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AMERICA'S BEEF SUPPLY: OPPORTUNITIES AND CHALLENGES

Rising premiums, supply constraints, new export markets, policy propositions — where does this leave the U.S. beef industry?

Dr. Ted Schroeder, agricultural economics professor and director of the Center for Risk Management Education and Research at Kansas State University, weighs in on key issues influencing beef markets.

Primo premiums

Over the course of a decade, the percentage of cattle finishing with United States Department of Agricultural (USDA) quality grades Prime and Choice is on the rise. Schroeder explains purchasing behavior is directly responsible for this trend and has led to robust premiums for producers of higher quality cattle.

He points to data from 2010 to 2019, in which Prime beef sales tripled and premiums for Prime beef and fed cattle also increased. During the same period, increased production of Choice and higher-quality graded beef resulted in $35 per head in added revenue.

Schroeder, whose research focuses on livestock marketing and price analysis to improve commodity market efficiency, observes, "Quality is one of the most important factors driving purchase decisions, ranked even higher than price."

Cattle producers who respond accordingly to economic signals secure associated premiums.

"The keys to attaining higher profits are designing production systems capable of producing cattle earning quality premiums greater than added costs," Schroeder says.

Value discovery

He notes market incentives must be in place for those producers willing to take on the risks and added costs of producing higher-quality cattle.

Dr. Ted Schroeder
Kansas State University

"The cash negotiated fed cattle market is not designed, nor suited, for paying premiums for quality since cattle quality grade cannot be accurately judged from live animals," Schroeder says.

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Variable quality and value differentiation across cattle supplies means downstream beef customers are willing to pay more for consistently sourced, reliable beef raised with assured production practices. With marketing agreements in place, there are more premiums for quality, more information about animal care and more reliable beef supplies. These agreements help supply value-added and branded products, contributing to beef demand.

Schroeder cautions, "Legislation that might constrain or limit such supply chain coordinating innovations would be costly to cattle producers resulting in lower fed cattle prices, reduced cattle supply and would reduce overall beef quality and beef purchase options for consumers."

With encouragement for legislative reform in the beef industry, the USDA, the Agricultural and Food Policy Center and the Texas A&M College of Agriculture and Life Sciences recently completed a comprehensive study on the U.S. cattle market and supply chain disruptions for Congress.

The need for a comprehensive assessment comes after an unprecedented two years for the U.S. beef industry — major supply chain disruptions starting with Tyson's Holcomb, Kansas, plant fire, followed by operational constrains from the pandemic, then a cybersecurity breach at JBS. Meanwhile, the industry kept evolving to accommodate consumer demand, increased product branding, rigorous production practices and expanding export markets.

Schroeder, a contributor to the report, highlights areas where the study adds clarity to dialogue surrounding proposed policies: "Innovative ways to strengthen the linkage between consumers and cattle producers through marketing agreements have resulted in improved value signals, better market access, reduced risk, and a more effective and efficient supply chain," he says. "The result has been higher beef quality and stronger consumer demand."

Overall price discovery is considered robust, though there is concern over market transparency and price discovery in thinly traded negotiated cash fed cattle markets in some regions. The report recommends additional research to identify better ways in which the USDA provides market information.

Short-term solutions may prompt long-term repercussions. "Policy designed to expand beef packing plant capacity needs to recognize the cyclical nature of the cattle business," Schroeder explains. "Expanding packing capacity, especially subsidized through government programs, comes with considerable risk of sustainability and economic viability. Furthermore, subsidizing capacity expansion may weaken economic viability of existing packing plants not receiving the subsidy when cattle numbers cyclically decline."

In 1999, pork supply saturation and record-low negotiated hog slaughter prices prompted Congress to pass the Livestock Mandatory Reporting (LMR) Act. According to USDA, LMR requires packers and importers to submit purchase and sales of livestock and livestock products to USDA's Agricultural Marketing Service, which then issues more than 300 weekly market reports.

Recent LMR authority expired Sept. 30, 2021. Schroeder says LMR has provided valuable information to understand cattle and beef market fundamentals but has struggled to maintain velocity with changing fed cattle and beef markets.

If LMR is renewed, Schroeder expects more transparency in formula trade fed cattle reporting, which represents 70% of fed cattle trade. "Similarly, boxed beef price reporting is challenged by the proliferation of value-added and branded products beef packers are producing."

International influence

Despite domestic hurdles, demand for U.S. grain-fed beef is unsurpassed in the global market. In fact, export markets represent the largest growth opportunity for U.S. beef. Still, other countries and competing proteins are vying for larger shares in the protein sector.

Regardless of changes in the States or abroad, producers of superior beef who market on a grid come out on top.

"There is no question, greater use of marketing agreements with value-based grids tied to final settlement prices on fed cattle has incentivized producers to produce higher-quality beef." ◆