



April 23, 2020

The Honorable Sonny Perdue
Secretary of Agriculture
U.S. Department of Agriculture
1400 Independence Ave. NW
Washington, DC 20250

Dear Mr. Secretary:

The National Cattlemen's Beef Association (NCBA) deeply appreciates the U.S. Department of Agriculture's (USDA) tireless work to support America's farmers and ranchers whose livelihoods have been threatened by the Coronavirus Disease (COVID-19) pandemic, including the recently announced Coronavirus Food Assistance Program (CFAP). The cattle industry has and will suffer significant losses due to COVID-19, and CFAP has the potential to be a critical lifeline for America's cattle producers whose family businesses have been upended by the ongoing pandemic.

As USDA works to finalize program details, NCBA would like to caution the Department against any payment limitations or means-testing provisions that would arbitrarily restrict assistance under CFAP. While many details of the program have yet to be released, initial reports indicate CFAP will have a payment limit of \$125,000 per commodity and \$250,000 per producer. Given the massive per-head losses already realized across all segments of the cattle industry, as well as the projected diminished revenue beyond 2020, rumors of payment limitations are particularly alarming.

In March, NCBA commissioned a team of renowned agricultural economists, led by Dr. Derrell Peel of Oklahoma State University, to forecast cattle market losses attributable to COVID-19. That study, released on April 14th, estimated total industry losses at \$13.6 billion. Further, the study found immediate losses by cattle industry segment broke down to \$3.7 billion for cow-calf producers, \$2.5 billion for stocker/backgrounders, and \$3 billion for feeders. On a per-head basis, this calculates to cow-calf, stocker/backgrounder, and feeder segment losses of approximately \$247.15, \$159.98, and \$205.96, respectively. The study in its entirety is enclosed for your convenience.

NCBA is aware that CFAP will only cover a percentage of both the actual and projected losses for U.S. cattle producers, but the proposed payment limitations will drastically restrict that relief. For example, our analysis indicates that a \$125,000 per-commodity cap would limit payments for cow-calf operations with 505 head or more of cattle, stocker/backgrounder operations with a 781 head inventory and feed-yards with 606 head of feeder cattle. While on the surface this may seem sufficient, variable operating costs for all inventory remain largely unchanged by COVID-19 market shocks. Furthermore, some cattle raisers also produce other commodities, but others are solely engaged in the business of raising livestock. As such, arbitrary payment limitations should not be instituted on a per-commodity basis or restricted to sole-proprietorship entities.

Further, prescriptive formulas that limit compensation for losses incurred after April 15th to 30%, as has been attributed to this program, would result in many producers deriving almost no real relief from these funds. Put simply, this crisis continues to escalate, as do the financial impacts to cattle producers across all

sectors and regions. It is our hope that USDA is factoring these producers into plans for more equitable payments utilizing the \$14.4 billion allocated to Commodity Credit Corporation replenishment under the CARES Act.

NCBA recognizes the tremendous challenge of providing assistance to multiple segments of agriculture, particularly when funding is limited, and the need is great across all sectors. However, payment limits bite hardest when commodity prices are lowest. It is imperative that cattle producers, regardless of herd size or business structure, be empowered to recuperate all losses in order to maintain consistent food production levels after this situation is resolved.

Since the CFAP was congressionally authorized via the Coronavirus Aid, Response, and Economic Security (CARES) Act without requirements for payment limitations, we urge USDA to consider the unique business needs of the cattle industry when making decisions regarding commodity payment caps. If our industry is to quickly rebound from this pandemic, we must be adequately equipped to weather all short-term losses as we await a resolution to the COVID-19 crisis.

Thank you for your consideration of this important matter.

Sincerely,

National Cattlemen's Beef Association
Alabama Cattlemen's Association
American National CattleWomen
Arizona Cattle Feeders Association
Arizona Cattle Growers' Association
Arkansas Cattlemen's Association
California Cattlemen's Association
Colorado Cattlemen's Association
Colorado Livestock Association
Florida Cattlemen's Association
Georgia Cattlemen's Association
Hawaii Cattlemen's Council
Idaho Cattle Association
Illinois Beef Association
Iowa Cattlemen's Association
Kansas Livestock Association
Kentucky Cattlemen's Association
Louisiana Cattlemen's Association

Maryland Cattlemen's Association
Michigan Cattlemen's Association
Minnesota State Cattlemen's Association
Mississippi Cattlemen's Association
Missouri Cattlemen's Association
Nebraska Cattlemen's Association
Nevada Cattlemen's Association
North Carolina Cattlemen's Association
Ohio Cattlemen's Association
Oklahoma Cattlemen's Association
Oregon Cattlemen's Association
Tennessee Cattlemen's Association
Texas Cattle Feeders Association
Washington Cattle Feeders Association
Washington Cattlemen's Association
Wisconsin Cattlemen's Association
Wyoming Stock Growers Association

Enclosure

CC:

The Honorable Pat Roberts, Chairman, Senate Committee on Agriculture
The Honorable Collin Peterson, Chairman, House Committee on Agriculture
The Honorable Debbie Stabenow, Ranking Member, Senate Committee on Agriculture
The Honorable Mike Conaway, Ranking Member, House Committee on Agriculture



Economic Damages to the U.S. Beef Cattle Industry Due to COVID-19

Executive Summary¹

Over 80 million head of the 94.4 million cattle in the U.S. on January 1, 2020 (USDA-NASS, 2020) are involved in beef production. The U.S. beef cattle industry had \$77.2 billion in sales in 2017 (USDA, 2019). Cattle are found on 882,692 farms including 729,046 farms with beef cows (USDA-NASS, 2019). The beef cattle industry is complex with multiple production sectors including cow-calf, stocker/backgrounding and feedlots. Every sector of the beef cattle industry and cattle producers in every state have been significantly impacted by COVID-19.

