

## 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. Farmer's Share of the Retail Food Dollar Statistic:

*Summary:* Agricultural economists at Montana State University recently assessed the empirical relationship between USDA's farmer's share of the retail dollar (FS) statistic and the economic well-being of farmers. Their analysis found that the farmer's share of the retail dollar is not an indicator of producer well-being. The authors argue the FS statistic should not be used for policy purposes.

*Implications:* Proper understanding of market drivers, and hence economic well-being of producers, operating in today's global marketplace requires thorough investigation. Perhaps the most common perception underlying current "anti-competitive and fair market" discussions (i.e. June 18th USDA press release No.0326.10) is that farmer's declining share of the retail food dollar equates to declining economic well-being of farmers. The Montana State study reveals this perception is not only inaccurate but may misguide policy development that could be costly to market participants including producers. Producers, industry leaders and policy makers should consider this simple example: would you personally rather have 10% of \$1,000 or 100% of \$1. While this is obviously a simplistic example, it drives home a point: the view of food supply chain actors fighting over a fixed value (where proportions matter) needs to be honestly contrasted with the possibility of the supply chain working to add value (where proportions are less relevant). Even if the relative share of one market level is declining, it is entirely feasible all market participants have benefited by market adjustments resulting in farmer's share of retail food expenditures declining.

### 2. Price Discovery in Cattle Markets

*Summary:* University of Nebraska researchers recently examined prices of beef cattle (10 weight/gender groups spanning from 400 to 1,100 lbs) sold in Nebraska markets between 1992 and 2003 to assess the drivers of cattle price discovery. This analysis extended a previous assessment of Texas cattle markets to facilitate a comparison of price discovery drivers in two different states. Key findings of this analysis include: a) light steers (400-500 lbs) are the center of price discovery in Nebraska cattle markets; b) differences in price discovery in Nebraska and Texas cattle markets exist.



*Implications:* Understanding how information transfers across weight/gender classes of the cattle market influences stocker and feedlot placement, future breeding, and other production decisions. Identifying the weight/gender class at the center of price discovery is essential for understanding which weight/gender class price series are “followers” and which are “leaders.” This study’s identification of price discovery varying in Nebraska and Texas cattle markets is important. This analysis suggests differences across states in production practices (i.e. relative predominance of cow-calf vs. feeding operations), reliance on transportation of animals across states lines, and other factors may trigger differences in price discovery processes. While more research is needed on the issue, producers should recognize the drivers of price discovery in their state of operation may not reflect those of other states. More narrowly, producers should place particular emphasis on following the weight/gender market in their state which most likely represents the center of price discovery.

### 3. Stocker Cattle Production: Adoption of Recommended Management Practices

*Summary:* Agricultural economics at Oklahoma State University recently evaluated the adoption by Oklahoma stocker cattle producers of six recommended management practices (implanting, proper stocking rates, IM injection in neck, uniform marketing lot, risk management, and long-term business planning). A core finding was operation size and depending on on-farm income drive use of desired management practices. In particular, larger operations and those more dependent on the operation for household income were more likely to adopt in 5 of 6 and 4 of 6 cases, respectively.

*Implications:* The stocker cattle segment is arguably the least understood production segment of the U.S. cattle industry. This study’s suggestion of management practices varying notably across producer types is hardly surprising. Future assessments are encouraged to confirm (or reject) this study’s finding of larger operations and operations more dependent on the farm for household income to be more proactive in adopting various management practices and technologies. If this finding holds, the industry can expect to observe increasing divergence between “active adopters” and “in-active non-adopters.” This divergence must be monitored for the entire, vertically-linked cattle and beef industry is impacted by the adoption decisions of producers at each market level.



## 4. Japanese Demand for Beef Imports: BSE Effects and Country-of-Origin Preferences

*Summary:* Producers are keenly aware of the diminished volume of U.S. beef exports to Japan following the 2003 BSE outbreaks in North America. A recent study provides a detailed assessment of Japanese demand for beef imports. The core finding of this study is the BSE outbreak resulted in the major factor determining Japanese demand for beef imports shifting from relative prices to country-of-origin effects.

*Implications:* While relative prices will certainly remain a key part of global competition for market share in beef import markets, the elevated role of country-of-origin effects found in this study must be noted. In particular, the increasing importance of traceability systems and country-specific promotional activities must be recognized. This study focused on U.S. and Australian competition for Japanese beef import market share. More broadly how current and potential U.S. meat importing countries perceive traceability systems in the U.S. relative to competing global meat suppliers must be understood and recognized in ongoing discussions in the U.S. regarding traceability and animal identification programs.

## 5. Taxpayer Beliefs about Farm Income and Farm Policy Preferences

*Summary:* A limited amount of research has assessed what U.S. taxpayers prefer regarding farm policy. This information gap was the focus of a recent study conducted at Oklahoma State University. The main findings include: a) taxpayers regularly overestimate actual farmer incomes; b) taxpayers prefer subsidizing small farms over larger farms; and c) most taxpayers support governmental subsidies as they believe it ensures a secure supply of food.

*Implications:* The role of public opinion is important in all political, policy-making discussions. Therefore the findings of this analysis should be noted by industry leaders in their approach to future farm policy conversations. While this study suggests continued support for farm policies the public believes result in secure food supplies, the desire of taxpayers to provide larger subsidies to farms smaller in operational size deserves deeper examination. As an example consider the extent to which industry's optimal selection of operation size over time is influenced by these preferences and corresponding policies. This must be noted as the potential deteriorating of global comparative advantages could result.

## References

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Glynn Tonsor  
Kansas State University  
Department of Agricultural Economics  
342 Waters Hall  
Manhattan, KS 66506-4011  
785.532.6702  
[www.agmanager.info](http://www.agmanager.info)