Market theory...
...meets market reality
Market information brings transparency back to the marketplace
Thinning spot markets raise concerns about their role in price discovery.
Negotiated spot and alternative marketing arrangement (AMA) prices move together

Notes: CWT = Hundred weight or 100 pounds. The live steer prices are negotiated between meatpackers and producers, and paid based on the live animal weights. These prices have been transformed to a carcass-weight basis using a carcass-to-live yield of 63 percent. Direct-dressed steers are those animals whose price is negotiated and based on the carcass weight of meat the cattle produce. Negotiated grid, net-dressed steers are like the direct-dressed steers except that the price is adjusted based on premiums and discounts for various factors. Formula net-dressed steers are like the negotiated grid, net-dressed steers except that the price is determined by a formula rather than by negotiation. Forward contract, net-dressed steers have a base price that is determined more than 2 weeks prior to delivery. Comparison with charts in Perry et al. (2005) is subject to some differences in data and definitions.

Source: USDA, Economic Research Service calculations based on USDA, Agricultural Marketing Service’s (AMS), Weekly Direct Steer and Heifer Slaughter Cattle Summary.
Fundamental economic forces have driven the adoption of AMAs...
...and those drivers are not going away

Quarterly shares of barrow and gilt sales

Notes: Barrow = A male hog that has been castrated before reaching sexual maturity. Gilt = A female hog which has not produced a litter. Source: USDA, Economic Research Service calculations based on USDA, Agricultural Marketing Service data.
Should shift our thinking about spot markets as the locus of price discovery?

You can put Lipstick on a pig, even color it's hair, put on a pretty dress if you dare!

but it's still a 'PIG'

somewhere user card
Can AMAs play a larger role in price discovery?

**Quarterly-weighted average hog prices**

Notes: CWT = Hundred weight or 100 pounds. Negotiated-live hog prices are negotiated between the producer and meatpacker, and producers are paid based on the live weight of the hogs. Live-weight prices are converted to carcass-weight prices using a live-to-carcass yield of 74 percent. Negotiated carcass prices are also set by producer-meatpacker negotiations, but producers are paid based on the carcass weight of the slaughtered hog. Swine/pork market formula hogs are priced using formulas based on either hog prices or wholesale pork prices. Other market formulas use something other than hog or pork prices to set the price. Other marketing arrangements cover the rest of the hogs sold. Source: USDA, Economic Research Service calculations based on USDA, Agricultural Marketing Service data.
LMR is more than mandatory price reporting—it provides market information.
Lack of information hinders price discovery and market efficiency
Parting thoughts

• Important to think about LMR in whole, not just its component parts
• Information is like grease—more is (usually) better
• Regulations are difficult to change, but laws are even more difficult to change
• There is no silver bullet to address thin market and price discovery issues
• If not LMR, then what?
For more information:

- Email: wpreston@oce.usda.gov
- Office of the Chief Economist Homepage: www.usda.gov/oce
- WASDE Secretary’s Briefing Slides: http://www.usda.gov/oce/commodity/wasde/Secretary_Briefing.pdf