PACKERS AND STOCKYARDS STATISTICAL REPORT
1999 REPORTING YEAR

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INTRODUCTION

Reporting Firms

This report contains data on (1) slaughtering packers; (2) market agencies buying or selling livestock on commission, including auction markets and selling agencies at terminal stockyards; and (3) livestock dealers buying and selling livestock for their own accounts. It includes data for firms' 1999 reporting year. Part III of this report includes data on entities registered with the Grain Inspection, Packers and Stockyards Administration.

All slaughtering packers operating in commerce in the United States have been subject to the Packers and Stockyards Act since its passage in 1921. Item 201.97 of the Act requires every packer, live poultry dealer, stockyard owner, market agency, and dealer to file a report annually with the U.S. Department of Agriculture's (USDA) Grain Inspection, Packers and Stockyards Administration (GIPSA). Prior to reporting year 1977, packers slaughtering less than 1,000 head of cattle or less than 2,000 head of all classes of livestock annually were exempted. Beginning with reporting year 1977, packers that purchase $500,000 or less of livestock annually have been exempt from the reporting requirements. GIPSA exempts small-volume slaughtering packers from the annual reporting requirement. Since both slaughter volume and the value of purchases vary from year to year, certain small slaughtering packers report in some years but not in others. Packers beginning operation late in their fiscal year are not required to file annual reports for a partial year. Also, packers going out of business generally do not file annual reports, except those firms involved in mergers and acquisitions, for which the information is filed by the acquiring firm.

A number of small firms that slaughter livestock are not required to file annual reports with GIPSA and their data are not included in this report. In 1999, 269 firms operating 355 plants reported to GIPSA. On January 1, 1999, there were 931 federally inspected plants and 2,462 non-federally inspected plants. Many non-federally inspected plants, however, operate only as custom slaughterers and do not purchase livestock. These custom slaughterers do not purchase livestock and therefore, are not required to file annual reports with GIPSA.

The following table compares the number of plants operated by firms reporting to GIPSA in 1999 with all federally inspected (F.I.) plants by type of livestock.

	GIPSA coverage		**F. I. plants**	
Type of livestock	**Less than 1,000 head**	**All plants**	**Less than 1,000 head**	**All plants**
Cattle	40	204	554	759
Calves	41	85	278	327
Hogs	22	174	438	728
Sheep/lambs	32	68	488	561

Packers reporting to GIPSA accounted for the following percentages of 1999 commercial slaughter:

Type	Percent
Steers and heifers	97
Cows and bulls	94
Cattle	96
Calves	83
Hogs	97
Sheep and lambs	86

Type of Outlet

Prior to 1988, statistics were reported separately for terminal markets, in which sales are made by private treaty, and for auctions, in which sales are made through open public bidding. After 1988, livestock volumes sold through terminals and auctions are combined and reported as "public markets" due to few terminal markets and small numbers of livestock.

Calendar Year/Reporting Year

In most cases, the calendar year and a packer's reporting year are the same. A majority of meat packers use the calendar year as their fiscal, or operating, year for accounting purposes. Many packers, however, have fiscal years that end in months other than December. The annual data supplied by these packers are included in whichever reporting year includes the end of their fiscal years. Thus, a packer whose fiscal year ends May 31, 1999, would be included in the 1999 reporting year.

Consolidated Reports of Firms

Packing firms may elect to file consolidated reports for all of their slaughter operations unless they are bonded separately. Since 1980, annual reports filed by separate units of a firm have been combined by GIPSA when reporting firm-level data. Reports are combined when reporting entities are under one firm's management, control, or ownership.

Correction of Historical Numbers

GIPSA developed a new computer program to process packer annual reports in 2001. A review of computation procedures in the old and new programs disclosed a few computational errors that resulted in small changes in some figures reported in previous Packers and Stockyards Statistical Reports over the past ten years. The 1999 report contains the revised numbers.

GIPSA is reviewing procedures used to collect data on packer feeding, and use of forward contracts and marketing agreements. No data are included in this report on packer feeding of cattle or lambs, or procurement of fed cattle through forward contracts and marketing agreements. Numbers were not available at the time of publication. GIPSA will be publishing a comprehensive report on captive supplies in the near future.

