they’re seeing, they’re not benefiting from the increases in the run-up that they see in prices that obviously are benefiting the packers,” says Thune. “And so these margins are not within the range of what we considered to be normal. So, I think the producers sincerely believe, and with good reason, if you look at the evidence and the statistics don’t lie, that there’s something going on out there.”

The evidence and statistics are shown in data from USDA’s Economic Research Service (ERS). According to ERS data, as consumers continue to pay record-high prices for beef, the cattle producers’ share of that dollar continues to diminish.

Packers Respond

The Packers don't agree. The North American Meat Institute, an organization which represents meat packers, responded this week and defended its members against allegations of wrongdoing, saying the market remains fair and competitive.

"In July 2020, USDA analyzed the effects of the 2019 Holcomb facility fire and the pandemic, finding no wrongdoing and confirming the disruption in the beef markets was due to devastating and unprecedented events," said a North American Meat Institute spokesperson.

Just the Start

Yet, Senators and cattle groups aren't stopping.

"I think this is where the Department of Justice can help us by answering our questions," says Thune. "For example, are there violations of existing anti-trust laws that need to be? Does the Justice Department need to be enforcing the Packers and Stockyards Act? Or are there changes we need to make? Are these laws so old and antiquated that they don't reflect what's happening in a modern world?"

There are already two pieces of legislation to address some of the issues, which includes Sen. Deb Fischer's (R-Neb.) Cattle Market Transparency Act, introduced in 2020.

As several proposals on the table could possibly be turned into one, cattle groups say the calls for change are multi-faceted.

"We also discussed trying to figure out how the government can make it easier or incentivize small- and medium-sized packers throughout the country to start popping up and to increase competition that way," says Miler.

The cattle groups involved in the May meeting reiterated it's just a starting point.

"This is just the beginning and a very good one, but there's still work to be done," says Schnell.

Analysis: Food price increases on the way

KANSAS CITY, MO. — With major grain, oilseed and edible oils prices at or near eight-year highs, crude oil prices six times the year-ago level, freight rates soaring and prices for materials (cardboard and aluminum, for example) and other input costs rising, can food price inflation be far behind? Not according to the US Department of Agriculture or many food manufacturing companies. If the expected post-pandemic demand surge develops, as many expect, price increases may be greater later this year and into 2022.

The USDA in late April forecast prices for all food in 2021 to rise 2% to 3% from 2020, when prices were up 3.4% from 2019. Prices in March 2021 in fact were up 3.5% from March 2020. The price of food away from home was forecast to rise 2.5% to 3.5% for the year, with the March figure up 3.7%. Food-at-home prices were forecast to rise 1% to 2% for the year, with March up 3.3%. The USDA classifies 45% of all food sales as away from home and 55% as at home.

Comparisons with a year ago are difficult because it was such an unusual year, including significant volatility in many commodity and ingredient prices and shifts in demand to retail from foodservice as travel slowed considerably and much of the country and world sheltered at home. But just as last year was unprecedented, most expect a demand surge this year as the country and world seek to resume some level of normalcy. Included in such a transition for many is expected to be the resumption of travel, meaning an increase in foodservice demand. Still, it is anticipated that at-home food demand will hold above pre-pandemic levels as a significant number of people continue to work from home.

"We continue to see signs of North America emerging stronger from the crises," said Graeme David Pitkethly, chief financial officer at Unilever, in late April. "Demand for in-home foods remains high, and our out-of-home business is recovering faster than we expected."

Several major food and beverage manufacturers issued "warnings" that price increases were on the way.

"We are hedging and forward-buying to cover some of this exposure, but it only delays the impact for a few months," Francois-Xavier Roger, CFO of Nestle SA, said recently concerning price increases for such inputs as commodities, packaging material and transportation.

First-quarter (ended March 27) net income surged 49% from the same period a year earlier at Kraft Heinz Co., and the company faces rising input costs for the rest of the fiscal year that could lead to price increases for its products, executives said on a recent earnings call.

Mondelez International reported first-quarter (ended March 31) revenues up 4.3% from a year earlier, with sales growth for the year forecast at 3% or higher. Luca Zaramella, CFO of Mondelez, on a call with investment analysts said its growth guidance perhaps would be higher but for the volatile cost environment that includes surging ingredient prices.

