

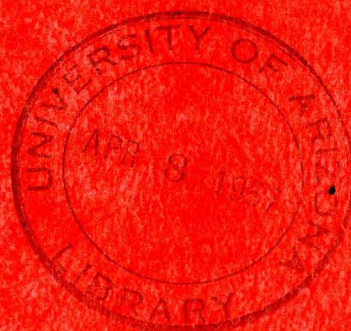
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EVALUATION OF LIVESTOCK MARKET NEWS IN ARIZONA

by

Thomas M. Stubblefield



Agricultural Experiment Station

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INTRODUCTION

The Department of Agricultural Economics, University of Arizona, has undertaken to inventory and evaluate the livestock market news and related information such as outlook information, production and price of feed, range conditions, economic conditions, etc., received and used by Arizona cattle producers.

An inventory of the market news and related information available to Arizona cattle producers has been published in Reports No. 125 and 147. There was also a survey taken to determine what market news and related information is being received and used by Arizona cattle producers. The result of this survey was published in Arizona Agricultural Experiment Station Report No. 141.

This report contains the criticisms of the present market news and related information available to Arizona beef cattle producers and a model of a market news service that would supply beef cattle producers with information they need in order to be "reasonably well" informed on market conditions.

Present Market News and Related Information

There is one important criterion for market news -- it should reflect as accurately as possible the actual market conditions without establishing a price in the market. This is very difficult because the market news reporter has to interpret the action of other humans namely, the buyers and sellers. If the market report includes the "psychology" of the market, such as optimistic or pessimistic attitudes of the buyers, it may influence the market price. On the other hand, if it is so neutral that it fails to reflect these attitudes the reader will not receive a true report of market conditions.

An example of this is a condition that existed in the spring lamb market in southern California in 1955. The market news reporter knew that one buyer in the Fresno-Stockton-Visalia area had made word-of-mouth commitments to purchase the lambs from most of the ranchers at 23 and 24 cents per pound. But, since no contract had actually been drawn up he could not report this market condition. Unless the producers of spring lambs in Arizona had word-of-mouth information on this market condition, they would have had no knowledge of the market conditions in the central California area.

The individuals in a market area need to know the "psychology" of the market as well as the prices. At the present time the only feasible way they can obtain this information is by word-of-mouth. It may be that private news sources can report these without too much criticism if they label it correctly. It would be very difficult for the Federal-State Market News Service to report this type of information due to the likelihood of severe criticism on the part of the buyer or seller.

1/ Assistant Agricultural Economist, Arizona Agricultural Experiment Station, University of Arizona, Tucson.

Livestock Market News Reports

There are some definite criticisms of livestock market news reports for Arizona. Sales at the Los Angeles Union Stock Yards apparently are not always representative of a large part of the sales of "Choice" slaughter cattle in the southern Arizona-California area. ^{2/} Most of the sales of fat steers and heifers in Arizona and California take place at the feedlots. Central California feeding areas are well covered by the Federal-State Marketing News Service, Livestock Division at Stockton and Visalia, California. It is very necessary that a more complete method of reporting the feedlot sales be devised. This of course, will probably increase the expense of the market news service. At the present time the Livestock Division of the U. S. Department of Agriculture is reporting feedlot sales in Arizona.

Arizona feeders are critical of the livestock market news reports of the central markets. ^{3/} They feel that unless they visit the market often, they do not get an accurate picture from the market report of the kind of cattle selling on the market or the typical price. The feeders would also like to have the typical price for each grade of cattle reported as well as the trend of the market. (The Department of Agricultural Economics, University of Arizona, attempted to do this in the "Arizona Range Cattle Market Report." The results from the project indicate that the ranchers and feeders were satisfied with the report.)

One of the major needs is the reporting of the sale of cattle off the range. The U. S. Department of Agriculture is attempting to do this now but the methods of reporting need to be more completely worked out in order that more accurate reports can be made. The Phoenix office of the Livestock Division is now charged with this responsibility for Arizona. The results of a research project conducted by the Department of Agricultural Economics, University of Arizona indicate that it is feasible to report the sale of range cattle with a high degree of accuracy. ^{4/}

In order to make a report of the decentralized livestock markets in Arizona and California complete, it is necessary that a weekly estimation of the total sales be made. At the present time the U. S. Department of Agriculture is trying to devise a method of making these estimations. It is anticipated that the Arizona Livestock Sanitary Board may cooperate with the Phoenix office of the Livestock Division, Agricultural Marketing Service in helping them to make these estimations for Arizona. This will be done by having the brand inspector report each week the number and destination of all cattle inspected.

