**COVID-19 Impacts on Arkansas’ Agricultural and Rural Economies**

**UPDATE:**

**Livestock Market Update:**

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**May 22, 2020**

**Market Update**

This week’s numbers suggest that the livestock and poultry sector is doing a remarkable job of achieving some semblance of normalcy in the midst of ongoing immense challenges from COVID-19.

Slaughter numbers remain down from normal, whether one defines that as year-ago levels or pre-COVID 2020 levels. However, the last couple of weeks have witnessed a remarkable recovery in processing volumes for all three of the major species. This week, cattle slaughter topped 100,000 head per day for the last three days of the week. It had been well over a month since daily cattle slaughter had attained that level. Figure 1 shows weekly cattle, hog, and broiler slaughter as a percentage of the 2019 weekly average slaughter level. While processing for cattle and hogs remains well-below the pre-COVID pace and chicken slaughter is modestly lower, the situation is dramatically improved from a month ago.

Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

**Figure 1.** 2020 Weekly Cattle, Hog, and Broiler Slaughter as a Percent of 2019 Weekly Average Slaughter.

Two questions are critical for the market moving forward. First, can plants continue to remain open consistently or will recurring outbreaks necessitate waves of closures similar to what occurred last month? Clearly, that situation would present a major challenge to the market, likely resulting in extreme price volatility at all market levels. Intense effort is being made now in the management and operation of plants to avoid this outcome. Second, how close to full capacity can plants get while operating under the requirements of social distancing? That is the process that figure 1 above is illustrating. So far, the chicken sector is managing to run closer to the pre-COVID normal than are the beef and pork sectors. However, beef and pork have made great strides in increasing throughput in the last three weeks.

Market implications of the outcome of this process are clear. We have seen in the last month how the bottleneck at the processor level affects prices: downward pressure on farm prices for livestock and upward pressure on wholesale (and, in turn) retail prices for meat. The further any particular sector (beef, pork, or poultry) remains from its pre-COVID normal, the less competitive that sector will be. Market share will belong to the sectors – and the companies – that can operate the most efficiently in this new environment. The stakes in this race to adapt operations to the post-COVID reality are thus very high.

The payoff to increasing throughput in processing operations for livestock operations has been apparent in the last couple of weeks. Fed cattle prices are sharply higher from their late-April lows. The 5-Area weighted average fed steer price jumped by almost $8 two weeks ago. Last week, it increased by a similar amount. Figure 2 shows the weekly 5-Area weighted average fed steer negotiated live price (noting that data for last week are preliminary and are subject to change slightly).

Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

**Figure 2.** Weekly Average Fed Steer Price: 5-Area Weighted Average, Negotiated Live

Wholesale beef prices have fallen sharply as beef production has recovered. Last week, the boxed beef cutout value averaged just over $400/hundredweight (cwt) on Friday morning – a decline of almost $75/cwt since its daily high on May 12.

In the hog/pork market, prices have not been as strongly influenced by the recovery in processing volumes. Last week’s negotiated hog prices remained in the high $30s/cwt, up from mid-April lows but not much changed in the last couple of weeks. Wholesale pork prices, however, have fallen. The pork cutout value retreated by over $10/cwt over the course of last week.

 In the chicken market, the effects of the recent bounce in processing are more ambiguous. Broiler eggs set have also bounced back to within a couple of percent of a year ago. Chick placements remain about 10% below year ago but should, of course, be expected to lag eggs set. Wholesale prices are a mixed bag. The broadest measure of wholesale prices, the national average broiler composite, dropped 3 cents/pound last week after rising steadily for the prior month. Several broiler pieces saw significantly higher prices last week, though: boneless/skinless (B/S) breasts and thighs and legs, in particular. It will be interesting to keep an eye on broiler pieces over the next few weeks to see how processing plant adjustments might be affecting product availability and, therefore, price. Social distancing requirements may well make it more difficult to produce some of the value-added products that are popular on the market (e.g., B/S breasts and thighs), leading to more product being diverted to whole birds or lesser-processed pieces (e.g., leg quarters). Last week, while B/S product prices continued to move higher, leg quarter prices fell by about 4%. One data point doesn’t make a trend, but this issue will be worth following.

