



BACKGROUNDER

The 1997 Packers and Stockyards Statistical Report on livestock marketing and meat packing is a comprehensive source for data on industry concentration, plant size, volume of packer feeding, packer financial performance, number of animals purchased by source of supply (public market versus direct), and method of procurement. Most of the data are reported by type of animal and/or State or geographic region. The report includes data on slaughtering packers; market agencies buying or selling livestock on commission, including auction markets and selling agencies at terminal stockyards; and livestock dealers buying and selling livestock for their own accounts.

Packer concentration

Concentration in cattle and hog slaughter has increased greatly since 1985. For cattle, four-firm concentration rose 31 percentage points to 70 percent in 1998. Concentration has remained fairly constant since 1994.

Four-firm concentration in hog procurement has risen more than 24 percentage points since 1985, to 56 percent in 1998, increasing steadily over the period.

Four-firm concentration in sheep and lamb slaughter rose rapidly in the mid 1980s, from 51 percent in 1985 to 77 percent in 1988, but has fallen over the last decade to 68 percent in 1998. The number of plants and number of head slaughtered by the top four firms, both in absolute number and as a percentage of total slaughter, has fallen between 1988 and 1998.

Four- firm concentration (percent)				
Year	Cattle	Steers and heifers	Hogs	Sheep and lambs
1985	39	50	32	51
1990	59	72	40	70
1995	69	81	46	72
1997	68	80	54	65
1998	70	81	56	68

Non-spot market procurement of cattle

Procurement of cattle through forward contracts, marketing agreements, and from packer feeding has held steady through the 1990s. Use of these methods by the top 4 and top 15 beef packers accounted for about 20 percent of their total procurement in 1997. Use of forward contracts and marketing agreements by the top 15 packers increased from 14 percent in 1990 to 19 percent in 1996, and fell to 15 percent in 1997. Use of forward contracts and marketing agreements by the top 15 packers followed a similar pattern. Packer feeding declined as a percentage of cattle slaughtered for the top 4 and top 15 beef packers over the 1990-97 period, and accounted for 3.5 percent of total steer and heifer slaughter by all packers in 1997.

Carcass-basis purchases of livestock

Carcass-basis purchases are those where the price paid is based on carcass quality characteristics rather than the characteristics observed in the live animal. These characteristics can include dressing yield, grade, weight, percentage lean, or other factors. Packers increased the percentage of cattle procured on a carcass basis from 32 percent in 1986 to nearly 48 percent in 1997. The percentage of hogs procured on a carcass basis rose dramatically from 15 percent to nearly 63 percent during the same period.

Use of public markets for slaughter livestock procurement

The four largest beef packers procured a smaller percentage of their slaughter requirements through public markets than any other group of purchasers. Public markets include terminals and auctions; nonpublic markets include all other sources of livestock. Overall, beef packers obtained less than 15 percent of slaughter cattle, and less than 5 percent of steers and heifers, in public markets. Use of public markets varies regionally. Only 0.2 percent of steers and heifers were bought in public markets

in Texas and Oklahoma, while more than 70 percent were bought in public markets in the South Atlantic. The majority of non-fed cattle (cows and bulls) were purchased in public markets.

Hog packers use public markets even less than cattle packers. The top 20 packers use public markets for less than 2 percent of their procurement and, overall, packers purchased less than 4 percent of their needs through public markets. There also is much less regional variation in use of public markets for hog procurement. Use of public markets ranged from less than 2 percent in the South Plains and Mountain States to about 10 percent in the North Atlantic.

Packer use of public markets, 1997		
	Percent of total slaughter	
	<u>Cattle</u>	<u>Hogs</u>
4 largest packers	4.1	1.7
20 largest packers	7.8	1.4
All packers	14.5	3.8

Sales through public markets

Livestock sold through public markets may be used for slaughter, further feeding, for dairy production, or for other purposes. The total number of cattle and calves sold through public markets for all purposes declined from 42 million head in 1990 to 39 million head in 1997. The number of hogs and pigs sold through public markets declined from about 19 million in 1990 to 9 million in 1997.

The total number of public markets (terminal and auction markets) in the United States declined from 1,618 in 1990 to 1,303 in 1998.

Packer financial performance

Average profits (net operating income) of the 40 largest meat packers were 2.1 percent of sales in 1997, about the same as in 1996 but 1.6 percentage points lower than 1995. On average, the top four firms had lower profits, gross margins, and operating expenses as a percentage of sales.

Financial performance of top 40 packers (percent of sales)

Year	Net operating income		Gross margin		Operating expenses	
	Top 4 firms	Top 40 firms	Top 4 firms	Top 40 firms	Top 4 firms	Top 40 firms
1992	0.54	1.23	14.3	17.4	13.7	16.2
1993	0.68	1.21	12.5	16.2	11.9	15.0
1994	2.11	2.89	14.6	18.3	12.5	15.4
1995	3.33	3.69	17.5	20.7	14.2	17.1
1996	1.90	2.11	13.9	17.4	12.0	15.3
1997	1.10	2.10	14.8	18.0	13.8	16.0

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