The total beef cattle industry impact of COVID-19 is an estimated loss of \$13.6 billion in total economic damage, as a result of \$9.2 billion in total revenue loss across 63.0 million animals (Table 1). The average economic and revenue loss per head is \$216/head and \$146/head, respectively (Table 1). These impacts include \$8.1 billion loss (\$3.7 billion direct revenue loss; \$4.4 billion breeding herd asset value loss) to the cow-calf sector representing 59.7 percent of total impact; \$2.5 billion loss to the stocker/backgrounding sector representing 18.2 percent of total economic loss; and \$3.0 billion loss to the feedlot sector representing 22.2 percent of total economic loss.

These estimated losses are based on information available as of April 8, 2020. Given the damage to both cash flows and asset values, and the relationship between the two measures, economic damages and reparations are not necessarily equal or synonymous. Prescribing an exact dollar amount or allocation method for any possible relief was outside the present work. The objective of the work was the timely assessment of the significant economic damages, absent any relief funding, to the beef cattle industry given our current understanding of a constantly evolving worldwide health and economic crisis. Additional impacts are likely in the future.

Table 1. Beef Industry Estimated Economic Losses from COVID-19

Sector	Time Period	Animals 1,000 Head	Damage/Head Dollars	Total Damage Dollars
Cow-Calf	2020	32,882.5	\$111.91	\$3,679,880,575
	2021+	32,882.5	\$135.24	\$4,446,971,400
	Total	32,882.5	\$247.15	\$8,126,851,975
Stocker/Backgrounding	2020	15,478.1	\$159.98	\$2,476,137,140
Feedlot	2020	14,636.0	\$205.96	\$3,014,429,335
Economic Impact - Industry Total		62,996.6	\$216.16	\$13,617,418,450

¹ Prepared by Derrell S. Peel, Oklahoma State University; Dustin Aherin, Rabobank; Randy Blach, CattleFax; Kenneth Burdine, University of Kentucky; Don Close, Rabobank; Amy Hagerman, Oklahoma State University; Josh Maples, Mississippi State University; James Robb, Livestock Marketing Information Center; Glynn Tonsor, Kansas State University



Each of the beef cattle production sectors represents different producers in different locations operating diverse production processes. The beef industry is exceptionally complex and each of the sectors operates with different financial structures in a dynamic and intricate set of markets. The following sections briefly describe the considerations and basis for the COVID-19 damage estimates for each sector in Table 1.

Cow-Calf Sector

Cow-calf production is the primary production sector for the beef cattle industry. Estimated 2020 losses are based on multiple estimates of impacts on calf sales in the current year. Per head damages are stated in terms of the total inventory of mature breeding animals (cows + bulls). For 2020, the estimated losses are \$111.91/head.

Cow-calf production is a year-around production activity with breeding animals productive over multiple years. Cow-calf production is a long-term investment and impacts in the current year will extend for years into the future. This contrasts with the margin structure of stocker and feedlot production, where economic losses are mostly associated with turning points in markets with margins subsequently readjusting regardless of overall price level. Cow-calf production is a largely fixed cost industry and industry losses inevitably accrue to the primary production sector as reduced asset values. The discounted value of these future impacts are estimated at \$135.24/head across all mature breeding animals. **The sum of the 2020 and future impacts on the cow-calf sector are estimated at \$247.15/head for each mature breeding animal.**

Stocker/Backgrounding Sector

Stocker/backgrounding production includes weaned animals outside of feedlots. Stocker/backgrounding production encompasses a diverse set of production activities in many regions of the country. **The average impact of multiple estimates of losses includes an average loss of \$159.98/head.** Because stocker/backgrounding production includes a wide range of animal sizes, this average loss is based on separate estimates of losses for animals 500 pounds and less (\$118.40/head) and animals over 500 pounds (\$184.38/head).

Feedlot Sector

Cattle feeding requires several months for animals to finish to acceptable quality. The estimated losses to the feedlot sector reflect the decrease in value for animals placed into feedlots prior to the COVID-19 impacts and projected to be marketed through the third quarter of 2020. **The estimated loss is \$205.96/head for all cattle on feed on February 1.**



Economic Damages to the U.S. Beef Cattle Industry Due to COVID-19²

Introduction

Over 80 million head of the 94.4 million cattle in the U.S. on January 1, 2020 (USDA, 2020) are involved in beef production. The U.S. beef cattle industry had \$77.2 billion in sales in 2017 (USDA, 2019). Cattle are found on 882,692 farms including 729,046 farms with beef cows (USDA, 2019). The beef cattle industry is complex with multiple production sectors including cow-calf, stocker/backgrounding and feedlots. Every sector of the beef cattle industry and cattle producers in every state have been significantly impacted by COVID-19.

Results Summary

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²Prepared by Derrell S. Peel, Dustin Aherin, Randy Blach, Kenneth Burdine, Don Close, Amy Hagerman, Josh Maples, James Robb, and Glynn Tonsor. See Appendix for author information.



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Industry Overview

As 2020 began, the U.S. cattle industry included 94.4 million head (Table 2). Beef production in 2020 is forecast at a record 27.5 billion pounds. In 2019, beef production totaled 27.15 billion pounds based on total cattle slaughter of 33.6 million head, including steers and heifers (79.0 percent of total), dairy cows (9.7 percent), beef cows (9.6 percent) and bulls (1.6 percent).

At this time, COVID-19 does not materially affect the projections for total beef production in 2020. The possible exception could be if there is enough labor disruption in processing facilities to lower total slaughter potential for the year, which could create a backlog of cattle and push some production into 2021. Such impacts remain to be seen, but even a short closure could have significant consequences for market prices and total beef available.