HIGHLIGHTS OF THIS REPORT

Concentration of Meatpacking Firms

This report contains two series of concentration ratios for steers and heifers, cows and bulls, cattle, hogs, and sheep and lambs. The first is based on procurement data reported to GIPSA by packers, and includes all livestock procured for slaughter by each firm, including livestock custom-slaughtered for reporting packers by other firms and livestock slaughtered in State-inspected plants. The data are reported by firms for their fiscal years. The second concentration series is based on slaughter data collected by USDA's Food Safety and Inspection Service (FSIS) from federally inspected plants. These data are for the calendar year. FSIS reports the number of animals slaughtered at each plant regardless of who owns the animals. We have adjusted these data to reflect ownership of the animals based on information provided by reporting packers. Both series use total commercial slaughter for the calendar year as the denominator for calculating concentration ratios. The discussion that follows is based on concentration ratios calculated using the FSIS data when applicable.

After reaching an all-time high of 70.4 percent in 1999, four-firm concentration in cattle slaughter slid slightly to 69.4 percent in 2000 (see table 23). A broader measure of concentration, the Herfindahl–Hirshman Index (HHI), rose marginally from 1,475 in 1998 to 1,477 in 1999.[1]

The four-firm concentration ratio for steer and heifer slaughter has been relatively stable since 1993. The ratio increased slightly in 1999 and 2000, approaching its 1994 high of 81.7 percent. The HHI increased slightly from 1,936 in 1998 to 1,942 in 1999. Steer and heifer procurement has the highest 4-firm concentration ratio in the red meatpacking industry.

[1] The HHI is defined as the sum of each firm's squared percentage of market share. The Department of Justice and the Federal Trade Commission consider markets to be unconcentrated when the value of the HHI is below 1,000; moderately concentrated when HHI is between 1,000 and 1,800; and highly concentrated when HHI is above 1,800. (U.S. Department of Justice and the Federal Trade Commission, Horizontal Merger Guidelines, issued: April 2, 1992, revised: April 8, 1997).

Four-firm concentration of cow and bull slaughterers increased from 20 percent in 1990 to 31 percent in 1999, and 32.2 percent in 2000. The HHI declined from a high of 455 in 1998 to 437 in 1999.

Four-firm concentration in hog slaughter rose nearly 10 percentage points to 55.3 percent in 1996 but has been relatively stable at 55 to 56 percent since 1996 (see table 27). The HHI declined slightly from 1,036 in 1998 to a value of 1,020 in 1999.

Overall concentration in the red meatpacking industry has increased markedly over the last two decades. In 1980, the four largest firms (in terms of total amount spent for all livestock slaughtered) accounted for less than 26 percent of all livestock procured for slaughter (see table 30). Concentration increased slowly until 1987, and then jumped from 37 to 47 percent. Concentration continued to increase, reaching 62.9 percent in 1993. Four-firm concentration was relatively stable at about 62 percent to 63 percent between 1993 and 1998 and then increased to 65.8 percent in 1999. HHI was 1,316 in 1999.

Number and Size of Plants

The number of packing plants continued to fall in 1999 (see table 15). The number of plants reporting slaughter to GIPSA declined by about 6 percent in cattle, 4 percent in hogs, and 1 percent in sheep and lambs. In contrast, the number of calf slaughtering plants reporting to GIPSA rose by 4 percent in 1999.

While the overall number of reporting packing plants has fallen over the years, the number of slaughter plants in the largest size categories remained relatively steady (see tables 16 through 22). The decline in number of small plants appears to be slowing.

Use of Public and Nonpublic Marketing Channels

Public markets include auction and terminal markets at public stockyards, and video auctions. Nonpublic marketing channels include direct purchases by packers at their plants, at packer-owned buying stations, at feedyards, and from dealers.

In 1999, the proportion of all types of livestock, except for calves, bought by packers in public markets continued to fall (see table 2). After a sharp drop in the 1980s from more than 50 percent to less than 20 percent, the use of public markets by calf packers rose in the mid-1990s. Packers purchased 28 percent of their slaughter calves in public markets in 1999. Hog packers' use of public markets continued to decline in 1999, with only 3 percent of hogs purchased through public markets. The proportion of sheep and lambs bought in public markets dropped dramatically in 1999, falling from 16 to 20 percent over the past two decades to 12 percent. The proportion of cattle purchased in public markets also slid to 13 percent in 1999, its lowest level in 20 years.

