

Comparing the Grand Island and Holcomb Meat Processing Plant Fires

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Sept. 20, 2021

Cap Series 21-0904

The Situation

A packing plant fire occurred at the JBS meat processing plant in Grand Island, Nebraska, on Sunday, Sept. 13, 2021, having an eerie similarity to the Tyson meat processing plant fire in Holcomb, Kansas (Nepveux 2019). Both plants processed about 6,000 head per day, or approximately 6% of total daily beef slaughter. This article aims to explain what some of the possible market reactions would be if the Grand Island fire has similar damage to the Holcomb fire.

Lessons Learned from Holcomb

We learned several lessons from the Holcomb fire that could apply to the Grand Island fire. First, live cattle prices are likely to fall given the now oversupply of harvest-ready cattle relative to processing capacity. Second, wholesale cutouts are likely to increase as retailers seek to make advance purchases on beef. Combined, these will likely widen beef processing margins – something that has been curiously and intensely watched since 2019. The market will look for two signals to regulate this margin: 1) will the damaged plant be rebuilt? And 2) how long will the plant be shut down before it will be fully operational? In the case of the Holcomb fire, it was about one month before plant damage was fully assessed and announced to be rebuilt and four months (Dec. 2019) before it became fully operational. Examining the fed cattle price differentials between the major cattle feeding areas, showed that all areas experienced decreased prices within the first month, about a 10% decline in price relative to prices the Friday before the fire, and were at prices equal to prices the Friday before the fire two months after the fire (see Table 1; Dennis 2020). A similar situation across the different cattle feeding regions could play out for the Grand Island plant fire as well.

Unique Issues with Grand Island Fire

The point of differentiation between the two fires likely lies in available processing capacity pre-fire and the day on which the fire occurred. After the Holcomb fire, Tyson diverted committed cattle (< 14 days) to other plants that had excess capacity. This showed up in increased Saturday harvest levels as plants ran additional shifts. This was in a pre-COVID era where absenteeism was lower, labor relations were better, and there were no increased OSHA protocols in plants due to COVID and its derivatives. JBS will most likely try to do the same in the short run. However, given that the processing industry was already running at strained levels of labor levels, how much they will be able to increase Saturday and Sunday kills without losing more labor is left to be seen. One positive is that JBS recently reached a new labor contract at their Greeley, Colorado, plant which could help lessen concerns about potential labor shortages. Second, the fire also occurred AFTER Labor Day where retailers had already started to back off beef purchases. This should work to lessen the severity of any price jump in the wholesale cutout value as there are fewer concerns about wanting to capture consumers grilling preferences.

Hidden Impacts

The biggest loser in the fire could be feeder cattle producers. The fire occurring after Labor Day should lessen the upward price movement in the cutout, but it puts greater pressure on market-ready cattle to be moved out of pens to provide space for weaned feeder cattle to enter pens. Figure 1 shows the combined price movements from the Holcomb fire. Although the plant fire primarily affected fed cattle, it did influence feeder cattle prices. Feeder cattle have already started to enter feedlots earlier than in previous years as drought and reduced forage production has forced some feeder cattle producers to market feeder cattle earlier. If pens continue to stay full, this could reduce the price feedlots would be willing to pay for feeder cattle. This combined with potentially higher feed grain prices both have the potential for increased downside price movements.

Figure 1. Percent Change in Live Cattle Futures, Feeder Cattle Futures, and Choice 600-900 lb. Boxed beef Prices Relative to Prices on the Day of the Fire on August 9, 2019.

Source: Dennis (2020)

