3-1-2004

Observations From Swine Mandatory Price Reporting

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COOPERATIVE EXTENSION SERVICE
SDSU

Extension Extra

ExEx 5052
March 2004
Economics

COLLEGE OF AGRICULTURE & BIOLOGICAL SCIENCES / SOUTH DAKOTA STATE UNIVERSITY / USDA

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Under the Livestock Mandatory Reporting Act of 1999, large packers of cattle, swine, and sheep must report data from purchases and processing with respect to price, volume, and grade. The U.S. Department of Agriculture's Agricultural Marketing Service (AMS) assembles and disseminates the price reports. A list of all reports under mandatory price reporting can be accessed at the AMS website, www.ams.usda.gov. Methods of disseminating the abundance of new information in an understandable manner need to be examined. In addition, the report covered below was not released consistently until after a restrictive confidentiality guideline was changed. Currently, a variety of prices and short-run supply information is available.

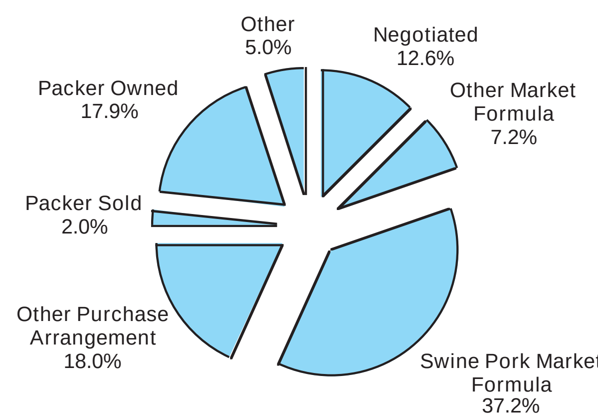
The purpose of this paper is to highlight swine information available under national mandatory livestock price reporting. The information helps put newly released contract information into perspective. There is now a brief data history available, making comparisons to year ago levels possible. The understanding of mandatory reporting is particularly relevant given the "sunset clause" in the legislation. This clause means that unless further legislative action is taken, national mandatory reporting will end in October of 2004.

Purchase Type

Structurally, there are some new insights available from mandatory price reports. The prior day slaughtered swine report, LM_CT201, gives head counts and final prices paid for swine under different purchase arrangements. The average net prices for the following purchasing categories are given: negotiated, swine or pork market formula, other market formula, other purchase arrangement, and packer sold. A head count and slaughter characteristics are given for packer-owned hogs, but a price is not applicable for the category.

Most mandatory reports only apply to barrows and gilts, and sow prices are tracked separately. National Agricultural Statistics Service (NASS) reports total commercial slaughter at 100.9 million head in 2003. Barrows and gilts slaughter is only totaled at federally inspected plants and was 96.2 million head in 2003. The number of head in different categories from LM_CT201 was totaled for 2003 and compared to barrow and gilt slaughter (Figure 1). The residual number of barrows and gilts not covered under mandatory reporting are classified as Other and would include auction purchases or purchases made by small packers.

Figure 1. Barrows and Gilts Slaughtered by Purchase Type During



Data from USDA-AMS

2003

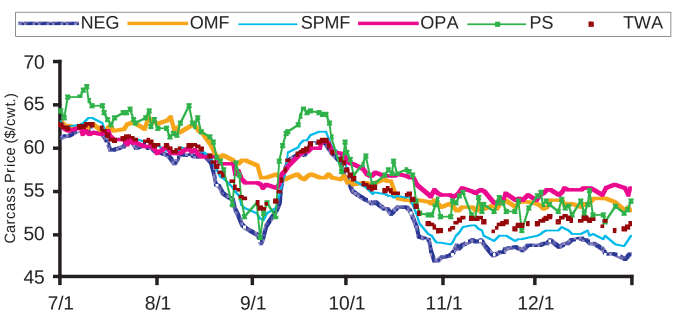
One of the most striking observations is the small percent of swine purchased on a negotiated basis. The "negotiated" category covers only 12.6 percent of slaughter and is down 1 percent from 2002. The total decline of open-market transactions is even larger, because the category "other" also declined from 6.7 percent in 2002 to 5.0 percent in 2003. However, the largest category with a decline is swine purchased under a "swine or pork market formula," which declined from 40.6 percent in 2002 to 37.2 percent in 2003. There was also a decline in the percent sold under the categories of "other market formula," from 8.6 to 7.2 percent and of "packer sold," from 2.1 to 2.0 percent.

