

# Winter 2003 Idaho Commodity Outlook

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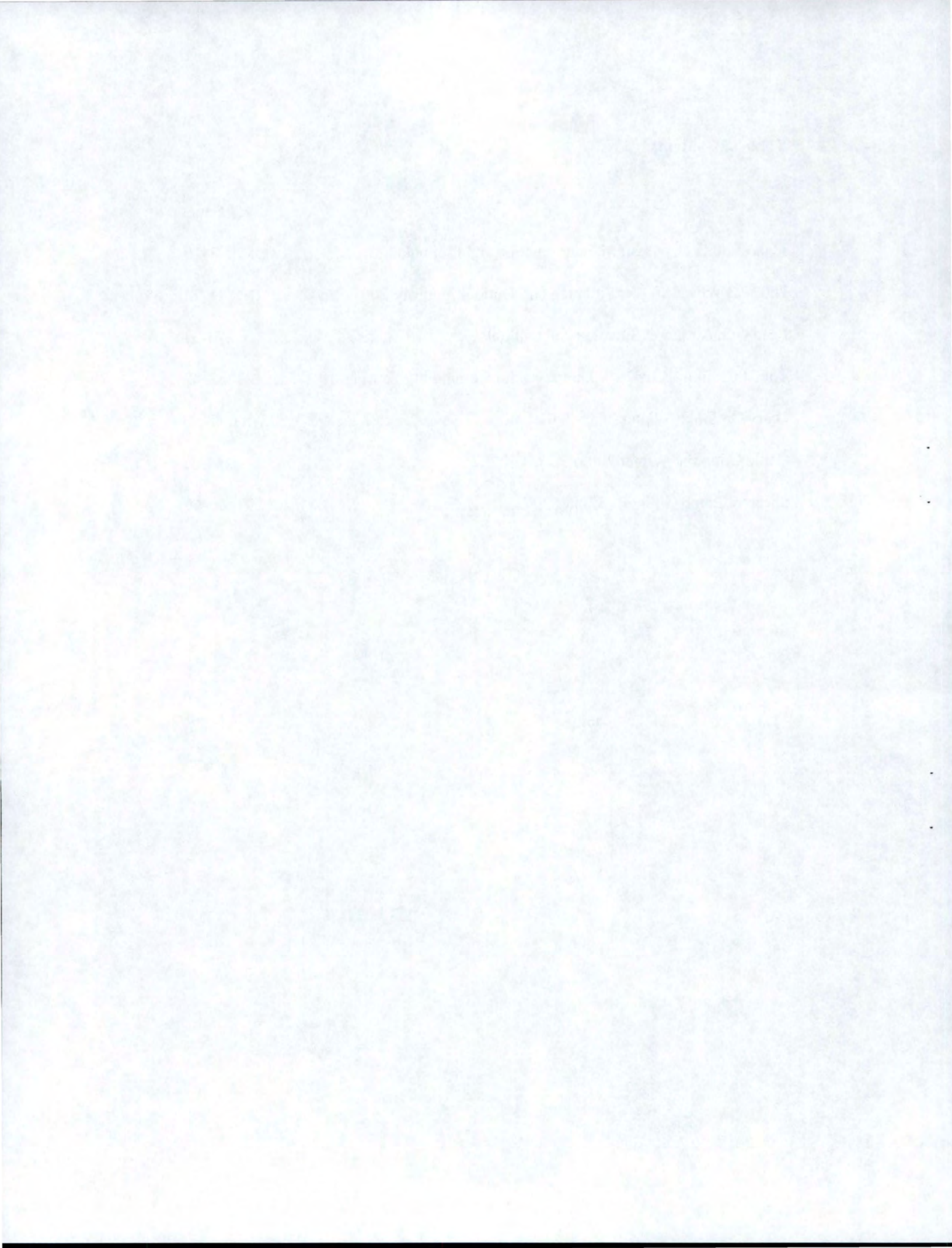






