



### Highlights of the Evaluation of Formula Based Cattle Purchases

Formula purchase arrangements of fed cattle use an agreed to methodology of calculating the net price. The final net price for some formula purchases may include the application of any premiums or discounts associated with carcass performance as specified in the transaction agreement. In response to the cattle industry’s desire for more transparency in the formula slaughter cattle market, AMS conducted an evaluation of formula-based cattle purchases reported under the requirements of the Livestock Mandatory Reporting Act and regulation to learn more about the makeup of these purchases. More specifically, AMS analyzed formula net price data for slaughter cattle purchases reported between January 4, 2021 and May 31, 2021, to evaluate the proportion of these formula purchases with no premium or discount applied and therefore likely priced from data referenced on another AMS report; versus similar formula cattle purchases that also included at least one premium or discount for quality, yield, weight, or other factor. Further, AMS evaluated this on a regional basis to see if there were any marketing differences among the states across the 5-area region.

Here are a few of the highlights found from this evaluation:

- Despite some variations among the five regions, a solid majority of formula purchases in all areas do have at least one premium or discount applied.
- The northern regions of Nebraska and Iowa/Minnesota exhibited the highest proportion of transactions with no premium or discount applied.
- While the proportion of cattle in which no premium or discount was applied likely represents formula transactions limited strictly to price reference methodology, it’s also possible that some of these cattle simply met baseline specifications in which no premium or discount thresholds were triggered. A complete determination cannot be made under the current LMR reporting requirements.

### LMR Formula Net Premium/Discount Application Percentages Jan-May 2021

	National	5-Area	TX/OK/NM	KS	NE	CO	IA/MN
<b>At least 1 Premium or Discount <u>was</u> Applied</b>	82%	82%	86%	85%	74%	84%	65%
<b><u>No</u> Premium or Discount Applied</b>	18%	18%	14%	15%	26%	16%	35%

\* 5-Area - Texas, New Mexico, Oklahoma, Kansas, Colorado, Nebraska, Iowa, Minnesota.

TX/OK/NM - Texas, Oklahoma, New Mexico; KS – Kansas; NE – Nebraska; CO – Colorado; IA/MN – Iowa, Minnesota.