What has happened thus far is tremendous impacts on beef supply chains and the short run timing of beef marketing. Cash fed and feeder cattle prices at all levels have been impacted along with Live and Feeder futures prices being sharply lower and extremely volatile reflecting expected impacts for the remainder of the year. This report details the methodologies used to formulate the estimated impacts in Table 1.



Table 2. U.S. Cattle Inventory

Inventory Class	January 1, 2020
	1,000 Head
All Cattle and Calves	94,413.3
Beef Cows	31,316.7
Dairy Cows	9,334.6
Beef Replacement Heifers	5,771.9
Dairy Replacement Heifers	4,637.0
Other Heifers	9,705.5
Calves <500 pounds	14,739.0
Steers >500 pounds	16,671.2
Bull >500 pounds	2,237.4
Cattle on Feed	14,667.7
Estimated Feeder Supply*	26,448.0
Calf crop (2019)	36,059.6

*Calculated from inventory

Source: USDA, 2020

Damage Estimates Process

Given the urgency of the current situation, the committee moved expeditiously to prepare this report. A series of web meetings were held over a five-day period from April 3 to April 8 with the following outcomes:

- ✓ April 3: The initial meeting resulted in a broad-based discussion among committee members regarding what and how impacts should be considered; considerations of how to prepare estimates that will facilitate USDA interpretation and implementation; and how to proceed with the process. Each committee member contributed to the discussion based on various individual backgrounds and perspectives. Input from a variety of industry groups across the country were shared and considered as the committee formulated an approach.
- ✓ April 6: The second meeting resulted in a more focused discussion of the needed estimates and the methodologies to be used to prepare alternative estimates of damages. The committee was divided into three subgroups charged with preparing damage estimates for each of the cow-calf, stocker and feedlot sectors. Each of the committee members brought not only their knowledge and experience but also specific tools and procedures that could be employed immediately to prepare damage estimates. Each subgroup submitted initial estimates for a specific sector to the entire committee prior to the subsequent web meeting.
- ✓ April 8: The entire committee discussed and refined the estimates in the next meeting, finalizing the range of estimates for each sector. Estimates were summarized and a draft executive summary was prepared.



- ✓ The draft executive summary was distributed among the committee, edited, and the executive summary was forwarded to NCBA on April 9.
- ✓ Between April 9 and April 13, the draft full report with details of the estimates was prepared and shared prior to a final committee meeting to edit and finalize the full report. The report was completed on April 14.

General Considerations and Assumptions

Committee discussions included several general considerations and assumptions that provided parameters or boundaries within which the estimates would be made. Some assumptions reflect time constraints and the reality of producing timely estimates. These considerations and assumptions include:

- ✓ Focus of damage estimates would be on price impacts and resulting revenue losses for cow-calf, stocker/backgrounding, and feedlot operations. In addition, breeding herd asset value loss would be considered at the cow-calf level.
- ✓ A national perspective would be maintained. Price impacts reflect changes in prices that would apply across the country regardless of differences in regional price levels.
- ✓ Risk management is not considered. The damage estimates should be determined in total regardless of whether there were offsetting factors. While a variety of risk management tools are available and used to varying degrees across all sectors, there is no feasible way to determine or account for the extent to which risk management may have offset some of the cash market damages estimated in this report. Moreover, attempting to reduce damage estimates for risk management penalizes producers who use available risk management tools and may be a disincentive for the use of such tools.
- ✓ Attempts were made to present damage estimates in formats that will facilitate USDA implementation. For example, 2020 cow-calf sector losses are calculated on the basis of calf sales but are presented as an average impact across mature breeding animal inventories, which are easier to document. Likewise, feedlot sector impacts were calculated based on the timing and flow of fed cattle placements but the impacts are stated in terms of the February 1 feedlot inventory for easier documentation.
- ✓ Estimates are made of losses to cattle producers and it is assumed that any relief payments would be made directly to cattle producers/owners.
- ✓ It is likely that USDA will apply similar eligibility criteria similar to other types of farm programs. As with the Market Facilitation Program (MFP) or the Wildfire and Hurricane Indemnity Program Plus (WHIP+), it was presumed that USDA will likely use an eligibility cap of AGI <\$900,000 with a possible exception if more than 75% of income is from the agricultural enterprise. It is further assumed that the reduction in payments due to sequester will be applied prior to payment limits, as implemented in the 2018 Farm Bill programs. While these program implementation issues did not directly influence the damage estimates, the committee elected not to consider any eligibility restrictions on large beef cattle operations in our analysis based on the assumption that programs developed under the CARES Act will follow similar guidelines as other USDA programs.



- ✓ The committee agreed on and ensured that the major assumptions and parameters of the analysis presented in this report were consistent. However, as subgroups were working rapidly, independently and simultaneously, some minor assumptions may differ across estimates for each sector. These inconsistencies do not materially affect the total damages estimates.

COVID-19 Damages to Cow-calf Sector

The impacts of COVID-19 have been felt in every sector of the beef cattle industry and are expected to continue through 2020. Cow-calf producers will market weaned calves in spring 2020 from fall 2019 calf crops and in fall 2020 from spring 2020 calf crops. These calf sales are all expected to experience significant price declines compared to pre COVID-19 expectations. Further, U.S. cow-calf producers have limited risk management options available to them. There are no beef cattle Title I price safety net programs, and beef cattle were not part of the Market Facilitation Program. This leaves few, if any, aid programs outside of the CARES Act to which cow-calf producers can look for relief in this unprecedented market situation. As a result, cow-calf producers are left highly exposed to the downward spiral of cattle prices in the wake of the expanding COVID-19 health emergency.