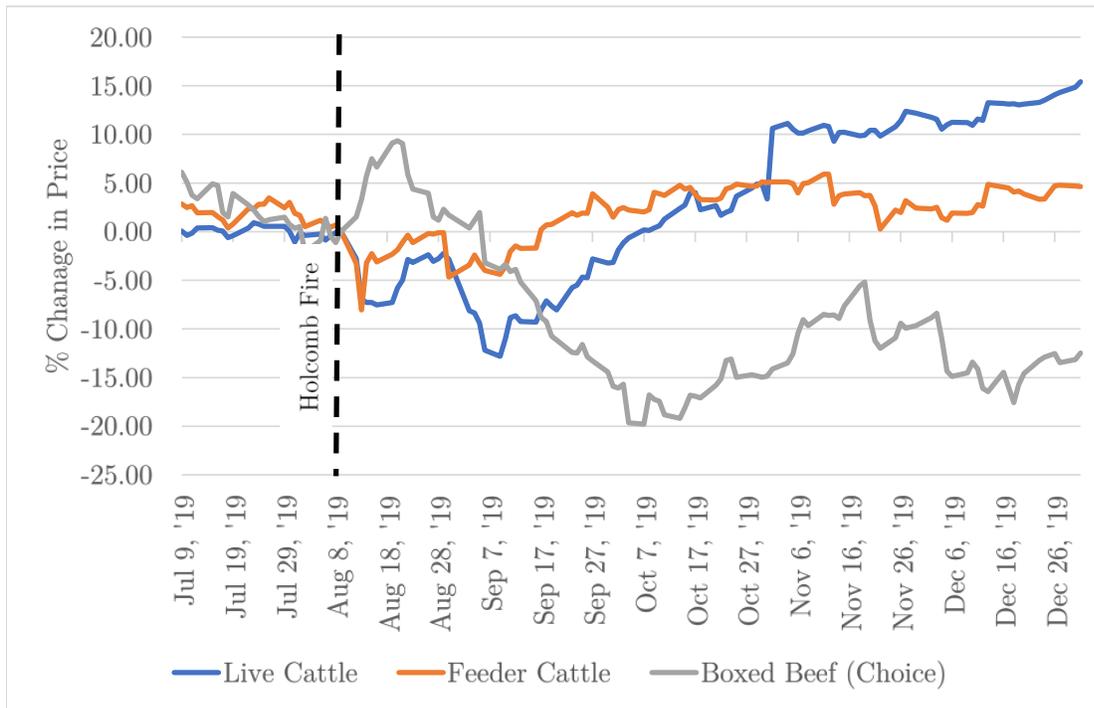


Table 1. Percent Change in Fat Cattle Prices Pre and Post Holcomb Fire by Area Relative to Prices the Week of the Fire (USDA-AMS 2020)

Date	Kansas	Nebraska	IA/Minn.	5-Area
Jul 7, '19	-0.50	0.27	-0.92	-0.36
Jul 14, '19	2.24	1.26	0.52	1.13
Jul 21, '19	1.36	0.55	0.78	0.81
Jul 28, '19	2.27	1.73	1.47	1.47
Aug 4, '19	1.34	0.95	1.20	1.40
Aug 11, '19	0.00	0.00	0.00	0.00
Aug 18, '19	-4.12	-5.59	-4.87	-4.96
Aug 25, '19	-3.32	-4.32	-3.66	-4.54
Sep 1, '19	-6.04	-6.56	-5.19	-5.98
Sep 8, '19	-8.82	-11.17	-8.85	-9.62
Sep 15, '19	-9.13	-11.40	-11.24	-10.90
Sep 22, '19	-7.51	-9.36	-10.06	-9.38
Sep 29, '19	-4.38	-6.15	-8.07	-6.56
Oct 6, '19	-2.27	-3.90	-5.77	-4.33
Oct 13, '19	-0.12	-2.65	-4.38	-2.99
Oct 20, '19	-1.38	-2.68	-3.18	-2.36
Oct 27, '19	0.42	-2.06	-3.24	-2.16
Nov 3, '19	2.38	1.28	-0.83	0.66
Nov 10, '19	4.20	1.59	0.80	1.67
Nov 17, '19	5.01	2.21	1.11	2.21
Nov 24, '19	5.88	2.99	1.62	2.86
Dec 1, '19	8.10	5.42	3.02	4.85
Dec 8, '19	8.69	5.11	4.14	5.31
Dec 15, '19	8.65	5.84	4.64	5.79
Dec 22, '19	9.57	6.95	5.58	6.73
Dec 29, '19	11.40	8.15	7.54	8.47

Source: Dennis (2020)

Notes: **Red numbers** indicate that the price declined from the previous weeks' price and **green numbers** indicate that the price increased from the previous week's price.

Sources

Dennis, E. 2020. A Historical Perspective on the Holcomb Fire: Differences and Similarities to the COVID-19 Situation and Other Significant Market Events. (Accessed 9/13/2021 at <https://cap.unl.edu/livestock/historical-perspective-holcomb-fire-differences-and-similarities-covid-19-situation-and>)

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Cite this work:
Dennis, E. "Comparing the Grand Island and Holcomb Fires." *CAP Series* 21-0904, Center for Agricultural Profitability, University of Nebraska-Lincoln, Sept. 20, 2021.