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The Perspective of Cow/Calf Producers in the Dakotas: Mandatory Price Reporting for Slaughter Cattle¹

by

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This is the third article in a series on the perspectives of Dakota cow/calf producers on public price reporting, marketing channel selection and price discovery. This series is a result of a survey questionnaire sent to 814 cow/calf producers in North and South Dakota. The questionnaire was mailed during the fall of 2005, and 199 completed surveys were returned, a response rate of 24.5 percent. All completed surveys were from the western parts of the Dakotas, commonly referred to as "West River".

Mandatory Price Reporting for Slaughter Cattle

In April 2001 mandatory livestock price reporting began in the U.S. slaughter cattle market. Price reporting regulations require packers to report all spot market and captive supply transactions to the USDA-Agricultural Marketing News Service (AMS). However, the mandatory reporting system proved to be controversial, and the U.S. Congress allowed the regulatory authority to expire in October, 2005. After extensive congressional debate, a new bill (H.R. 3408) authorizing mandatory livestock price reporting was signed by President Bush in October, 2006 (Fausti et al. 2007). However, the legislation has not been implemented as of June, 2007. Thus, since the Fall of 2005, public reporting of slaughter cattle prices and transaction volume has relied on voluntarily reported information from packers.

What Others Have Found

Studies signaled potential problems with Mandatory Price Reporting (MPR) before it expired in October of 2005. The results from Schroeder et al. (2002) and Grunewald et al. (2004) raised concerns with how effective MPR has been in improving market transparency in the fed cattle market. Schroeder et al. conducted a survey of managers in the feedlot industry from Iowa, Kansas, Nebraska, and Texas. They report respondents' strong disappointment with MPR. Specifically, they reported that only 41 percent of the respondents believed that MPR was benefiting the beef industry, while 76 percent believed MPR was not as beneficial as expected. Further, 52 percent believed the information on regional daily fed cattle prices did not increase, 65 percent believed that MPR did not enhance their ability to negotiate cash prices with packers, and 63 percent believed that MPR did not enhance their ability to negotiate base prices or formulas with packers. It should be noted that in a recent ERS study it was suggested that respondents' dissatisfaction with the MPR, as reported in the Schroeder et al. study, may have been a reflection of market conditions rather than the implementation of MPR (USDA/ERS 2005: pp 25-26).

Dakota Cow/Calf Producers' Opinions

The cow/calf industry depends upon derived demand for feeder cattle from feedlot operators. Because of direct linkages, any changes in the slaughter cattle market are expected to be felt quickly in the cow/calf industry. In the survey, Dakota cow/calf producers were asked to respond to a number of statements designed to elicit their views on how successful MPR has been in improving the public price reporting system for: a) the beef and cow/calf industries, b) their price discovery process for slaughter, stocker, and feeder cattle, c) the relative importance of USDA public price reports in their marketing decisions,

¹ The discussion provided in this Commentator articles is a synopsis of the research reported by the authors in an article published earlier (Spring, 2007) in the *Journal of Agribusiness*.

Table 1. Dakota Cow Calf Producer Opinions on Impacts of MPR: Impacts on Beef and Cow-Calf Industry

Category/Statement	n	Median	Disagree 1-2	Undecided 3	Agree 4-5
..... Percentage Response Rate					
(1) Replacing the VPR ¹ system with MPR ² for the public reporting of slaughter cattle prices has been beneficial to the beef industry.	187	4	9%	34%	57%
(2) Replacing the voluntary price reporting system with MPR for slaughter cattle sales has been beneficial for the cow/calf industry.	183	4	11%	37%	52%

¹VPR = Voluntary Price Reporting; ²MPR = Mandatory Price Reporting

Table 2. Dakota Cow Calf Producer Opinions on MPR: Impact on Price Discovery Process

Category/Statement	n	Median	Disagree 1-2	Undecided 3	Agree 4-5
,,,,, Percentage Response Rate					
(3) With the implementation of MPR ¹ , price discovery in the slaughter cattle market has improved in my region (state).	185	3	11%	57%	32%
(4) With the implementation of MPR, price discovery in the market for stocker cattle has improved in my region (state).	182	3	13%	53%	35%
(5) With the implementation of MPR, price discovery in the feeder cattle market in my region (state) has improved.	184	3	11%	49%	40%

¹MPR = Mandatory Price Reporting

and d) their ability to negotiate sale of feeder cattle to feedlot companies.

The respondents could select from a range of numerical responses to indicate their degree of agreement with each statement, from 1 (strongly disagree) to 5 (strongly agree). Tables 1 – 4 list the questions and present a summary of the survey results for the MPR related statements, including the median response value to the questions, as well as the proportion of respondents who tended to disagree (response 1-2), be undecided (response 3), or agree (responses 4-5).