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## Idaho Edible Dry Bean Market Situation and Outlook

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The old marketing adage that “the cure for high prices is high prices and the cure for low prices is low prices” certainly proved itself this past year in the dry bean markets. High prices for most dry bean classes during the 2001 marketing year (September through August) encouraged producers to plant more acres in 2002. U.S. growers planted 483,800 more acres, a 34 percent increase. While weather did play a role in reducing yield and/or harvested acres in several states, there were not the catastrophic losses that were seen in 2001 by three of the four top dry bean states, Michigan, Minnesota and North Dakota. U.S. harvested dry bean acres as a percent of planted acres matched the 10-year average of 91 percent, significantly above last year’s 87 percent. The average yield per acre was up by 164 pounds or 10.5 percent. The combined increase in harvested acreage and yield increased U.S. dry bean production by 10.567 million hundredweight, or 54 percent—a record one-year increase. With an increase of this magnitude, the overall decline in dry bean prices since the start of the 2002 marketing year has not been surprising. Prices for great northern and garbanzo beans have been the exception.

In aggregate, it was a typical year and a much better year than last. Among the top seven producing states, which typically produce over 85 percent of the dry beans in the U.S., only Nebraska and North Dakota had lower yields than the previous year. Because of drought conditions, Nebraska also had more abandoned acres. Eleven percent of Nebraska’s planted acres went unharvested, which is double the normal 5-6 percent. Idaho, the number five dry bean producer in 2002, had an average yield of 2,000 pounds per acre, an increase of 50 pounds. Idaho’s 2,000 acres of unharvested dry beans accounted for two percent of planted acres, which is normal.



December's estimate for the U.S. 2002 dry edible bean production by USDA (Table 1) was up 2.556 million cwt from the previous estimate made in October, a 9 percent increase. The December estimate put U.S. dry bean production at 30.150 million cwt. The 2002 increase follows two years with significant declines in production. Planted acres declined by double-digit percentages in 2000 and again in 2001, 13.1 and 18.3 percent, respectively. Mother Nature helped to further trim 2001 production, triggering a general increase in dry bean prices during the 2001 marketing year.

### **Changes By Bean Class**

Table 2 summarizes the change in production from 2001 to 2002 for various bean classes both in Idaho and for the U.S. Table 2 also shows the percent of the U.S. crop for each of these bean classes that was produced in Idaho during 2002, which illustrates Idaho's relative importance. The percent that each bean class contributes to the total U.S. dry bean production, also found in Table 2, shows the relative importance of each class to the total dry bean market. Table 2 includes all bean classes reported by USDA, not just those grown in Idaho.

Most of the class specific changes in production were increases, and some were very significant. The notable exceptions for the bean classes grown in southern Idaho included great northern and small whites. Production of great northern beans dropped 26.2 percent nationally, while Idaho's production dropped 28.4 percent over last year. Great northern prices were weak relative to other bean classes during the 2001 marketing year (Table 3), and growers responded by planting 14,700 fewer acres nationally in 2002. Weather problems in Nebraska, the number one producer of great northern beans, resulted in more unharvested acres, a 16 percent drop in yield, and a 28 percent drop in production. Small whites are a minor bean class in the U.S., accounting for only one-tenth of one percent of total dry bean production. Idaho has traditionally been the largest producer of small whites, and Idaho continues in that role, but at an overall reduced level. Idaho's production of small whites dropped 70 percent, while nationally, production declined by 15.4 percent. The



market for small whites is a thin market and has been more erratic and less predictable than other classes grown in Idaho. Growers' concern over the lack of a consistent market was apparently a bigger factor than last year's higher price in their decision to reduce production.