The impact of COVID-19 related price declines to the cow-calf sector was estimated using multiple price forecasts and futures contract prices for weaned calves for the period from March 1, 2020 through December 31, 2020. Two price forecasts were obtained from the Livestock Market Information Center (LMIC) and CattleFax. The forecasts published in late March and early April were compared to published forecasts in January 2020, prior to COVID-19 expansion in the US. In addition, Chicago Mercantile Exchange (CME) feeder cattle futures contracts closing prices from April 7 were compared to January 7 closing prices for contracts with expiration dates in 2020. The US mature breeding cattle inventory as of January 1, 2020, normal calving rates, and pre-weaning death loss were accounted for to estimate overall value loss to the cow-calf sector in 2020.

Total damage estimates were divided by mature cows and bulls (mature breeding animals) as of January 1, 2020. The expected losses for the cow-calf sector in 2020 were estimated at \$1.65 billion (\$50.14 per mature breeding animal) and \$2.75 billion (\$83.65 per mature breeding animal) using LMIC and CattleFax calf price forecasts, respectively. Estimating cow-calf losses using futures prices results in a much higher loss estimate, \$5.16 billion (\$156.92 per mature breeding animal). Due to similarities in the LMIC and CattleFax estimates, and the additional information on price expectations in the CME contracts, **a weighted average damage estimate to the cow-calf sector due to COVID-19 could be \$3.7 billion (\$111.91 per mature breeding animal). In addition to the loss in calf sales value, the loss in value of breeding stock is estimated at \$4.45 billion (\$142 per mature breeding female).**

Futures prices are more prone to short-term volatility spikes due to the increased uncertainty caused by COVID-19. While CME losses might appear overstated, they are important to include because the few risk management options available to cow-calf producers are tied to futures prices. The 2020 loss estimates are limited to price declines for calves, and the reduced asset value of cows in future periods is presented separately to reflect the longer-term implications of COVID-19 on cow-calf



producers. Further, the timeline for market recovery from COVID-19 is unknown, and cow-calf losses could expand into 2021 when the summer and fall 2020 calf crops would be marketed.

Cow-Calf Damages Rationale and Methodology

As with all segments of the beef sector, estimating economic loss to the cow-calf industry associated with COVID-19 has challenges and requires that assumptions on market prices be made. COVID-19 has had drastic impacts on cattle prices across all industries. Although many cow-calf producers have not sold calves since the start of the pandemic, lingering impacts on calf prices are very likely to continue through the balance of 2020 and beyond. For the purposes of this estimation, calendar year 2020 was considered the period of analysis. Given the “year-round” nature of cow-calf production, this largely affects one calf crop for existing cow-calf operations. However, the impacts of COVID-19 are likely to linger well past December 2020, which is addressed by examining the reduced asset value of the breeding herd extending beyond 2020.

According to USDA-NASS January 1, 2020 inventory estimates (Table 2), there were 31.3167 million beef cows in the United States (USDA-NASS, 2020). Assuming a 20:1 bull to cow ratio, bull inventory was estimated as 1.5658 million head, bringing the total estimated mature breeding animals to 32.8825 million head. That same report estimated that in 2019, 73.1% of beef cows calved between January 1 and June 30 (loosely referred to as “spring calvers”) and the remaining 26.9% calved in the second half of the year (loosely referred to as “fall calvers”). For simplicity, it was assumed that sale of spring born calves were spread evenly across the third and fourth quarters and sale of fall born calves were spread evenly across quarters 1 and 2. Further, NAHMS data from 2007-2008 reported that 88.57% of cows weaned a live calf, which was used to convert existing beef cow numbers to an estimated number of calves sold throughout the year (USDA-APHIS).

Finally, it was assumed that there was no real impact on calf prices from COVID-19 in January and February, so the number of impacted calves sold in the first 6 months of 2020 was reduced by one-third to account for calves sold in the first two months of the years. Based on these assumptions, it was estimated that in 2020, 4,974,317 calves would be sold March through June and 20,276,352 would be sold between July and December.

The next step was estimating a loss in value due to COVID-19 for each calf sold in 2020. Clearly, this is an evolving issue and loss estimation involves forecasting prices for the remainder of the calendar year. In order to incorporate as much information and expertise as possible into an estimate of total loss to the industry and provide some feel for the range of these losses, multiple forecasts were used. These estimates were made using pre-COVID-19, and the most recently published, quarterly price forecasts from the Livestock Marketing Information Center (LMIC) and CattleFax. Similar forecasts from USDA Economic Research Service should also be incorporated into this analysis when they become available on April 15, 2020. We also consider pre-COVID-19, and the most recent, CME© feeder cattle futures contract prices in order to give multiple estimates of loss in value. Both pre COVID-19 and post COVID-19 forecasts are shown the tables below.



Table 3. Pre COVID-19 Price Forecasts / Futures Prices for Calendar Year 2020 (\$ per cwt)

	March	Quarter 2	Quarter 3	Quarter 4
LMIC (Jan 7, 2020)	\$166.00	\$169.50	\$172.00	\$171.00
CattleFax (Jan 2020)	\$175.13	\$173.98	\$168.13	\$162.15
Futures Prices (Jan 7, 2020)	\$145.13	\$148.50	\$155.04	\$155.23

Note: The price levels are different across forecasts due to the weight of the animal considered. Adjustments to allow for comparison are detailed below.

