

Connecting Livestock Producers with Recent Economic Research

This publication seeks to facilitate a wider distribution of peer-reviewed journal article information on economic issues of interest to modern livestock producers and other industry decision makers



1. Accuracy of Livestock Outlook and Futures Market Forecasts:

Summary: Researchers at the University of Illinois have recently compared the performance of land-grant university outlook forecasts for futures market hog and fed cattle prices with forecasts implied by futures markets. The main conclusions of this study include a) university outlook forecasts identify the direction of price movements more accurately than futures market forecasts in only 2 of 11 evaluations for market hogs and 1 of 7 evaluations for fed cattle; b) outlook forecasts of both market hog and fed cattle prices add additional information beyond what exists in the futures market approximately 50% of the time; c) the relationship between outlook and futures market-based forecasts has changed little over the past three decades.

Implications: This study's findings are consistent with many others that outlook forecasts are rarely more accurate than comparable futures market implied forecasts. Accordingly, livestock producers (and price forecasting practitioners) are well served to utilize basis adjusted forecasts implied by the futures market. However, this does not imply university based outlook forecasts are not valuable to producers. In particular the study found outlook forecasts to provide incremental information not captured by the futures market. Livestock producers may reap broader educational benefits from less traditional outlook forecasts that span beyond short-term price forecasts and include other research findings of relevance to industry decision makers.

2. Profitability of Technical Trading in Futures Markets:

Summary: Researchers have recently examined the profitability of using technical (as opposed to fundamental analysis) trading rules in 17 different futures markets including corn, soybeans, wheat, live cattle, and pork bellies. The best technical trading rules produced significant profits in only 2 (both are non-commodity, financial contracts) of the evaluated 17 futures markets.



Implications: This study's finding of technical trading rules not being profitable in the evaluated agricultural commodity markets indirectly should comfort producers using agricultural commodity futures markets for hedging purposes. In particular, the absence of routine profits from technical trading supports the notion of markets that are void of "easy arbitrage and large trading profit" characteristics. This is a favorable characteristic of contracts for livestock producers interested in hedging inputs (e.g. corn) or outputs (e.g., live cattle) of their operation as it suggests futures contracts provide a solid representation of eventual prices, given current information, which is not manipulated by factors beyond fundamental price determinants.

3. Contract and Exit Decisions of Livestock Producers:

Summary: Iowa State researchers recently published an article evaluating the drivers of a hog producer electing to engage in contract (versus independent) production and the determinants of a producer exiting the industry. Key findings of this study include: a) contracting producers are less likely to exit the industry and are larger in size than independent producers; b) operators with older facilities, more education, and more off-farm income are more likely to exit the industry.

Implications: This study is the first known joint examination of what drives livestock producers to stay in or exit the industry while also evaluating determinants of contracting decisions. While additional studies on livestock sectors besides finishing hogs are needed, producers can draw some key implications. Namely this work suggests engaging in contracts increases the probability of the operation (both for current and future generations) remaining in the industry. Moreover, the net findings of this study, coupled with changes in the feedstuffs marketplace of increased price volatility, suggest the hog industry is likely to continue its trend of increasing consolidation and growing use of production contracts.

4. Economic Impacts of Restricting Livestock

Ownership by Meat Packers:

Summary: Motivated by multiple recent congressional investigations into the issue, a recent project estimated the economic impacts of restricting meat packers from owning hogs. The study's main finding is that banning packer-owned hogs reduces economic well-being of independent hog producers, pork consumers,



and meat packers. In particular, this ban is estimated to reduce surplus of consumers, hog producers, and packers annually by about \$452 million, \$115 million, and \$571 million, respectively.

Implications: This study suggests that while the stated goal of banning packer ownership of livestock is to aid independent livestock producers, the opposite outcome may develop. This finding primarily stems from estimated lost efficiencies for packers more than offsetting any decreases in exercised market power. This study provides an example of how “well intended” policies can have detrimental unintended consequences. The extent to which these unintended consequences can be identified and examined prior to policy introduction is certainly worthy of consideration by policy makers and industry leaders in future discussions.

References

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