Garbanzo production in northern Idaho saw the biggest year-to-year decrease in production of any class grown in Idaho. Idaho's production dropped by 206,000 cwt or 50 percent and production in the U.S. was down by 45.8 percent. Weak prices in recent years encouraged growers to reduce production. Idaho growers planted 11,800 fewer acres in 2002, a 41 percent reduction. California returned to their number one spot in garbanzo bean production, dropping Idaho back to the number two spot after only one year at the top.

Pinto beans remain the number one class in both the U.S and in Idaho in terms of production, oddly enough accounting for an identical 43.1 percent of the 2002 production for both. An average 2001 Idaho market price close to \$26 dollars, \$7 above the 5-year average price, stimulated production in 2002. Idaho planted 13,600 more acres to pintos, a 61 percent increase. Nationally, planted acres increased by 45 percent. From 2001 to 2002, pinto production increased by 53.7 percent in Idaho and 48.8 percent in the U.S. Prices dropped by \$10 between August and October and have remained flat at around \$18.50.

Pinks and small reds also had strong prices during the 2001 marketing year, averaging \$24 and \$25, respectively (Table 3). Each of these classes contributes just over two percent to the total U.S. bean crop, but Idaho is generally the number one producer of each of these classes. Pink production in Idaho increased by 116 percent from 2001 to 2002, while U.S. production increased by 90 percent. The increase in small red production was even more significant. Idaho's production of small reds increased by 192 percent, while U.S. production went up by 261 percent. Prices for both classes dropped to \$20 after harvest and have remained at that level.



The biggest percentage increase in bean production both in Idaho and U.S. occurred with black beans, increasing by 485 percent and 298 percent, respectively. The 4,000 acres Idaho planted to black beans was a significant increase over the 600 acres planted in 2001 and the 1,100 acres planted in 2000. The extremely small black bean crop in 2001 resulted in prices in the mid \$30s, which explains grower interest. While black bean prices aren't reported for Idaho, prices in Michigan, the number one producer of black beans, were only \$11-12 in the first one-third of the 2002 marketing year, only a third of the price peak seen on the 2001 crop.

### **Exports & Domestic Use**

Exports of dry beans have been fairly stable in recent years, coming close to 8 million cwt each of the last four years (Table 4). During the 1990s the U.S. exported approximately one-fifth of the dry bean supply, varying between 17 and 25 percent. In spite of the strong dollar, the U.S. continues to compete effectively in most markets. Pintos and navy beans alternate between number one and number two, in terms of both export volume and value of exports. Great northern place a strong third. These three bean classes typically account for just over 50 percent of exports. The major importing countries vary by class. Mexico, Haiti and the Dominican Republic are the big importers of pintos. Mexico is the biggest market, and one that a recent USDA publication described as "lucrative but unsteady." Shortfalls in Mexico's own dry bean production has a strong influence on U.S. exports, and Mexico's production is erratic. Sales to Haiti are strongly influenced by policy decisions regarding food aid and credit. The top three major markets for navy bean exports are the United Kingdom, Canada and Italy, all strong cash customers. The U.K. dominates this market and can account for 45 to 70 percent of the navy bean exports. The top three export markets for great northern (Algeria, Turkey and France) either border the Mediterranean or have strong ties to former colonies in this region.

After peaking during World War II at 11 pounds per person, dry bean consumption began a long, steady decline before a rebound started in the early 1980s. Between 1980 and



1984, dry bean consumption averaged 5.8 pounds. The ten years from 1985 to 1995 saw the biggest gains, with consumption increasing by 27 percent, from 5.8 to 7.4 pounds. Per capita consumption has stayed fairly consistent in the late 1990s and so far in the 21<sup>st</sup> century, with only a slight increase.