A small proportion of slaughter cattle (13 percent in 1999) were procured through public markets (see tables 5, 6, and 7). More than 75 percent were cows and bulls. Packers purchased about 60 percent of their slaughter cows and bulls through public marketing channels in 1999, but only about 3 percent of the steers and heifers they slaughtered.

Smaller packers continue to rely on public markets for their slaughter needs more than larger packers (see table 3). The four largest packers procured the smallest proportion of their slaughter needs in public markets compared with other packers, but the proportion grows as packer size decreases. The 20 largest packers procured 8 percent of their cattle and less than 1 percent of their hogs in public markets. In contrast, packers smaller than the top 20 procured nearly 46 percent of their slaughter cattle and 17 percent of their hogs through public markets.

Use of public marketing channels for cattle varies regionally (see table 7). In 1999, only packers in the South Atlantic region purchased a majority (76 percent) of their cattle through public markets. Packers in each of the three largest cattle-producing regions (West North Central, Southern Plains, and Mountain) used public markets for less than 10 percent of their cattle procurement. Packers in every region except the East North Central and South Central regions purchased more than 50 percent of their cows and bulls through public markets (see table 6). Packers in the three largest cattle-producing regions purchased 2 percent or less of their steers and heifers through public markets (see table 5). In contrast, packers in the South Atlantic region obtained 73 percent of their steers and heifers through public markets.

Hog slaughterers showed much less regional variation in use of public markets (see table 9). In 1999, in all regions except the North Atlantic, packers bought less than 6 percent of their hogs in public markets, while packers in the North Atlantic region procured about 10 percent of their hogs through public markets.

Carcass-Basis Procurement

The proportion of livestock purchased on a carcass basis (such as grade, weight, yield, guaranteed yield, or percent lean) in 1999 ranged from 36 percent for cows and bulls to 75 percent for hogs (see table 11). The percentage of cattle purchased on a carcass basis rose to an all-time high of 50 percent in 1999 (see table 12). The percentage of carcass-basis procurement of calves also increased markedly to 52 percent from the previous year's 43 percent but was still lower than the 60 percent level reached in the early 1990s. The proportion of hogs purchased on a carcass basis rose to 75 percent in 1999, the highest ever for hogs and the highest among all species. The percentage of sheep and lambs purchased on a carcass basis also rose noticeably to 52 percent in 1999, up from 42 percent in 1998.

The top 20 packers purchased a larger proportion of livestock on a carcass basis than other packers. In 1999, the 20 largest hog packers purchased 82 percent of their hogs and the 20 largest cattle packers purchased 52 percent of their cattle on a carcass basis, compare to 27 percent of hogs and 37 percent of cattle by other packers.

Packer Financial Performance

Tables 31 through 35 present financial ratios for several groupings of the 40 largest meatpacking firms. Firms are ranked by total expenditures for livestock. All firms in these tables slaughter livestock. Some of the firms also further process carcasses, and some have large non-red meat operations. Often these firms file financial statements only for their red meat operations. However, a few firms file consolidated financial statements in which their meatpacking and processing operations are not separated from their other operations. Thus, these data and the financial statistics calculated from packer's reports may represent the financial performance of non-meat operations of some firms. The calculated averages of the financial statistics do not measure meat-industry performance precisely, and may be influenced by non-meat operations.

The profitability (measured by net income as a percentage of sales) of the 40 largest meat packers has varied widely since 1992 (see table 35). In 1992 and 1993, profitability of top 40 firms was 1.2 percent of sales; in 1995 was 3.7 percent of sales. Net income fell to 2.1 percent in 1996 and 1997, but rose again to 2.8 percent in 1999. The 20 largest packers reported larger profits as a percentage of sales than packers ranked from 21 through 40 throughout the 1992-99 period. From 1993 to 1999, within the top 20 packers, firms ranked from 5 through 20 showed larger profits than the top 4 packers.