Food manufacturers are working to mitigate the impact of rising input costs on their bottom lines.

"We expect the rate of inflation to continue to accelerate over the next few quarters," said David S. Marberger, CFO of Conagra Brands Inc. "Fortunately, we have a variety of levers that can be used to offset this pressure, including pricing. We have already mobilized our inflation-justified plans with some actions already in market, others communicated to customers and some yet to come. History shows price adjustments are more likely to be accepted in the market when industrywide and broad-based input cost inflation occurs, and that's the environment we see today."

Hormel Foods Corp. has raised prices for Skippy peanut butter, Spam and the Jennie-O Turkey Store line, among others.

James N. Sheehan, CFO at Hormel, said the price of corn feed rose 40% during the first quarter, and soybean meal rose about 15%, prompting a change in the company's turkey feeding formula to more soybean meal and less corn.

Many food and beverage manufacturers plan to raise prices.

James Quincey, chief executive officer of Coca-Cola Co., recently hinted at price increases in 2022 in an April interview on CNBC.

Meanwhile, in late April 2020 crude oil prices briefly crashed to multi-decade lows below $10 per barrel as fuel demand plummeted amid restricted travel due to the surging number of coronavirus cases worldwide. Recently prices have been trading over $60 per barrel. The US average on-highway price of diesel fuel last week was up 31% from a year earlier. Rising energy prices impact all levels of the food supply chain.

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Beef Checkoff-Funded Packer Trade Group Attempts to Derail Effort to Address Food Crisis

Billings, Mont. – Last Thursday R-CALF USA announced a drive to encourage 200 members of Congress to join a bipartisan and bicameral letter authored by U.S. Senator Mike Rounds (R-SD) and U.S. Senator Tina Smith (D-MN) that calls attention to the food crisis in America. The letter urges the U.S. Attorney General and Congress to work together to reform the nation’s cattle and beef markets. It explains that consumers are paying an unnecessary, over-inflated price for beef in the store while the nation’s cattle ranchers and farmers are on the verge of going broke.

Today, R-CALF USA obtained a document circulated in Congress by the North American Meat Institute (NAMI), which claims to be the leading voice for the meat and poultry industry. According to R-CALF USA CEO Bill Bullard, the NAMI document attempts to dissuade members of Congress from joining the joint Rounds/Smith letter. R-CALF USA is now circulating its rebuttal to the NAMI document.

Bullard says NAMI received hundreds of thousands of dollars from the national beef checkoff program during the past four years and is now lobbying against the interests of both cattle producers and consumers who desire meaningful reforms in the cattle and beef markets. He says the NAMI document is an attempt to deceive Congress into believing everything is just fine in the cattle and beef markets.

But Bullard says the opposite, that the market is completely dysfunctional, marked by consumers paying record-high prices for beef at the store while cattle producers are receiving seriously depressed prices – the same prices they received over a decade ago. He said the spread between retail beef prices and the price of cattle have never been greater, meaning consumers on one end of the food chain and producers on the other are being exploited.

The NAMI document claims cattle prices are responding to normal supply and demand signals. Bullard says that is completely false as evidenced by upward trending beef prices and downward trending cattle prices since 2017.

“If cattle prices were responding to supply/demand signals, the exceptional beef demand for the past several years along with the record exports would have driven cattle prices upward. Instead, cattle prices have been driven down and consumer beef prices have been driven up,” he said.

The NAMI document points out that because cattle producers received COVID-19 subsidies from the government, their income was higher in 2020 than any time since 2016. But Bullard said cattle prices have been seriously depressed since 2014 and the 2020 government subsidies did not come close to restoring the income lost from the dysfunctional cattle market.

“Cattle producers lost in excess of $600 per head in 2020 compared to 2014, yet retail beef prices increased significantly during that period. The COVID payments did not make up that loss even though consumers were paying more than enough for beef to have done so.

“The cattle and beef markets are broken and the NAMI is trying to fool Congress into complacency so they don’t do anything about it,” Bullard concluded.

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