### **Review of the 2002-03 Marketing Year**

The price on all the dry bean market classes grown in southern Idaho—except great northers—have been lower in the first three months of the 2002-03 marketing year than prices prevailing at the end of the 2001-02 marketing year. Pinto prices saw the greatest drop, but pinto prices had been significantly higher than other bean classes. Pinto prices have fallen \$11 from the \$29-30 prices in August and have averaged \$8 below the 2001 marketing year price during the first four months of the 2002 marketing year. The price on pinks and small reds has dropped by \$5 from the \$25 prices in August and has averaged \$4 below the 2001 marketing year price during the first four months of the 2002 marketing year. There were no grower price quotes on small whites the last few months of the 2001-02 marketing year, but at \$20 so far this marketing year, small whites are \$4 below the last price quotes from March. Great northers are the only class grown in southern Idaho to see a price improvement with prices \$1-2 higher than the \$18 price quotes in August. Garbanzo beans, the only dry bean class grown in northern Idaho, have seen a \$2 improvement from the \$16 July price.

Where will prices go from here? I expect to see the composite Idaho dry bean price settle to \$19 and stay close to that for the remainder of the marketing year. Unlike the last several years where the garbanzo price lowered the composite dry bean price, this year it will help support it at a level higher than southern Idaho dry beans alone could support. I see the current marketing year shaping up similar to 1994 when bean prices stayed in a very narrow price range from the prices established early in the marketing year. Table 3 contains historical prices for Idaho's major dry bean classes for 1997 through 2001 and my



price forecast for each class for the 2002 market year. Idaho's composite dry bean price for recent years and forecast prices are shown in Table 4.

### **Projections For 2003-04**

Considering all the uncertainties, making a market forecast is always a risky proposition. I think that forecasts are useful in spite of the uncertainty if the focus stays on the analysis and doesn't get caught up in simply trying to out-guess the market. My initial forecast for the 2003 crop uses a high, expected and low prediction for U.S. dry bean production and dry bean exports, Idaho production and the average composite dry bean price for Idaho. These are shown at the bottom of Table 4. My forecast U.S. production ranges from a low of 27 million cwt—a 10.5 percent decrease over 2002—to a high of 32.0 million cwt—an increase of 6.0 percent. The low range of the forecast will occur only if weather reduces the harvested acreage or yield. My export forecast ranges from 7.5 to 8.5 million hundredweight, based on historical averages and trends, with eight million the expected value.

Idaho's production next year should fall between 1.78 and 2.065 million cwt. Given my predicted values on production and exports, I expect to see the composite price for dry beans in Idaho stay at or under \$20. The high end of my composite dry bean price forecast, \$20, would occur if the low production scenario occurs and exports are even average. The low price forecast, \$17, would result from a combination of the high production and low export scenarios. With relatively stable domestic utilization of around 20 million hundredweight, exports are the crucial variable on the demand side and the key to prices. While USDA does not publish stocks data on dry beans, one would expect the stocks to have declined significantly during the 2000 and 2001 marketing years. With substantially higher production this year, stocks have certainly rebuilt and may come close to the burdensome levels seen between 1998 and 2000. This means that the price for the 2003 crop will be very sensitive to the overall supply and the size of the 2003 crop.



**Table 1. Dry Edible Beans: Area Harvested, Yield, and production by State and United States, for 2001 and 2002 1/**

State	<u>Area Harvested</u>		<u>Yield</u>		<u>Production</u>		
	2001	2002	2001	2002	2000	2001	2002
	--- 1,000 Acres ---		--- Pounds ---		----- 1,000 Cwt -----		
CA	85.0	89.0	1,760	2,030	2,059	1,496	1,807
CO	105.0	85.0	1,700	2,100	1,980	1,785	1,785
ID	73.0	93.0	1,950	2,000	1,716	1,424	1,860
KS	14.0	14.5	1,850	1,100	289	259	160
MI	130.0	265.0	600	1,850	4,125	780	4,903
MN	105.0	150.0	1,500	1,630	2,400	1,575	2,475
MT	28.5	23.0	1,320	1,630	486	376	374
NE	148.0	165.0	2,150	2,100	3,230	3,185	3,465
NM <sup>2/</sup>	15.0	8.0	2,000	1,800		300	144
NY	22.3	24.5	870	1,360	358	194	333
ND	400.0	690.0	1,550	1,530	7,613	6,200	10,557
OR	9.5	9.1	1,810	1,730	211	172	157
SD	17.0	16.0	1,590	1,630	226	270	261
TX	26.4	32.5	1,320	970	158	348	315
UT	5.7	0.3	300	1,670	10	17	5
WA	34.0	41.0	1,700	2,000	640	578	818
WI	6.1	7.0	1,800	1,960	146	110	137
WY	24.0	27.0	2,140	2,200	762	514	594
US	1,248.5	1,739.9	1,569	1,733	26,409	19,583	30,150