Table 4. Post COVID-19 Price Forecasts / Futures Prices for Calendar Year 2020 (\$ per cwt)

	March	Quarter 2	Quarter 3	Quarter 4
LMIC (Apr 3, 2020)	\$161.24	\$149.50	\$157.00	\$164.50
CattleFax (April 2020)	\$156.88	\$152.84	\$147.68	\$143.29
Futures Prices (Apr 7, 2020)	\$124.54	\$114.37	\$121.75	\$124.51

Both LMIC and CattleFax forecast the price for a 550 pound steer, so that was the assumed sale weight of weaned calves for the analysis. Since CME futures prices are based on an 800 pound steer, this price was multiplied by 1.17. This multiplier is the 2020 relationship between CME futures prices and 550 pound steer prices in Kansas, and it allows for converting CME futures prices into a calf price forecast. The same approach should be used for USDA-ERS forecasts. The changes in price expectation per cwt were multiplied by 5.5 cwt per calf to estimate a loss in value of each 550 pound steer calf that would be sold in 2020. That per head estimate is multiplied by the number of calves sold in order to estimate total losses to the sector using all three forecasting methods. Losses are shown in table 5 below; note they are expressed in total and on a mature breeding animal head basis.

Table 5. Cow-calf Sector Loss Estimates

March through June	4,974,317		
July through December	20,276,352		
Losses per Calf Sold	LMIC	CattleFax	CME Futures
March through June	\$90.42	\$84.30	\$197.87
July through December	\$59.13	\$90.94	\$205.94
Total Loss of Calf Value	LMIC	CattleFax	CME Futures
March through June	\$449,777,749	\$558,597,153	\$984,259,196
July through December	\$1,198,839,307	\$2,191,924,333	\$4,175,632,583
Total 2020 Loss	\$1,648,617,057	\$2,750,521,486	\$5,159,891,779
Total 2020 Loss per mature breeding animal	\$50.14	\$83.65	\$156.92



The final question is how to weight each of the damage estimates. Because of the similarities in the approach and data sources used by LMIC and CattleFax, and because of the additional information on expectations reflected in the CME contracts, the individual estimates were weighted as 25% LMIC, 25% CattleFax, and 50% CME.

It is worth addressing two factors in the approach employed. First, steer prices and values were used rather than breaking sales out between steers and heifers. This was a simplifying assumption, but also a necessary assumption because forecasts are based on steer prices. Understand the change in value is more critical when estimating losses than breaking out estimates by gender. For example, had heifer price been assumed to be \$10 or \$15 less than the steer price, the change in values would be the same across both genders. Therefore, the total loss estimate is unaffected by this assumption.

Secondly, 2020 cull cow sales value declines were not included in this analysis. This exclusion has both a practical and functional explanation. Cull cow price forecasts are much more limited than calf price forecasts. Multiple pre- and post-COVID-19 forecasts for cows are not available. Further, had cull cow sales been included, heifer sales would need to be reduced to account for heifers that are held to replace those culled cows. Rather than take this approach, we assumed that all steers and heifers are sold at weaning. Had a loss in cull cow values been incorporated into the estimation, it would have been largely offset by reduced losses resulting from fewer heifer calves being sold. Still, it is worth noting that cull cows are likely to sell for less than pre-COVID-19 expectations in 2020. As a result, actual breeding stock depreciation is going to be greater on those cows that are culled from the herd this year, which is potentially another source of loss. Depreciation of the cowherd as an asset is a separate issue, which will be discussed later.

Further, a few comments about the unique nature of the cow-calf sector are needed. First, while risk management was not considered in this loss estimation, policy makers should be aware that cow-calf operators have far fewer risk management tools at their disposal compared to other beef cattle sectors. There is no futures market for calf prices and limited forward contracting opportunities exist. The fact that a large number of U.S. cow-calf operations are small only adds to this challenge. Livestock Risk Protection (LRP) Insurance is often touted as a risk management option for cow-calf operations, but it is really based on CME feeder cattle futures prices and option premiums. The steep declines in those prices have limited the ability to use LRP after the impact of COVID-19 on futures prices, which affects spring-calving producers going forward in 2020.

Finally, it should be recognized that cow-calf producers are the only sector in the beef cattle industry that are not "margin" operations. Because of this, the value of calves tends to become the residual of what is left after downstream industries pass losses back upstream. Over time, losses in cattle feeding and backgrounding, are inevitably passed backed to the cow-calf level. The cow-calf sector is the only sector of the beef industry unable to avoid this reality. Therefore, from a derived demand perspective, one could argue that changes in the expected value of fed cattle (forecasts or deferred live cattle futures) may be passed back to the cow-calf level. While this is not the approach utilized in this analysis, it does suggest that these calf prices may have more risk going forward than values in any other sector of the beef system.



Breeding Stock Value Lost

While the approach above looks simply at expected lost calf revenue for 2020, there are deeper impacts on the cow/calf sector due to lost herd value. To approximate the impact on cow-calf herd value it is useful to assess how the net present value (NPV) of breeding stock have changed. Using the KSU-Beef Replacement Excel decision tool (Tonsor and Dhuyvetter) and USDA's 10-year projected calf prices (USDA-ERS), the base NPV for a female expected to provide seven calves is \$1,013/cow. If each herd had a one-year decline of \$25/cwt in sales price for their marketed calves in 2020, and sales in future years were not changed, the NPV declines to \$871/cow. This implies a decline of \$142/head in the NPV of each breeding cow. Coupling this with USDA's January estimate of 31,316,700 million beef cows suggests a total decline of \$4.45 billion in herd value. Including this change in asset value provides a more complete picture of the total damages to the cow-calf sector.

COVID-19 Damages to the Stocker/Backgrounding Sector

Stocker/Backgrounding Summary

The stocker/backgrounding sector includes a wide range of production activities across a wide range of feeder cattle sizes. Variously referred to as stocker production or backgrounding, this sector includes growing programs using weaned feeder cattle prior to placement in feedlots. These programs include a variety of grazing programs as well as confinement or semi-confinement programs.

