Developments in Livestock and Meat Marketing

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Weekday Processing Volumes

Source: Lusk calculations based on USDA data
Change in Weekly Hog Slaughter vs. 2019 Average

Source: Lusk calculations based on USDA data
Cattle Slaughter Trends

FEDERALLY INSPECTED CATTLE SLAUGHTER
Daily Average, By Month

Data Source: USDA-NASS, Compiled by LMIC
Livestock Marketing Information Center

CS-04
07/22/22
Change in Hog and Pork Prices since Jan 2020

Source: Lusk calculations based on USDA data; nominal price changes; calculated value per head
Beef Price Spread (the longer view)
Trends in Fed Cattle Prices

Slaughter Steer Prices
Southern Plains, Weekly

Data Source: USDA-AMS
Livestock Marketing Information Center
Changes in Retail Prices

Concentration, Capacity, and Resiliency
Grassley bill would mandate 50 percent cash trade, 14 day delivery for fed cattle

By [David McLaughlin](#) 
June 4, 2020, 5:33 PM EDT  Updated on June 4, 2020, 7:19 PM EDT

Elizabeth Warren and Cory Booker Join Forces on Bill to Ban Most Factory Farming by 2040

By [Natalina Sents](#) 
7/22/2020

Lawsuit accuses beef packers of rigging prices

By [Erica Shaffer](#) 
06.09.2020

JANUARY 03, 2022 • STATEMENTS AND RELEASES

• Spend $1 billion to boost processing capacity
  o $375 million in grants for processing plants
  o $275 million to lenders for processing plants
  o $100 million to support workforce development
  o $100 million to reduced overtime inspection costs
  o $100 million in loans for storage distribution networks
  o $50 million in technical assistance
Meat packing is concentrated

• 10 plants slaughter **63% of all cattle**
• 15 plants slaughter **59% of all hogs**
What Does it Mean to be Resilient?
Increased resiliency – no easy answers

• More small and medium processors to increase capacity?
  – Suppose, construction costs of $25,000/head of daily capacity for pork
  – If $200 million were spend on pork processors …
    ➢ would add 8,000 head/day more capacity in total
  – In 2021, typical national weekday slaughter was about 474,000/day
    ➢ A $200 million investment would add about 1.7% to national capacity
Increased resiliency – no easy answers

• More local/regional?
• Excess capacity
• Increased redundancy
• Backups
Economies of Scale in Hog Processing

Simulation of a world with more small packers

• Lower livestock prices, higher retail meat prices (increase in price spread)
• Little impact on expected output when faced with shutdown risks
• Lower variability in output when faced with shutdown risk
  • Higher chance of small reductions in output
  • Lower chance of large reductions in output

Source: Ma and Lusk: https://www.nber.org/papers/w29103
It is Costly to Run at Reduced Capacity

Packing profits fall even as farm-to-wholesale price spreads increase

Source: Ma and Lusk simulations
Theory of Price Spreads
Stock Prices of Meat Packing Firms

Walmart

S&P 500

Tyson

JBS
Change in U.S. Retail Quantity Demanded

Source: Lusk calculations based on USDA data
Economic Environment

• Little to no excess processing capacity
• Cattle and hog cycles
• Strong domestic and international demand for U.S. meat
• Many added costs to the system
• Significant economies of scale in packing
Policy action and proposals

• Extra judiciary scrutiny (department of justice)
• Forced breakup of packers
• Investment in additional processing capacity
• Mandatory volume of cash trades (cattle)
• Contract library
• Safety net for small producers
  • Increase premium subsidy for LRP
  • Based on farm-to-retail price spread