^{2/} This information has been obtained from a study conducted by R. E. Seltzer, Department of Agricultural Economics, University of Arizona, Tucson. The findings of this study have not been published as of April 1957.

^{3/} Stubblefield, Thomas M., Market News and Related Information Received and Used By Arizona Beef Cattle Producers. Arizona Agricultural Experiment Station Report No. 141, University of Arizona, Tucson. October 1956, p. 13.

^{4/} Seltzer, Raymond E. and Thomas M. Stubblefield, The Arizona Range Cattle Market Report. Agricultural Experiment Station Report No. 148, University of Arizona, Tucson. February 1957.

Grain Market Reports

There is no Arizona grain market report available to farmers and ranchers. The major sources of information on grain and feed are the reports published by the U. S. Department of Agriculture for the San Francisco and Los Angeles markets. 5/ The major difficulty with these reports is that they may indicate one of two different things to the feeder or rancher. If there is a shortage of feed in Arizona then the price of the feed is based on the Los Angeles market plus freight. If there is a surplus of grain or hay and neither is supported by the Government, the price then is based on the Los Angeles price minus the cost of freight.

In addition, certain local conditions are never reported formally in any market report. Most of the feeders obtain knowledge of the local market conditions by word-of-mouth.

Another important factor influencing the price of grain in Arizona is the action of the Commodity Credit Corporation in selling surplus stocks. All of the farmers and ranchers in the state should be completely informed on the Government support prices for feed grains in their locality and lots of government-owned grain offered for sale.

A large amount of grain sorghums grown in the state is being fed as ensilage. Often the feeder will buy the grain sorghum standing in the field at so much per ton. At the present time there is no report of the price for this type of roughage. Some method of reporting the sale of grain standing in the field to be used either as green-chop or as ensilage needs to be devised.

Outlook Information

In most states the Land Grant College has a program of informing the farmers and ranchers on the outlook for agricultural products as well as general economic conditions. This is part of a program started by the Bureau of Agricultural Economics, U. S. Department of Agriculture in 1923. The data that are the basis for outlook analysis are collected by the U. S. Department of Agriculture.

Due to the uncertainty of weather conditions the production of grain and feed crops cannot be forecast with accuracy until the crops are ready for harvest. This affects the beef cattle industry by making it necessary for cattlemen to wait until the crop is produced, or almost produced, before they are sure of the supply of feed grains available.

In Arizona, where most of the cattle feeding is done in large commercial feedlots, the production of hay and grain is very important to the feeder. Most of the time they purchase feed at harvest time. If the feeders were able to be relatively sure of the future supply of grain, they could better adjust their feeding programs. Many of the larger feeders try to forecast production of grain a year ahead. They do this by obtaining estimates, word-of-mouth, from various individuals who they think are well informed on anticipated feed production.

5/ Federal-State Market News Service, Grain Division, San Francisco; and Federal-State News Service, Grain Division, Los Angeles.

The feeders in Arizona and California need an outlook report which would forecast the demand for beef from three to four weeks in advance. They sell their cattle a week or a week and a half before they are slaughtered. In order to determine if they should hold a week or so, they need such outlook information. The Agricultural Marketing Service of the U. S. Department of Agriculture and the Western States Experiment Stations are now trying to develop a short-term outlook report for the western livestock industry. 6/

One factor that has not been discussed in outlook reports is the influence the report has on participants in the market. If the forecast or outlook is widely used, it would be expected that it would influence the actions of the participants. This does not mean that accurate forecasting is impossible, but it does mean that the effect of the forecast must be considered when the forecast is made.

Per capita disposable income is very important to the beef cattle industry. If the man on the street has money to purchase steak, he will probably do so. However, to forecast general economic conditions is difficult.

The data available to estimate national income is not complete. 7/ This does not mean that these estimates are of no value. It means that the estimates must be used as they are designed to be used. Otherwise they are of very little value.

The general business indicators published by the Department of Commerce and private companies are of the same nature. They are only as good as the data available for their construction. Very often they are used in a manner contrary to that for which they are designed.

Although the accuracy of outlook or forecasting needs to be improved, this is not to say that it is of no value to the Arizona cattle feeder or rancher.

"The helpfulness or reliability of price forecasts should be measured from the standpoint of what they add to the accuracy of prediction of those who make use of forecasts." 8/

At the present time there is no organization making a periodic outlook report which considers primarily the agricultural outlook for Arizona farmers and ranchers. It is the author's opinion that such a report would be very useful.