Stocker or backgrounding production varies by location and time of year. Some major stocker activities include winter grazing on cool-season forages, such as wheat pasture in the Southern Plains; summer grazing in the tallgrass prairie regions of the Flint Hills, Kansas and Osage region, Oklahoma; summer grazing on shortgrass range in the High Plains; and spring/early summer grazing of cool-season annuals in California. A wide variety of other stocker and backgrounding activities occur in other regions (Peel).

Estimated damages for the stocker/backgrounding sector is the average of the four estimates in Table 7 with average damage per head \$159.98 and a sector total of \$2.48 billion. This includes average losses of \$118.40/head for animals up to 500 pounds and \$184.38 for animals over 500 pounds.

Stocker Impact Rationale and Methodology

Inventory Numbers

There is no direct data estimate of stocker inventories or total annual stocker production. Data from the semi-annual cattle inventory reports are typically used to calculate a residual estimate of the number of feeder cattle outside of feedlots on January or July 1 each year. This estimate takes the sum of the inventory of steers over 500 pounds, other (non-replacement) heifers over 500 pounds, and calves under 500 pounds from which the inventory of cattle in feedlots is subtracted. This residual estimate includes both weaned stockers as well as unweaned suckling calves, which should not be included in stocker production estimates.



In order to determine the number of stockers impacted by COVID-19, the above procedure is modified to produce estimates of stockers over 500 pounds and stockers under 500 pounds. The number of stockers from the January 1 inventory estimates is further adjusted to reflect stocker numbers on February 1, which is the inventory level to which the price impacts of COVID-19 are applied.

Table 6. Estimated Stockers, February 1, 2020

		Head
		1,000
1	Steers + Other Heifers	26,376.7
2	- Cattle on Feed	14,667.7
3	- Jan Placements	1,955.0
4	Stockers over 500 pounds (1-2-3)	9,754.0
5	Calves under 500 pounds	14,739.0
6	- Unweaned calves*	9,014.9
7	Stockers under 500 pounds (4-5)	5,724.1
8	Estimated Feb 1 Stoker Supply (4+7)	15,478.1

*25 percent of 2019 calf crop (36059.6 x 0.25 = 9014.9)

Stockers over 500 pounds includes the sum of steers and other heifers over 500 pounds with the January 1 cattle on feed estimate and January feedlot placements subtracted.³ The January 1 inventory of calves under 500 pounds is adjusted to reflect fall suckling calves with an estimated 25 percent of the 2019 calf crop born in the fall and thus included in the January 1 estimate of calves. These suckling calves should not be included in stocker estimates as they are covered in the cow-calf sector damage estimates.

Stocker Price Impacts

Four different estimates of stocker price impacts were estimated and ultimately averaged to provide the final estimate of stocker price impacts. The first two estimates were made using different seasonal price forecasts of 2020 feeder cattle prices without COVID-19. Each of these was then compared to post-COVID-19 prices implied by Feeder futures. The third estimates were based on changes in Livestock Marketing Information Center (LMIC) feeder price forecasts from January and March. The fourth estimate was based simply on changes in CME Feeder futures prices between January and March. All estimates produced price impacts per cwt., which were applied to 500 pound and 800 pound feeder animals to represent animals up to 500 pounds and over 500 pounds respectively.

Method 1 used seasonal price indexes for various feeder cattle weights based on combined Oklahoma auction prices from 2007-2016. Cash prices for January and the first three weeks of February

³ January placements does not include placements in feedlots with less than 1000 head capacity. However, many of the very small feedlots are seasonal feeders and do not typically place many cattle on feed in January. Thus, no additional adjustment is made to January placements.



were separately used to project cash prices for the remainder of 2020 for feeder weights ranging from 475 pounds to 875 pounds. These cash price estimates were compared to prices implied by Feeder futures after COVID-19. The post-COVID feeder prices were calculated as the average daily settlement price of Feeder futures from March 16 – April 7 for each 2020 contract April, May, August, September, October and November. Basis estimates published by the LMIC were used with the appropriate nearby Feeder futures price to calculate price estimates for the same range of weights as the cash price estimates. The average difference in price across all weight groups was quite consistent and averaged \$24.82/cwt. leading to impacts of \$124.10/head for 500-pound animals and \$198.56/head for 800-pound animals (Table 7).

Method 2 used seasonal price indexes based on Oklahoma City auction prices for the period 2016 – 2019. Cash prices for 2020 were projected based on the January pre-COVID-19 price. These were compared to the same futures estimates as method 1 and resulted in estimated impacts of \$15.45/cwt. This produces estimated impacts of \$77.25/head for 500-pound animals and \$123.60/head for 800-pound animals.

Method 3 used the change in LMIC feeder cattle price forecasts from January to March resulting in estimated price impacts of \$26.87/cwt. for 500 pounds and \$24.34/cwt. for 800-pound animals. This results in estimated impacts of \$134.35/head for 500 pounds and \$194.72/head for 800-pound animals.

Method 4 calculated the change in Feeder futures prices for the April, May, August, September, October and November contracts. The pre-COVID-19 prices was the average daily settlement from January 13-31 and the post-COVID-19 price was calculated as the average daily settlement of each contract from March 16 – April 7. The average price change across all contracts was \$27.58/cwt. leading to impacts of \$137.89/head for 500-pound animals and \$220.63/head for 800-pound animals.

