The State of the U.S. Cattle Industry: Indices of Market Failure

Presentation by R-CALF USA

May 2011
Fifteen Indices of Severe Market Failure in the U.S. Cattle Industry
No. 1: **Cattle Industry’s Price-Discovery Market Is Shrinking Fast**

National Cash Cattle Market Shank Nearly 15% in 5 Years, Now Down to 37%

2005-2010 Fed Cattle Summary of Purchase Types
*Source: USDA Market News*

<table>
<thead>
<tr>
<th>Purchase Type</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>52.1%</td>
<td>49.4%</td>
<td>47.3%</td>
<td>42.6%</td>
<td>38.8%</td>
<td>37.4%</td>
</tr>
<tr>
<td>Formula</td>
<td>33.2%</td>
<td>34.3%</td>
<td>37.4%</td>
<td>39.1%</td>
<td>43.7%</td>
<td>43.1%</td>
</tr>
<tr>
<td>Forward Contract</td>
<td>4.8%</td>
<td>7.2%</td>
<td>6.8%</td>
<td>11.2%</td>
<td>9.5%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Negotiated Grid</td>
<td>9.9%</td>
<td>9.0%</td>
<td>8.5%</td>
<td>7.1%</td>
<td>8.0%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>
## TX-OK-NM Market Below 22%  
Colorado Cash Market Below 20%

### Texas-Oklahoma-New Mexico Breakdown of Volume by Purchase Type

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>47.2%</td>
<td>42.5%</td>
<td>36.7%</td>
<td>31.5%</td>
<td>26.1%</td>
<td>21.5%</td>
</tr>
<tr>
<td>Formula</td>
<td>42.2%</td>
<td>42.2%</td>
<td>48.4%</td>
<td>53.3%</td>
<td>60.7%</td>
<td>66.9%</td>
</tr>
<tr>
<td>Forward Contract</td>
<td>3.1%</td>
<td>5.0%</td>
<td>4.4%</td>
<td>5.8%</td>
<td>5.4%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Negotiated Grid</td>
<td>7.5%</td>
<td>10.3%</td>
<td>10.5%</td>
<td>9.3%</td>
<td>7.8%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

### Colorado Breakdown of Volume by Purchase Type

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>51.7%</td>
<td>40.6%</td>
<td>39.5%</td>
<td>28.5%</td>
<td>28.8%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Formula</td>
<td>30.1%</td>
<td>46.6%</td>
<td>46.2%</td>
<td>54.4%</td>
<td>57.8%</td>
<td>63.9%</td>
</tr>
<tr>
<td>Forward Contract</td>
<td>8.6%</td>
<td>7.3%</td>
<td>7.5%</td>
<td>13.3%</td>
<td>10.5%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Negotiated Grid</td>
<td>9.5%</td>
<td>5.3%</td>
<td>6.6%</td>
<td>3.8%</td>
<td>2.7%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
No. 2: Precarious Structure of U.S. Beef Cattle Industry

- 742,000 Beef Cattle Operations, including Seed Stock Producers, Cow/Calf Producers, Backgrounders and Stockers
- Only 72,000 U.S. Beef Cattle Operations have a Herd Size of Over 100 Head

- Since 1996, approx. 158,680 Beef Cattle Operations have exited the industry at a rate-of-loss of 11,334 operations per year.

- 2,140 Large Feedlots fed approx. 87% of all U.S. fed cattle in 2010, up from 85% in 2008.

- 75,000 Farmer Feeders in 2010 (reduced from 85,000 in 2007). These smaller feeders fed approx. 13% of all fed cattle in 2010, down from 15% in 2008.

- Four Mega-Packers slaughter approx. 85% of all U.S. fed cattle.
No. 3: Shrinking Number of Cattle Feeders

Decline in Numbers of U.S. Feedlots
1996-2010
35,000 Farmer-Feeders Exited the Industry During Past 14 Years

Source: USDA-NASS, Various Cattle on Feed Reports

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No. 4: Shrinking Number of Livestock Operations

