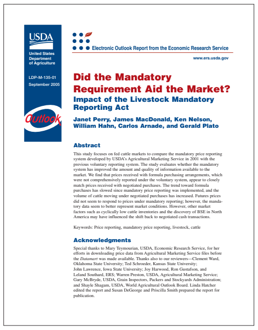
Economic Research Service | September 2005 | U.S. Department of Agriculture


Electronic Outlook Report from the Economic Research Service

Did the Mandatory Requirement Aid the Market?
Impact of the Livestock Mandatory Reporting Act

Janet Perry, James MacDonald, Ken Nelson, William Hahn, Carlos Arnade, and Gerald Plato

Abstract

Acknowledgments

This is a summary of an ERS report.

Find the full report at ***www.ers.usda.gov/publications/LDP/Sep05/ldpm13501***

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Impact of the Livestock Mandatory Reporting Act

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In 1999, Congress passed legislation that led to a major redesign of the livestock price reporting system through the Livestock Mandatory Reporting Act of 1999 (LMR). With the legislation expiring in fall 2005, stakeholders can benefit from an investigation of developments leading up to the Act and an assessment of the Act's impact on cattle markets after its implementation by USDA in 2001.

What Is the Issue?

Traditionally, agricultural product prices were determined in open spot markets, either in direct negotiation between individual buyers and sellers (or their agents) or in public auctions (which now include satellite and internet auctions), based on attributes observable in livestock or crops. The voluntary system of reporting these transactions formed the basis for published price information for many years, with substantial public and private investments in organizing transactions, certifying grades, and reporting terms and prices. However, fed cattle volume sold in spot markets began to fall sharply in the 1990s, with a concomitant increase in cattle moving under alternative marketing arrangements, such as contracts. By 2000, daily cash trades had thinned so much that *Market News* was not releasing market prices in 60 percent of daily reports from the major markets in Colorado, Kansas, Texas, and Nebraska. That shift from spot markets called into question the effectiveness of voluntary price reporting.

Producers expressed concern that unreported contract prices were substantially higher than the cash prices reported in *Market News* and that *Market News* prices based on a small number of transactions could be more easily manipulated. Some feared that cash markets for livestock would disappear without timely, comprehensive, and accurate price reporting. Because many contracts based payments on cash market prices, cash market erosion concerned all market participants. In short, there were understandable reasons for concern about the future of voluntary price reporting in the late 1990s.

What Did the Project Find?

Under a mandatory requirement, large meatpackers electronically file summary information twice a day on all transactions involving live cattle purchases and beef sales, and USDA's Agricultural Marketing Service compiles the information in its *Market News* reports. By early 2002, the program was capturing more than 90 percent of commercial cattle slaughter, compared with less than 60

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percent in the last days of the voluntary system. Livestock mandatory reporting did not simply expand existing reporting procedures to more transactions; rather, it introduced major changes in the ways that data from all covered livestock transactions were collected, organized, and disseminated through reports.

LMR enables users to compare prices for cattle sold under different marketing methods. It appears that, for cattle of similar quality, prices in negotiated spot market transactions closely track prices for cattle sold under alternative marketing arrangements. Any difference was small and inconsistent; negotiated prices actually exceeded formula prices in nearly 40 percent of the weeks observed. Moreover, in regression analyses of the spread between cattle prices and boxed beef wholesale prices, for cattle of similar quality, prices in negotiated spot market transactions closely track prices for cattle sold under formula pricing.

Many producers initially expressed disappointment with LMR, indicating in a survey that the program was not as beneficial as expected, because the data did not show that contract prices were higher. But, producers now appear to be using the cash market more: after 2002, cattle sales shifted away from formula pricing and contracts and toward negotiated, cash market transactions. While that shift may have been driven by other market developments—such as low inventories and strong demand—that raised all cattle prices, it also may have been affected by expanded and more transparent price reporting under LMR.

How Was the Project Conducted?

First, we reviewed the traditional voluntary system of USDA price reporting and described the economic forces that cast doubts about the effectiveness of the voluntary system and led to mandatory price reporting. Using *Market News* data, we then evaluated trends in cattle volumes moving through different types of transactions before and after implementation of LMR. We selected average reported cattle prices (per hundred-weight) for each pricing basis, transaction type, quality grade category, and cattle class reported in a week, and compared those prices with those found in voluntary reporting. We report on prices and volume sold for five different purchase types: (1) formula net, (2) forward contract net, (3) negotiated cash, (4) negotiated grid base, and (5) negotiated grid net. Regression analysis modeled the differences in volatility between the two price-reporting systems and price differences among transaction types. Finally, we assessed the impact of LMR on price discovery, using futures prices as our indicator.