Table 7. Estimated Stocker Damages

		<500 pounds		>500 pounds		Total
Head (Table 6)	1,000	5,724.1		9,754.0		15,478.1
		\$/head	\$ Total (1,000)	\$/head	\$ Total (1,000)	\$ Total (1,000)
Method 1		124.10	710,360.81	198.56	1,936,754.24	2,647,115.05
Method 2		77.25	442,186.73	123.60	1,205,594.40	1,647,781.13
Method 3		134.35	769,032.84	194.72	1,899,298.88	2,668,331.72
Method 4		137.89	789,296.15	220.63	2,152,025.02	2,941,321.17
Average		118.40	677,719.13	184.38	1,798,418.14	2,476,137.14



COVID-19 Damages to the Cattle Feeding Sector

Feedlot Sector Summary

COVID-19 negatively impacted the price of 14.636 million head in U.S. feedlots. The damage totaled \$3.01 billion. The cost per head to the feedlot sector is estimated at \$205.96 of the February 1, 2020, on-feed inventory.

Feedlot Impact Rationale and Methodology

A vital aspect of the U.S. cattle/beef sector is producing high-quality products by finishing animals in feedlots. That is a multi-month process. Cattle feeding enterprises are margin operators; that is, they buy animals to place on-feed and assume the risk of profit or loss on the finished (fed) animal. The unprecedented and unexpected collapse in fed animal prices began in early February 2020.

Independent analysis was conducted by members of the feedlot subgroup and then assumptions and methods were discussed, largely following the earlier full committee conference calls. Calculations and assumptions were then standardized to calculate damages. From a cattle feeding (feedlot sector) perspective, damages began in February 2020 and are expected to reverberate through September 2020. In September 2020, the bulk of animals on-feed as of February 1, 2020, will have been marketed, and feeder animals (yearlings and calves) placed on-feed in February and March had lower prices and in September that input price adjustment is expected to have occurred.

Many of the fed animals sold in February had been priced/valued as yearlings (over one year of age) in late summer (e.g., September) or early fall (e.g., October). The same general lags between placement and sale occurred for animals sold in March and April. For fed cattle sold in May, an additional source of placements begins to be incorporated into the marketplace, including fast-growing steer calves that were born early in the prior calendar year and weaned in the early fall.

U.S. Feedlot Sector Damage

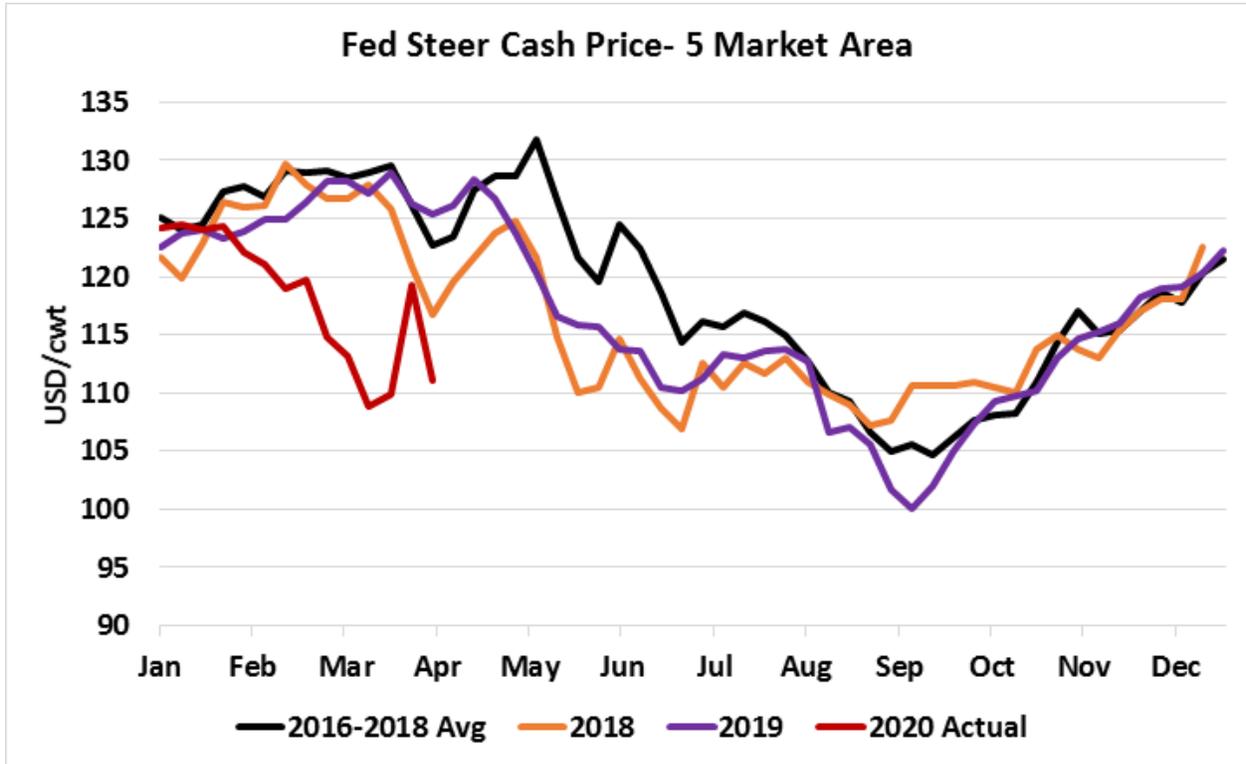
The amount of the sector loss has two components: 1) number of head affected, and 2) price decline.