6/ Regional Project WM-21, USDA, AMS, cooperating with Land Grant Colleges and Universities in the eleven Western States and Texas.

7/ Ruggles, Richard, An Introduction to National Income and Income Analysis, McGraw-Hill Book Company, Inc., 1949, p. 104.

8/ Black, John D., Agricultural Reform in the United States, McGraw-Hill Book Company, Inc., New York, 1929, pp. 174-175.

Production Reports

The major source of production reports in the United States is the Agricultural Estimates Division of the Agricultural Marketing Service, U. S. Department of Agriculture. In Arizona there are four crop-reporting districts. Two individual counties, Yuma and Maricopa, make up two of the districts, with the remaining 12 counties combined into the other two districts. These data should be broken down by counties if possible.

The data should be more representative in several instances. There is no distinction made in corn yields in the central Arizona irrigated areas and the Indian Reservations. In the case of alfalfa hay yields, all of the land planted to alfalfa that has had any hay cut from it is included in the determination of yields. This includes pasture and lands used for the production of alfalfa seed.

In the case of cattle production, the calf crop needs to be determined from producing cows instead of all heifers and cows, two-years old or older. This is needed for the county, state, and nation.

The number of cattle on feed should be determined more often. The U. S. Department of Agriculture's report of cattle on feed is published once every three months. This is not often enough to allow the cattle feeders to adjust their cattle feeding to take the fullest advantage of the market.

Range conditions are also very important. At the present time these reports are not looked upon with much favor. They are late in registering the conditions of the range. A more objective method of determining these conditions should be devised.

A Model of the Livestock Market News Service for Arizona

In describing a model of the market news service, there are seven items that should be noted.

1. The market is created by human action, and it is the function of the market news to interpret this action and report it to the participants in the market.
2. No one has a perfect knowledge of the market. The man in the central market buying slaughter animals does not know the exact price that his competitors are bidding. Nor does he know exactly the other competitors' position in the wholesale meat market. He does know if he buys too high that his firm will have to sell at a loss in order to dispose of the carcasses. He also knows that if he bids too low he will not be able to purchase the animals needed to fill the expected orders. The head buyer of the firm does not have perfect knowledge of the future demand of the wholesale meat market. Thus, both the buyer and head buyer has to be able to "feel" the market. This quality is also needed by commission men and everyone else who successfully deal in the market, as well as the market reporter.
3. The market is "dynamic"--ever changing. Any market news system must allow for the effect of a sale being reflected in the market.

4. It must be recognized that markets are becoming more decentralized and that "country" sales have to be reported if the market news is to be "near perfect."
5. It should be realized that any factor such as a forecast of a change in the demand for beef, increased feed prices, expected increase or decrease in personal disposable income, etc., might have an effect on the market for cattle. Therefore, all participants should have knowledge of such information.
6. The institutional limits of Federal-State Market News Service must be taken into consideration. Due to political repercussions, this service cannot report any conditions surrounding the market other than actual sales.
7. Since the cattle producer is, in most instances, both a producer and a merchandiser of his product, market news must be in a brief, concise form in order for him to be informed on market conditions and still not neglect the production side of his enterprise.

Figure 1 is an illustration of a model of the market news system for Arizona. The center channel represents the orderly collection and dissemination of market news by central agencies; i.e., Federal-State and private market news services. The outer channel represents the individuals in the market partially servicing themselves through word-of-mouth information. In the more decentralized areas in the United States this will continue to be an important channel of market news. Each box indicates the information obtained from each source, which in turn is given to all other sources through the two channels. (The livestock auction markets have not been designated as such in this figure in order to keep the diagram as simple as possible. It is represented by the individuals giving this information.)

There is no formula that might be used to determine the relationship of Federal-State and private market news service to individuals servicing themselves, word-of-mouth. To a large extent the ranchers and feeders in Arizona are using the word-of-mouth channel to inform themselves of market conditions. One disadvantage of such a channel is the increased effort needed on the part of the participants to keep informed on market conditions as well as the frictional loss that is inherent in this type of news service.

There are several ways that the Federal-State and private news services can improve the market news issued to Arizona feeders and ranchers. These are discussed in the previous section. Improvements in the present market news system must be made one step at a time, and after they are made they must be evaluated to see what other improvements can be made. This should be a never-ending process. The market institutions are continually changing, and this creates new problems that must be met.