**Cattle on Feed**

On Friday, USDA released their latest *Cattle on Feed* report. Headline numbers in the report were basically in line with market expectations.

**Table 1.** May 2020 *Cattle on Feed* (*COF*) Summary: Actual vs. Pre-Report Figures

|  |  |  |  |
| --- | --- | --- | --- |
|  | 1,000 head | % of Prior Year | Pre-Report Estimates\* |
| On Feed May 1 | 11,200 | 94.8 | 94.9 |
| April Placements | 1,432 | 77.7 | 77.3 |
| April Marketings | 1,459 | 75.7 | 75.0 |
| \*Source: Livestock Marketing Information Center. |

April placements were the second lowest April figure since this series began in 1996. Marketings were the lowest for April over that same time period. The decline in marketings mostly reflects the difficulty that packers were having getting cattle processed in April. There certainly was not a 25 percent decline in market ready cattle. In fact, it is interesting to look at the April marketing figure as a percent of the estimated number of cattle on feed for more than 150 days. This is shown in figure 3 below.

Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.

**Figure 3.** April Fed Cattle Marketings at a Percent of Cattle on Feed for 150+ Days

Typically, pretty much all of the cattle that have been on feed for 150 days will be marketed in a given month. Often marketings are higher than the inventory of cattle that have been fed for 150 days, meaning that buys are purchasing a significant number of cattle that have been fed for a shorter time period. Last month, only about 60 percent of these long-fed cattle were marketed, indicating the magnitude of the processing plant slowdown. This backlog of cattle will keep pressure on cattle prices for some time to come.

**Coronavirus Food Assistance Program**

Details of the Coronavirus Food Assistance Program (CFAP), a relief program for agricultural producers to address losses related to COVID-19, were released last week. Applications for support under this program will begin being accepted at USDA Farm Service Administration offices on May 26. The program includes significant support for cattle and hog producers.

For cattle, CFAP includes two types of payments on four five classes of cattle. The payments are for 1) cattle marketing between January 15 and April 15 and 2) the highest inventory of livestock owned between April 16 and May 14. That is, the program provides a payment to address the loss in realized income on cattle sold and also the lost value on cattle owned. The five classes of cattle are 1) feeder cattle < 600 pounds, 2) feeder cattle >600 pounds, 3) slaughter cattle – fed cattle, 4) slaughter cattle – mature cattle, and 5) all other cattle (excluding cattle used for dairy production).

For hogs, the arrangement of payments is similar: one payment for lost revenue, another for lost inventory value. Two classes of hogs are specified: pigs < 120 pounds and hogs > 120 pounds.

Payment rates under the program are summarized in table 2 below.

**Table 2.** Livestock Classes and Payment Rates under Coronavirus Food Assistance Program

| **Livestock** | **Eligible Livestock** | **Unit of Measure** | **CARES Act Part 1 Payment Rate** | **CCC Part 2 Payment Rate** |
| --- | --- | --- | --- | --- |
| **Cattle** | Feeder Cattle: Less than 600 Pounds | Head | $102.00 | $33.00 |
|  | Feeder Cattle: 600 Pounds or More | Head | $139.00 | $33.00 |
|  | Slaughter Cattle: Fed Cattle | Head | $214.00 | $33.00 |
|  | Slaughter Cattle: Mature Cattle | Head | $92.00 | $33.00 |
|  | All Other Cattle | Head | $102.00 | $33.00 |
| **Hogs and Pigs** | Pigs: Less than 120 Pounds | Head | $28.00 | $17.00 |
|  | Hogs: 120 Pounds or More | Head | $18.00 | $17.00 |
| **Lambs and Yearlings** | All Sheep Less than 2 Years Old | Head | $33.00 | $7.00 |

Source: USDA. <https://www.farmers.gov/cfap/livestock>.