Calculation: Head Impacted

Independently, subgroup members applied approaches and sensitivity analysis to the number of head impacted in the U.S. Two of the methods built-up from monthly placement data back into 2019 reported by USDA's National Agricultural Statistics Service (NASS), which are for U.S. feedlots with a capacity of 1,000 head or more. Those figures were expanded to the national level, including the national inventory percentage as of January 1, 2020, reported by USDA-NASS (81.5% of the national number are in feedlots with a capacity of 1,000 head). The third approach worked back from forecast expected fed cattle marketed during the damage timeframe. Those evaluations, depending on some assumption/method differences, came in-line with the reported February 1, 2020 inventory of cattle on feed reported by NASS after adjusting for the proportion of animals outside that survey (11.928 million head divided by .815). The estimate is 14.636 million cattle in U.S. feedlots.



Figure 1. Fed cattle cash price deviates significantly from the normal seasonal pattern first week of February



Source: USDA-AMS

Calculation: Fed Price Decline

COVID-19 had a total impact per head marketed from the week ending Feb 7 through the third quarter (i.e., through September 2020). After September 30, 2020, the anticipation is that cattle feeder margins will have adjusted. The breakdown per head is:

- \$ (211.76) closeout date weighted average impact per head marketed
- \$ (205.96) closeout date weighted average impact per head Feb 1 COF inventory (this is the recommended base).

See Tables 8-11 below for further details. Total impact on the feedlot sector is estimated at **\$3.01 billion** (Table 8).



Table 8. Total Feedlot Impact

	Feb 1 – Apr 3	Q2	Q3	Total
Projected Marketings of US Total Feb 1 COF (1,000 head)	4,603	7,370	2,263	14,235
USD Impact per head Marketed	(118.38)	(270.04)	(211.88)	(211.76)
Total Impact (USD)	(544,868,778)	(1,990,162,145)	(479,398,411)	(3,014,429,335)
Feb 1 COF: Feedlots >=1000 head (1,000 hd)	11,928			
US Total Feb 1 COF* (1,000 hd)	14,636			
USD Impact per US Total Feb 1 COF	(205.96)			

*Assumes 81.5% of US cattle on feed are in feedlots with 1000 head or more capacity (USDA-NASS, 2020)

Feedlot Damages Assumptions:

- Impact began to develop as of February 7, 2020
- Steers and heifers not differentiated
- Live weight at marketing of 1380 pounds
- From an economic adjustment standpoint, we discussed but saw no need to explicitly try to segregate beef-type animals in feedlots from dairy-type.

Methods:

Weighted average of LMIC (25%) and CattleFax (25%) forecasts and implied expected price from Futures plus basis (50%). The futures market price profile has a much more significant decline than do the fundamental cash market analysis of LMIC and CattleFax. That is attributed to substantial supply disruptions being more prominent in the view of futures market participants.

- Equally account for industry analyst forecasts (LMIC and CattleFax) with market consensus forecasts (Futures).
- Assume that futures are the forecast of the entire marketplace and that the entire price change over the period is from COVID-19 implications. No basis adjustment was made.
- Futures inherently price in the probability of future supply chain issues, which is worth including when accounting for forward-looking damages.
- Feedlot sector impacts were calculated based on the timing and flow of fed cattle placements and estimated marketing dates but the impacts are stated in terms of the February 1 feedlot inventory for easier documentation.



Table 9. Average Fed Cattle Price Impact Forecast.

Average Forecast	25% LMIC, 25% CattleFax, 50% Futures		
	Week Ending		
	Feb 7-Apr 3	Q2	Q3
No COVID-19	123.78	120.32	113.39
COVID-19	115.20*	100.75	98.04
COVID-19 Impact	(8.58)	(19.57)	(15.35)

*Actual average weekly price over the period.

Table 10. LMIC Fed Cattle Price Impact Forecast.

LMIC Forecast				
		Week Ending		
	Forecast Date	Feb 7-Apr 3	Q2	Q3
No COVID-19	Jan 7	124.00 [^]	121.50	113.00
COVID-19	Apr 3	115.20*	105.50	104.50
COVID-19 Impact		(8.80)	(16.00)	(8.50)

[^]Assumes constant price across Q1

*Actual average weekly price over the period.

Table 11. CattleFax Fed Cattle Price Impact Forecast.

CattleFax Forecast				
		Feb 1- Mar 31		
	Forecast Date	Feb 7-Apr 3	Q2	Q3
No COVID-19	Jan 1	124.91	120.87	114.20
COVID-19	Apr 8	115.85*	107.33	103.56
COVID-19 Impact		(9.06)	(13.54)	(10.64)

*Actual average weekly price over the period.

Table 12. Live Futures Fed Cattle Price Impact Forecast.

Futures Forecast [^]				
		Week Ending		
	Forecast Date	Feb 7-Apr 3	Q2	Q3
No COVID-19	Feb 7	123.10	119.45	113.18
COVID-19	Apr 3	115.20*	95.09	92.05
COVID-19 Impact		(7.90)	(30.24)	(26.08)

[^]Average LC contract price nearby the projected closeout date plus 3-year average basis

*Actual average weekly price over the period.



Summary

The U.S. beef cattle industry has been significantly impacted by COVID-19 as illustrated by the damage estimates in this report. Effects of COVID-19 are still manifesting and are likely to continue unfolding in the coming months. Agricultural producers in this industry have significant asset investments, and production occurs over multiple years. Without relief, especially at the primary producer levels, the foundations of the entire U.S. beef supply chain are threatened.



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Appendix

Beef Industry Damage Estimates Committee

Name	Title	Affiliation
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Dustin Aherin	Vice President, RaboResearch Animal Protein Analyst	Rabobank
Randy Blach	CEO	CattleFax
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Amy Hagerman	Assistant Professor and Extension Policy Specialist	Oklahoma State University
Josh Maples	Assistant Professor and Extension Livestock Marketing Specialist	Mississippi State University
James Robb	Senior Agricultural Economist	Livestock Marketing Information Center
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