Impacts on Beef and Calf Industry

In contrast to the unfavorable view of feedlot operators towards MPR reported by Grunewald et al., the majority of cow/calf producers in our survey view MPR as having a beneficial effect on the beef industry in general and the cow/calf industry in particular. As shown in Table 1, the survey revealed that a majority of the respondents agreed that replacing the VPR with the MPR has been beneficial to the beef industry (57 percent agreed versus 9

percent disagreed) and to the cow calf industry (52 percent agreed versus 11 percent disagreed).

Impacts on the Price Discovery Process

Questionnaire statements 3-5 in Table 2 were designed to elicit respondents' opinions regarding the effect of MPR on the cattle price discovery process in their region. A majority of respondents were unsure if MPR improved the price discovery process for slaughter cattle (57 percent), stocker cattle (53 percent), or feeder cattle (49 percent) markets in their region or state. More respondents agreed than disagreed that, with the implementation of MPR, the price discovery process improved in their region (state) for slaughter cattle, stocker cattle, and feeder cattle. This is slightly more favorable than the feedlot managers' view of MPR reported in Schroeder et al. (2002a).

The proposition gleaned from this set of questions suggests that a strong majority of respondents do not view the regime change in the public price reporting system for fed cattle positively with

respect to price discovery. A logical extension of this proposition is that a majority of respondents do not believe that regime change in the public price reporting system has improved market transparency or increased market efficiency.

Impacts on Cattle Marketing Decisions

Questionnaire statements 6-8 in Table 3 were designed to elicit respondents' opinions regarding the importance of USDA public price reports as inputs into their marketing decisions. A majority of respondents were unsure if, with the implementation of MPR, the importance of USDA public price reports increased in their decision making process when they marketed feeder cattle (51 percent), retained feeder cattle (58 percent), or marketed stocker cattle (58 percent). Among those who had decided, opinions regarding the importance of USDA public price reports were mixed. More respondents in this group were of the view that, with the implementation of MPR, the USDA public price reports had become more important for their feeder cattle marketing decisions (30 percent agreed versus 19 percent disagreed). On the other hand, more respondents in this group disagreed with the statement that post MPR, USDA public price reports were more important for their decisions to retain feeder cattle (13 percent agreed versus 29 percent disagreed), and to market stocker cattle (18 percent agreed versus 24 percent disagreed).

One plausible explanation for these response results is that cow/calf operators tend to make decisions regarding herd size, retaining feeder cattle, and retaining stocker cattle primarily on the availability of pasture.

Impacts on Ability to Negotiate

Questionnaire statement 9 in Table 4 was designed to elicit respondent opinions regarding the impact of MPR on their ability to negotiate the sale of their feeder cattle to feedlot companies. A majority of the respondents (53 percent) were not sure if their ability to negotiate the sale of their feeder cattle to feedlot companies changed after MPR went into effect. Remaining respondents were divided almost equally, 23 percent agreed (versus 24 percent disagreed) that MPR improved their ability to negotiate their feeder cattle. Given that producers in this survey indicate a preference for local information sources when

engaged in price discovery and that a majority of them sell feeder cattle at local auction barns, it is not surprising that only 23% of respondents indicated that MPR improved their ability to negotiate with feedlot operators when selling feeder cattle.

These survey results on producer perception of how effective MPR has been in improving price information and negotiating terms of trade are consistent with the survey results reported by Grunewald et al. It appears from our survey and the Grunewald et al. survey that a majority of producers in both the feedlot and cow/calf industries do not believe the public price reporting has improved their negotiating position under MPR.

Summary

On the issue of cow/calf producer perceptions of how effective MPR has been in improving the market environment, the majority of cow/calf operators have a mildly positive view for the beef industry in general and the cow/calf industry in particular. This is in contrast to the findings reported by Grunewald et al. for feedlot operators. However, when asked how MPR has affected the market environment at the regional or individual level, a strong majority of cow/calf producers indicate they do not feel that MPR has improved: a) the quality of public price reports, b) price discovery, and c) their ability to negotiate price when selling feeder cattle.

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USDA/ERS, "Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory

Table 3. Dakota Cow Calf Producer Opinions on Impacts of MPR: Impacts on Cattle Marketing Decision

Category/Statement	n	Median	Disagree 1-2	Undecided 3	Agree 4-5
..... Percentage Response Rate					
(6) The importance of USDA public price reports, as input into my feeder cattle marketing decisions, has increased since MPR ¹ was implemented.	184	3	19%	51%	30%
(7) The importance of USDA public price reports, as input into my decision to retain feeder cattle, has increased since MPR was implemented.	177	3	29%	58%	13%
(8) The importance of USDA public price reports, as input into my stocker cattle marketing decisions, has increased since MPR was implemented.	174	3	24%	58%	18%

¹MPR = Mandatory Price Reporting

Table 4. Dakota Cow Calf Producer Opinions on Impacts of MPR: Impacts on Ability to Negotiate

Category/Statement	n	Median	Disagree 1-2	Undecided 3	Agree 4-5
..... Percentage Response Rate					
(9) My ability to negotiate the sale of my feeder cattle to feedlot companies improved after MPR ¹ went into effect.	175	3	24%	53%	23%

¹MPR = Mandatory Price Reporting



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