The categories with an increase were "other purchase arrangement" and "packer owned." The percent under "other purchase arrangement" increased from 12.1 to 18.0 percent of the total. The percent under "packer owned" increased from 16.2 to 17.9 percent. Details of the different purchase categories are available in the Grain Inspection, Packers and Stockyards Administration (GIPSA) swine contract library that is posted at www.scl.gipsa.usda.gov. Finally, it is unclear how changes in import levels of market hogs from Canada have factored into the category breakdowns. However, by analyzing the purchase type categories, observations can be made regarding structural changes in the swine industry.

Price Patterns

The price behavior across different purchase types continues the patterns observed since mandatory reporting was first implemented. Negotiated (NEG) prices tend to have the most variability and have the lowest lows and highest highs. Swine and pork market formula (SPMF) prices follow a pattern similar to negotiated prices. The other market formula (OMF) prices have the least variability. Daily prices during the second half of 2003 reflect the general patterns (Figure 2). Other purchase arrangements (OPA) prices have been relatively stable since reporting began. Packer sold (PS) covers a small number of head and has a highly variable price series.

Figure 2. Prices Paid by Purchase Type July – December 2003



Data from USDA-AMS

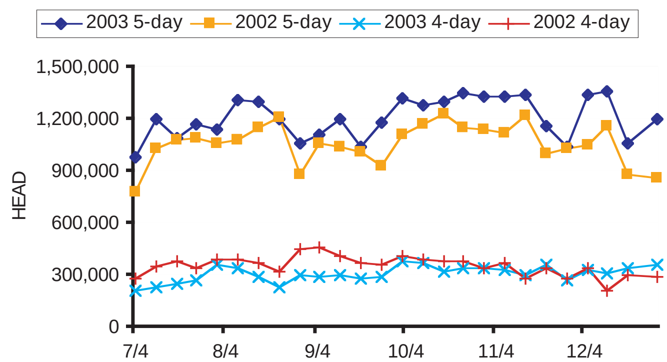
A total weighted average price is also given in LM_CT201 for the categories where producers sell to packers. The total weighted average (TWA) price can deviate substantially from the negotiated price (figure 2). Thus, not all producers would suffer from low prices or benefit from high prices. The weighted average price is probably the most transparent indicator of packer costs and would be useful as a benchmark when considering different arrangements. For example, during the second half of 2003, formula contract prices tied to corn and soybean prices (an "other market formula") looks to have been more profitable and less variable than negotiated prices.

Swine Scheduled

Another type of information from the swine slaughtered report is the number of swine scheduled for delivery to packing plants. Each day the number scheduled for the following two weeks is reported. The average number of head scheduled declines as one looks ahead through the two weeks. The information should allow producers to gauge the short-run supply situation of packers. If packers are "short-bought" they may be more likely to bid up cash purchases. If packers have a relatively large number of hogs already arranged for slaughter, they may offer lower bids.

To demonstrate how to use this information, the number of head scheduled for delivery during the next two weeks was computed on Fridays during the second half of 2003 (Figure 3). Friday reports reflect the swine scheduled as of Thursday for the following two weeks. The reports were analyzed to compare the number of head scheduled for slaughter for the upcoming Monday through Friday 5-day period and subsequent Monday through Thursday 4-day period.

Figure 3. Swine Scheduled for Delivery July – December 2003



Data from USDA-AMS

During the latter half of 2003 the number scheduled for the 5-day period was greater than a year earlier. The shift coincides with the shift in purchase types, mainly the move toward other purchase arrangements. Because the observations are on Fridays, if one observed an increase in the number scheduled for the 5-day period compared to a week earlier, one would not expect sharp increases in cash prices the next week. If one observed levels below the volume a week or year earlier, one could have negotiated for improved bids. One should note that holidays disrupt the reporting schedule and need to be factored in when looking forward.

Conclusions

Information from mandatory reporting can be used to help pork producers in several different ways. Purchase types can be monitored to assess changing merchandizing patterns. Producers may want to examine other purchase arrangements, as there has been a shift toward marketing that way. The spot market continues to get smaller, so producers will want to carefully monitor the different formula prices in addition to negotiated and auction prices. Producers can use the prices reported to discern packer margins rather than relying on spot market prices. Finally, the swine scheduled information sheds light on the short run supply situation, which could allow producers to target marketings for optimal times. Producers with hogs for either negotiated or auction markets can monitor trends in swine scheduled to gauge their negotiating power relative to packers.

This publication can be accessed electronically from the SDSU College of Agriculture & Biological Sciences publications page at http://agbiopubs.sdstate.edu/articles/ExEx5052.pdf

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ExEx5052: PDF March 2004.