The top four firms generally operated on a smaller gross income (also known as a gross margin) than smaller firms (see tables 31 and 33). Between 1993 and 1999, the top four firms reported gross incomes as a percentage of sales that were 7-18 percentage points below firms ranked from 5 through 20. The top four packers' operating expense ratios were also lower (see tables 31, 32, and 34).

The top four firms had higher net sales per dollar of assets than any other group (see table 32). Prior to 1996, the top four firms used less debt financing than other firms. Beginning in 1996, however, the top four firms' use of debt financing differed little from other firms in the top 40. In 1999, the top 4 firms' equity-to-asset ratio was again higher than that of the top 8, top 20, and top 40 firms, suggesting that firms ranked 5 through 40 were more highly leveraged.

Auction and Terminal Market Purchases

In 1999, the number of cattle and calves marketed through firms selling on commission rose after a 2-year decline (see table 38); total volume rose from 38 million head in 1998 to 41 million head in 1999. The volume of hogs marketed through firms selling on commission, however, dropped sharply to 8 million head in 1999, down by nearly 3 million head from 1998–the continuation of a downward trend seen throughout the 1990s. The volume of sheep and lambs marketed through firms selling on commission has fluctuated during 1990s. The highest volume of the decade, 5.7 million head, was reported in 1996, while the lowest volume, 4.0 million head, was reported the following year. In 1999, the volume of sheep and lambs marketed through firms selling on commission was 4.4 million head, up slightly from 1998's level but still below the volumes recorded earlier in the decade.

Livestock Purchases by Dealers and Order Buyers

Purchases of cattle and calves by dealers and order buyers[2] rose sharply to nearly 37 million head in 1999, after dropping in 1998 (see table 38). Purchases of hogs and pigs by dealers and order buyers also moved up in 1999, though the volume of 21 million head was 25 percent below 1995's level. The number of sheep and lambs purchased by dealers and order buyers rose 24 percent from 2.7 million head in 1998 to 3.4 million in 1999.

MERGERS AND ACQUISITIONS IN MEAT PACKING

Numerous mergers and acquisitions have occurred in meat packing during the last several years. The following table lists mergers and acquisitions in 1999 and 2000 involving firms that report to GIPSA. Most transactions involved the purchase of entire firms; some transactions, which are noted, included only plants.

Meat Packer Mergers and Acquisitions, 1999-2000

1999

Acquiring Company: IBP, inc.; Dakota Dunes, SD.
Company Acquired: Corporate Brand Foods America; Houston, TX.

Acquiring Company: IBP, inc.; Dakota Dunes, SD.
Company Acquired: Wilton Foods; Goshen, NY.

Acquiring Company: IBP, inc.; Dakota Dunes, SD.
Company Acquired: Thorn Apple Valley; Detroit, MI.

Acquiring Company: IBP, inc.; Dakota Dunes, SD.
Company Acquired: Zemco Industries, Inc. (Russer Foods); Buffalo, NY.

Acquiring Company: IBP, inc.; Dakota Dunes, SD.
Company Acquired: H&M Food Systems Co., from Specialty Foods; Deerfield, IL.

Acquiring Company: Atlantic Veal and Lamb, Inc.; Brooklyn, NY.
Company Acquired: Berliner and Marx, Inc.; South Bend, IN.

2000

Acquiring Company: IBP, inc.; Dakota Dunes, SD.
Company Acquired: Closed packing plants in Sherman, TX, and Goodlettsville, TN, from Oscar Meyer; Madison, WI.

Acquiring Company: Premium Standard Farms; Kansas City, MO
Company Acquired: Lundy Packing Company; Clinton, NC.

Acquiring Company: Smithfield Foods, Inc.; Smithfield, VA.
Company Acquired: Coddle Roasted Meats; Portsmouth, VA.

[2] Order buyers purchase on a commission basis for others.

Acquiring Company: Rosen's Diversified; Fairmont, MN.
Company Acquired: Gibbon Packing Plant, from the city of Gibbon, NE.

Acquiring Company: Supreme Beef Processors; Dallas, TX.
Company Acquired: Palestine, TX, cow processing plant from IBP, inc.; Dakota Dunes, SD.