PERSPECTIVES

Market Advisor

▶by ***Steve Meyer*** & ***Len Steiner,*** *The Daily Livestock Report*

A government shutdown could impact livestock reports

A prolonged shutdown of the federal government and furloughing of USDA staff could result in interruptions or gaps in reporting key agricultural pricing information from the USDA's Agricultural Marketing Service (AMS). As a result, we wanted you to be aware that settlement prices for certain CME dairy and livestock contracts, which are cash-settled based on USDA data, could be impacted in the event of a prolonged shutdown of the agency and may require the exchange to modify the current settlement procedures of the following products.

Products affected

Here is a list of CME dairy and livestock contracts that may be impacted:

- Dairy – September 2013 Class III Milk, Class IV Milk, Butter, Whey, Cheese and Non-Fat Dry Milk futures and options
- Livestock – October 2013 Lean Hogs, Live Cattle and Feeder Cattle futures and options

As with everyone else, the CME Group is concerned about a prolonged cessation of price reports that would reduce the information available to market participants and eventually impact the settlement process when Lean Hogs and Feeder Cattle futures and options contracts expire.

One bullet was dodged Oct. 2 when it was announced that 10 Federal Milk Marketing Order prices would be released the following day. Those prices will allow the final settlements of September CME Milk, Cheese, Butter, Whey and Nonfat Dry Milk futures and options as scheduled. The exchange did not offer an explanation on how these milk prices would be published with supposedly everyone at AMS out on furlough, but we don't think anyone will look the gift horse, or cow, in the mouth.

CME Group pointed out that a prolonged shutdown would create gaps in reporting key agricultural pricing data. Such information shortages could impact the October 2013 Lean Hogs settlement on Oct. 15 and the October Feeder Cattle settlement on Oct. 31.

While the statement listed Live Cattle settlement as a potential problem, we are not sure that is the case since Live Cattle is a deliverable contract and is not dependent on reported prices for cash settlement. Further, the USDA graders who are integral to the cattle-delivery process are still on the job since they are fee-based (i.e., packers pay for meat grading) and technically not government-funded.

Should data still not be available on Oct. 15 for Lean Hogs and Oct. 31 for Feeder Cattle, the exchange warned that it may have to "modify the current settlement procedures" for the affected products. CME Group's statement can be found on its website (*www.cmegroup.com*) and current settlement procedures can be found at *www.cmegroup.com/rulebook/CME/.*

What's the alternative?

Are there any alternative price reports available to producers, packers, processors and, eventually, CME Group? The answer is yes — for some things.

CattleFax has for many years provided price information to its members based on the members' own reported prices. For a few days at least, the Denver-based information cooperative may be about the only game in town for broad-based fed-cattle and feeder-cattle price data. Local feeder and stocker cattle markets are an entirely different matter, however. We may see a significant void there in the short run.

Express Markets Inc. (EMI, and EMI Analytics) has become a major source of price information for the poultry industry. Their information on pricing, supplies, etc., is provided only to their subscribers.

Urner-Barry, the long-time publisher of *The Yellow Sheet,* has been an authority on seafood, poultry and egg prices for years and has a significant reporting system for beef, pork and lamb, as well. Their service is also on a subscription basis. There are others who may have some facets of original price reporting, but one thing is clear: The data are not free!

A notable absence in the above discussion is the pork industry. While Urner-Barry has some reporting on pork cuts, there is not a species-specific entity like CattleFax or Express Markets in the pork sector. We suppose pork industry groups and participants could put a stopgap system in place, but no definite ideas or plans have been publicly floated as of Oct. 1.

Restaurant performance

The National Restaurant Association's Restaurant Performance Index (RPI) declined for the third straight month in August.

The index fell 0.2 points from its July level to land at 100.5. The decline was driven by a 0.9-point drop in the expectations component, which measures the outlook of operators for the next six months.

The Expectations Index is itself composed of four indicators — same-store sales, staffing, capital expenditures and business conditions — all of which declined in August from their July levels. The largest decline was for staffing expectations (down 1 point) and the second was expectations of same-store sales, which fell by 0.8 point. The other part of the RPI, the Current Situation Index, rose by 0.6 point in August. Current levels of same-store sales and customer traffic were the big contributors to the gain.

The percentage of operators who expect lower sales volume in the next six months rose from 9% in July to 17% in August. While much of that news is negative, it is important to note that the RPI was above 100 for the sixth straight month. The RPI is constructed such that values above 100 indicate expansion of the restaurant sector, while values below 100 indicate contraction.

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Editor's Note: *At the time of print, the federal government is still shut down. It is our hope that it will be functioning by the time this reaches mailboxes. However, in the event that it is not or in case of future shutdowns, this offers other means to obtain market information. This article is reprinted with permission from* The Daily Livestock Report, *published by Steve Meyer & Len Steiner Inc., Adel, Iowa, and Merrimack, N.H. For more information, visit* www.dailylivestockreport.com.