

It's Worse Than Even We Predicted
R-CALF USA Radio Segment
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In our last segment we discussed how the fed cattle market has had three Black Swan events in less than two years – three times that wholesale beef prices rallied hard and three times that fed cattle prices collapsed.

We're witnessing the third Black Swan event right now. Wholesale beef prices have been climbing since mid-April and yet fed cattle prices are inexplicably falling.

We've warned for years that the multinational beef packers, who long ago perfected their vertical integration models in the poultry and hog industries, are now working to do the same thing to the U.S. cattle industry. That is, they're capturing control of the live cattle supply chain away from producers and away from competitive market forces.

The model they perfected in the hog industry has at its core a strategy of shrinking the cash market to a level where it is certain to no longer function to establish competitive prices. This was accomplished by shifting large volumes of hogs out of the cash market and placing them under the packers' control through formula contracts and other alternative marketing arrangements, collectively known as captive supply arrangements.

They're doing it now to the cattle industry. They've already succeeded in shrinking the fed cattle cash market beyond the level necessary to establish competitive prices. The volume was down to just 20% during the first quarter of this year – that's lower than last year and lower than any other time in history!

But here's an important point for cow/calf producers and backgrounders and stockers. Through all the market volatility since the 2015 price collapse, monthly fed cattle prices since 2015 were 1% below the average monthly fed cattle price during the five years leading up to 2015.

However, monthly feeder cattle prices since 2015 were 3% higher than the average monthly feeder cattle price during the five years leading up to 2015.

So what does this tell us? Well, it tells us that for the past six years the feeding sector of our industry – which is the smallest segment of the live cattle industry – has taken a much harder financial hit as a result of the chronically dysfunctional market.

And so the feeder cattle market has been at least somewhat insulated from the severe market shocks that have been causing irreparable harm to our feeding sector. That is until right now.

So right now enter two unforeseen factors that when combined with the already chronically dysfunctional fed cattle market will become a perfect storm – a perfect storm with the potential

of wiping out large swaths of our U.S. cattle industry, from the cow/calf producer to the backgrounder and stocker, and to the feeder.

Feed costs, particularly corn costs, have recently skyrocketed at the same time we're experiencing yet another widespread drought. Now, the higher feed costs means feeders, who are already receiving depressed prices for fed cattle, will likely begin offering much less for feeder cattle. It's already happening.

This means the severe beating that cattle feeders have been taking for the past six years is about to be pushed upstream in the live cattle supply chain, seriously damaging the financial viability of stockers, backgrounders and in particular, cow/calf producers.

Despite years of absolute market failure, R-CALF USA is the only national cattle association calling for immediate reform. It's the only one calling for both the reinstatement of mandatory country of origin labeling for beef and the immediate passage of the Grassley/Tester 50/14 bill that will immediately restore competition in the fed cattle market.

Not a single other national cattle group has stood up to endorse the Grassley/Tester bill. The other groups either don't know what they want, or they want less. They want less while we're saying our two solutions are only the first step in stopping this catastrophic situation and much more needs to be done after they are implemented.

This means it's up to R-CALF USA and you to fix your industry or it won't be fixed. And if we don't fix it many of you can go have coffee with the hundreds of thousand of hog farmers that were put out of business for the same reason during just the past two decades.

This is serious. This the death of your industry serious.

We need each of you to help us call each of your members of Congress to tell them to immediately pass S. 949, the Grassley/Tester bill, and to reinstate country of origin labeling for beef. It really is up to you and us.

So please also go to our webpage at www.r-calfusa.com to join us so we can at least minimize the disastrous effect of this impending perfect storm.