



## How Important is the Finney County Fire to the Cattle Market?

A fire partly destroyed the Tyson Foods beef plant in Holcomb, Kansas on Friday, August 9. The plant, typically referred to as Finney County, will be down indefinitely, however; the company plans to rebuild the plant at the same location. Officials are still assessing the damage, so it's too early to establish a timeline, but work to clear damage has already begun.

Steve Stouffer, group president of Tyson Fresh Meats said, "Today, we will notify our full-time, active team members that they'll be paid weekly until production resumes." Stouffer said the team members may be called on to work during this time to help with clean-up and other projects, but regardless of the hours worked, all full-time active employees are guaranteed pay. "We're taking steps to move production to alternative sites," Stouffer said. "Tyson Foods has built in some redundancy to handle situations like these and we will use other plants within our network to help keep our supply chain full." (Tyson Press Release August 12).

Stouffer told the media in Garden City, Kansas last week that "it will be a matter of months, not weeks, but no specific timeline at this point." (Bovine Veterinarian, August 16). The company says that it is completing a full assessment of the plant with electrical and structural engineers on site.

### CattleFax Facts

CattleFax in the United States says that the fire at the Tyson Fresh Meats plant in Holcomb, Kansas, "will stress an already delicate balance between a relatively stable fed processing capacity and growing fed cattle supply...."

CattleFax goes on to say that the historical significance of this event has the potential to be remembered like other major challenges endured by the beef industry. The following are some of the facts as outlined by CattleFax:

- The Holcomb plant operated at approximately 6,000 head/day. There is a 30,000 head/week shortfall in fed cattle processing capacity on a five-day work week.
- That amounts to 6 percent of the total U.S. fed cattle packing capacity, and the industry needs to absorb that plant's processing capability elsewhere.
- Shifting the supply across remaining Texas, Kansas, Colorado, Nebraska and Iowa means capacity in those regions needs to run 8.0 to 8.5 percent higher.
- If the major plants in the Texas Panhandle, Kansas, Nebraska, Colorado, and Iowa replace the Holcomb capacity, they would need to slaughter 8.2 percent more cattle per week or run 3.3 hours/week to make up the production lost by this plant.

- This shortfall will be incredibly difficult to make up based on the current packing infrastructure. Seasonally, fed cattle slaughter will decline into the fall and alleviate some of the supply stress.

### **The New Capacity Prospects**

According to the U.S. plant listing, as compiled by Steve Kay, Cattle Buyers Weekly, the U.S. daily fed capacity is just over 98,000 head. That is based on his listing of the top 49 plants and does not include some of the smaller plants in the United States. Finney County, if we put its capacity at 6,000, makes up roughly 6% as noted by CattleFax. There are many other plants that Kay lists as both Fed and Non-Fed. The Fed/Non-Fed capacity is about 16,000/day and the non-Fed only capacity is about 14,000 for a total daily capacity of just over 128,000 for the top 49 plants. Again, there are other smaller plants to augment that number a little.

The total of fed and using half of the Fed/Non-Fed capacity plants is 106,000. That is a base estimate of fed cattle capacity. The total fed capacity without Finney county therefore is 100,000 per day or 500,000 on a five-day week. If a reasonable capacity utilization rate is 95%, then the fed only kill would be 93-94,000 a day. Without Finney County that fed only kill total is 87-88,000 head. Taking that fed plant only kill plus half the fed/non-fed kill brings five day fed kill to a 477,000 without Finney County.

Average Saturday kill of all cattle last year was just over 50,000 head. Average Saturday kill so far this year has been 50,000. The largest Saturday was 93,000 in late May. A good estimate is that 80% of the Saturday kill is fed cattle. As such, average fed kill on Saturdays is 40,000. Taking all of Finney County daily capacity out of that, means that an average Saturday kill without Finney County could be 34,000. That 34,000 is probably conservative as an average estimate.

That means that without Finney County, the industry could do about 511,000 fed cattle with just average Saturdays (477,000+34,000). Weekly average fed kill so far this year has been about 501,000. The biggest kill so far this year was 541,000 in early May.

Another way to look at capacity is by focusing on the actual largest kill. As noted, the largest fed kill so far this year is 541,000. That is a good measure of capacity, with Finney County. In other words, the industry did that large an amount, therefore that is at least its capacity. Without Finney County it could be said that the capacity is 541,000 minus the 30,000 that Finney does on five days. That is right around the 511,000 noted above.

The other point to note is that I used only half the fed, Non-Fed plant capacities in the calculation. That could obviously be higher, especially with good margins for fed kill. Another point is that I used only average Saturday kills as a guide. While it is not realistic to assume the largest Saturday kill as a guide, using the average is probably on the low side when it comes to seeing what is a reasonable fed kill without Finney County.

### **Can it be Done?**

Looking ahead, based on Cattle on Feed Reports, I see peak kills of about 532,000 needed in September but mostly in the 520,000 head range. Then fed slaughter may be easing back to the 510-515,000 for most of the rest of the year. Based on the capacity discussion above, the projected marketings are doable by packers. It will be a challenge some weeks but it can be

expected that the industry can work through the numbers. This is especially the case given the expected margins that will incentivize packers.

I don't see the problem for cattle feeders as being a capacity issue as much as a leverage issue. Those with contracts and formulas from steady suppliers will not have problems marketing cattle. Cash or negotiated trades will have much less demand now than they did two weeks ago. Feeders selling on the cash market will now be much more vulnerable price takers. Feeders will work to get contracts or formulas. Cash drives formulas and the cash leverage is gone.

### **What About Alberta?**

There are three key plants in the United States that impact Alberta: Tyson, Pasco; Agri Beef, Yakima and; JBS, Hyrum. There are nearly 2,000 cattle a week going to Hyrum and another 4,400 going to Pasco and Yakima. The overwhelming volume of cattle to those three plants are contracts or formulas. Cash buys are not unusual, but the volumes are not material relative to contracts and formulas. The JBS Hyrum volumes are mostly coordinated with Brooks.

I expect that there will be Tyson cattle move from the mid-west to Pasco that normally would not. I expect that there will be no cash market activity from those three plants in the Alberta market for as long as Finney is out of commission. As noted, there is little cash market activity anyway, but there is always the possibility. That helps the competition level in Alberta. That won't be there for months now. The Alberta packers know that competitive factor is not there.

Another concern is the possibility that the cattle going to Hyrum, all or some, could be redirected back to Brooks. In other words, the Hyrum plant may find it advantageous to take more U.S. cattle in the coming months. Hyrum may need to take more U.S. cattle. Keeping Hyrum volumes north would have a negative impact on Alberta pricing.

The bottom line is that as the U.S. price level declines due to the plant loss, so too will the Alberta price. Regarding the local basis in Alberta, based on the discussion above, I can think of nothing that argues in Alberta cattle feeders favor. Conversely, relative to the U.S. the Alberta market is arguably in a better balance. This is especially the case if the flow south to Hyrum continues, which it very well could. In that regard then the spread in Alberta should be stronger than normal as a result of the Finney County fire. The net impact of Finney on the Alberta market might therefore be neutral.



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