Loss of U.S. Livestock Operations 1980-2010

<table>
<thead>
<tr>
<th>Type of Livestock Operations</th>
<th>Number of U.S. livestock Operations 1980</th>
<th>Number of U.S. livestock Operations 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef Cattle</td>
<td>1,272,950</td>
<td>742,000</td>
</tr>
<tr>
<td>Swine</td>
<td>667,000</td>
<td>60,460</td>
</tr>
<tr>
<td>Diary</td>
<td>335,270</td>
<td>62,500</td>
</tr>
<tr>
<td>Sheep</td>
<td>120,000</td>
<td>81,000</td>
</tr>
<tr>
<td>&gt;100 Hd</td>
<td>72,000</td>
<td>12,060</td>
</tr>
<tr>
<td>Source: USDA-NASS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-CALF USA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

42% Loss
91% Loss
81% Loss
32% Loss
Beef Cattle Operations Exiting Cattle Industry at an Alarming Rate

Exodus of U.S. Beef Cattle Operations
1996-2010

Number of Beef Cattle Operations

Source: USDA-NASS R-CALF USA
No. 5: Disrupted Cattle Cycle and Shrinking Herd

Total U.S. Cattle Inventory and Beef Cow Inventory, January 1

Source: USDA-NASS

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No. 6: Domestic Production Remains Stagnant

U.S. Beef Cow Herd vs Total Beef Production and Beef Produced from U.S. Cattle

Source: USDA ERS and NASS

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No. 7: Shrinking Industry & Stagnant Production in Face of Growing Beef Consumption

Domestic Consumption in Excess of Domestic Production 1962-2010

- Consumption Increases after 1993
- Widest spread in history of industry, 2004-2007
- Total Domestic Beef Consumption
- Imported Beef and Beef from Imported Cattle
- Beef Produced Exclusively from Cattle Born and Raised in the United States

Source: USDA FAS, ERS

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No. 8: Shrinking Industry Losing Its Share of Total Available Beef Supply

Origins of the United States' Beef Supply

- 10% of All Available Beef was Imported in 1985
- 13% of All Available Beef was Imported in 1996
- 14% of All Available Beef was Imported in 2010

Total Available Beef in U.S. Market

Beef produced exclusively from cattle born and raised in the United States

Data Source: USDA-ERS

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No. 9: Producers Losing Their Share of Consumer’s Beef Dollar

U.S. Cattle Producer’s Share of Consumer’s Beef Dollar
1980-2010

Percent

Source: USDA-ERS

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No. 10: Marketplace Exploiting Producers and Consumers

CONSUMERS' RETAIL BEEF PRICES COMPARED TO CATTLE PRICES
JAN. 1980-Dec 2010

Source: USDA-ERS

- Net Farm Value (Cattle)
- Retail Beef Prices

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No. 11: Disconnect Between Cattle Prices and Beef Prices
No. 12: Cattle Prices Fall When Exports Reach Record Levels

Relationship Between Export Volumes and Fed Cattle Prices

Source: USDA-ERS

Canadian-U.S. Free Trade Agreement
Effective Date of NAFTA
Thirteen Years of Depressed Prices
Imported Canadian Cow Detected with BSE

Exports: Billions of Pounds
Fed Cattle Prices (per cwt.)


$40.00 $50.00 $60.00 $70.00 $80.00 $90.00 $100.00
No. 13: Cattle Prices Disassociate with Beef Demand

Relationship Between Beef Demand and Fed Cattle Prices

Beef Demand Declined in 18 of Past 24 Years

Choice Retail Beef Demand Index (1980=100)

Fed Cattle Prices (per cwt.)

Source for Cattle Prices: USDA-ERS
Source for Beef Demand: KSU

6-yr Demand Increase
13-yr Demand Decline
6-yr Demand Decline

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No. 14: Systemic, Below Cost-of-Production Prices for U.S. Cow/Calf Industry

U.S. Cow-Calf Returns Per Bred Cow

Returns based only on operating costs
Returns based on total costs

Source: U.S. cow-calf production costs and returns per bred cow, USDA-ERS

Operating costs do not include: Hired labor, Opportunity cost of unpaid labor, Capitol recovery, costs of equipment, Opportunity costs of land, Taxes and insurance or General farm overhead

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No. 15: Long-Run Negative Return On Equity for U.S. Cattle Industry

Past Six-Year Average Return on Equity

Solutions

1. Vigorously enforce the Packers and Stockyards Act using facts previously litigated by private parties (enforcement agencies have a lesser burden in enforcement actions than do private parties)

2. Promulgate rules to clarify that the use of captive supplies that lower prices is unlawful

3. Promulgate rules to clarify that dominant packers cannot own feedlots or feedlot cattle