Figure 1 illustrates the two channels of market news. The amount of information that flows into each of these channels will be determined by the efficiency of the Federal-State and private market news services. It is conceivable that the efficiency of these two services could become effective enough to almost eliminate the outer channel, word-of-mouth.

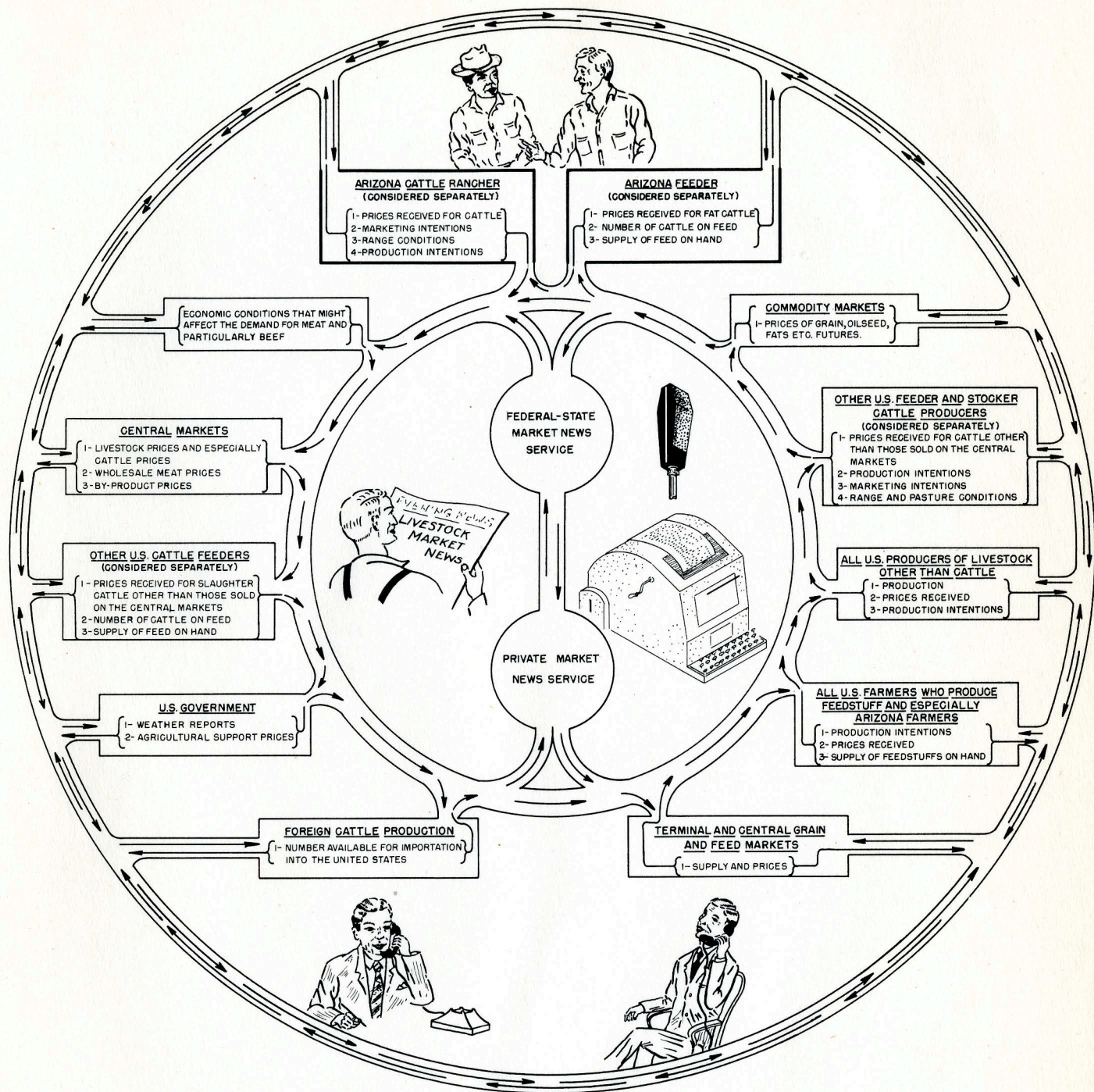


FIGURE 1- A MODEL OF THE MARKET NEWS SYSTEM IN ARIZONA. THE INNER CHANNEL ILLUSTRATES THE COLLECTION AND DISSEMINATION OF MARKET NEWS BY FEDERAL-STATE AND PRIVATE NEWS SERVICES. THE OUTER CHANNEL ILLUSTRATES THE INDIVIDUALS IN THE MARKET SERVING THEMSELVES.