Source: USDA, NASS December 2002 Crop Production Report.

1/ Excludes beans grown for garden seed.

2/ Estimates discontinued in 2000 and restarted in 2001.



**Table 2. 2002 Dry edible bean production by class for Idaho and U.S., percent of total for Idaho and U.S. and percent change from 2001 to 2002 for Idaho and U.S.**

Dry Bean Class	Idaho				U.S.		
	Production (1,000 cwt)	% Idaho	% Change	% U.S.	Production (1,000 cwt)	% U.S.	% Change
Navy	119	6.4	+89.0	2.2	5,305	17.6	+130.0
Great Northern	63	3.4	-28.4	4.1	1,556	5.1	-26.2
Small White	6	0.3	-70.0	18.2	33	0.1	-15.4
Pinto	801	43.1	+53.7	6.2	12,980	43.1	+48.8
Light Red Kidney	25	1.3	+150.0	2.0	1,253	4.2	+61.5
Dark Red Kidney	26	1.4	-23.5	2.4	1,084	3.6	+49.1
Pink	235	12.6	+115.6	37.9	620	2.1	+90.2
Small Red	242	13.0	+192	38.9	621	2.1	+261.0
Cranberry	40	2.2	0	13.8	353	1.2	+140.1
Black	76	4.1	+485	2.4	3,114	10.3	+298
Other	21	1.1	-32.3	2.1	994	3.3	+33.1
Garbanzo	206	11.1	-50.0	23.5	873	2.9	-45.8
Lima (Large & Baby)	0	0	0	0	850	2.8	+51.5
Blackeye	0	0	0	0	514	1.7	-7.1
Total	1,860	100	+30.6	6.2	30,150	100.1	+53.9

Source: USDA-NASS December 2002 Crop Production Report.



**Table 3. Historical Idaho dry bean market year average prices by class, 1997 – 2001 and projected prices for 2002.**

Market Year	Pinto	Great Northerns	Small White	Pink	Small Red	Garbanzo
1997-98	\$21.05	\$19.10	\$20.55	\$21.75	\$21.00	\$20.50
1998-99	\$15.65	\$17.50	\$19.35	\$18.50	\$19.25	\$20.55
1999-00	\$15.60	\$17.00	\$17.65	\$14.15	\$14.45	\$24.15
2000-01	\$16.70	\$16.10	\$17.00	\$15.55	\$15.55	\$20.70
2001-02	\$25.90	\$17.95	\$22	\$24.05	\$25	\$16.05
5-Yr. Avg.	\$19.00	\$17.55	\$21.40	\$18.80	\$23.80	\$20.40
2002-03	\$18.50	\$20	\$20	\$21	\$20.50	\$19

Source: USDA. Prices rounded to nearest 5 cents for 1997 - 2001. 2002 market year prices are the author's forecast. Marketing year is September through August.



Table 4. Dry edible bean production, exports and price.

Marketing Year	U.S. Production (million cwt)	U.S. Exports <sup>1/</sup> (million cwt)	Idaho Production (1,000 cwt)	Average Idaho Price <sup>2/</sup> (per cwt)
1997-98	29.370	7.812	2,156	\$21.00
1998-99	30.418	10.663	2,112	\$17.00
1999-00	33.085	8.238	2,112	\$15.10
2000-01	26.409	7.861	1,716	\$17.35
2001-02	19.583	8.250	1,424	\$21.60
5-yr Average	27.773	8.565	1,904	\$18.40
2002-03 <sup>3/</sup>	30.150	8.000	1,860	\$19
<u>2003-04<sup>4/</sup></u>				
High	32	8.5	2,065	\$20
Expected	29	8.0	1,895	\$18
Low	27	7.5	1,780	\$17

Source: USDA: Vegetable and Specialties Yearbook, July 2002, unless noted otherwise.

<sup>1/</sup>Exports are for the calendar year. <sup>2/</sup>Idaho's price is the simple average of the price reported by IAASS for the crop-marketing year Sept. 1 — Aug. 31.

<sup>3/</sup> US and Idaho production are USDA estimates from December's 2002 Crop Production Report. Exports are USDA forecast. Idaho's price is the author's forecast.

<sup>4/</sup> 2003-04 marketing year forecasts are the author's.



## 2002-03 Wheat Market Situation and Outlook, January 2003

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When analyzing commodity markets, it's important to look at both historical and current market fundamentals. Historical data can show long-term trends and give an important historical perspective to the current situation. History may also offer some insight regarding price changes in the future. Market trends, both historic and current, can be just as important as the current market fundamentals.

A significant change in market supply fundamentals is bringing producers much higher prices for their 2002 wheat crop. The average U.S. wheat price for the 2002 crop should be at least a dollar higher than last year's price. Average marketing year prices for all classes of wheat should come close to 1996 prices. While not impossible, it's highly unlikely that prices will approach the all time highs of 1995, but prices will remain volatile. The negative side to the 2002 wheat crop is that significant production problems left many wheat growers with less wheat to sell, regardless of the price. Looking at next year's crop, wheat prices will likely drop based on higher expected production, but prices should stay above the 10-year average. As is always the case, weather concerns and policy issues create uncertainty on any price forecast.

### Historical Market Trends

After hitting historical highs during the 1995 and 1996 marketing years, U.S. wheat prices declined rapidly as higher production rebuilt depleted stocks. The high prices stimulated increased production both in the U.S. and around the world. After hitting bottom in 1999, wheat prices have been making a slow but steady recovery as growers reduced acreage in an attempt to reduce the wheat supply. Record high yields in the late 1990s stymied growers' efforts to balance supply and demand by planting fewer acres. Production actually increased in some years in spite of acreage cuts. Table 3 contains the last ten years of acreage, yield, production and price data for the U.S. wheat crops. The cyclical production pattern common to many agricultural commodities



is well illustrated. A high price brings an increase in planted acres and higher production, followed by a drop in price and cuts in acreage until lower production or higher demand improves prices.

The changing levels of supply and demand as population continues to grow can present a challenge when evaluating commodity markets. Critical acreage, production and stocks values change over time. To reduce this problem and allow for historical comparisons, market analysts will often use a ratio of stocks to utilization, making a relative rather than an absolute comparison. The balance sheet evaluation for both the world wheat situation (Table 1) and the U.S. wheat situation (Table 2) use these ratios to facilitate year-to-year comparisons. Analyzing historical data can help discover critical ratio levels that may trigger a significant change in price. But structural changes in markets can also influence even these critical relative values. Keep this in mind, particularly when reviewing historical data for possible clues to current market behavior. World grain trade has undergone fundamental changes since the Soviet Union's unexpected entry in the early 1970s. At that time the European Union was a net importer of wheat, now they are a major exporter. And the Soviet Union as such, no longer exists. Dramatic changes in trade policy and the high value of the dollar continues to influence our ability to compete in world markets. While weather events still exist as a wild card in agricultural commodity markets, the institutions that evaluate and respond to these events are much more sophisticated than those in place a quarter of a century earlier. The world trade infrastructure has improved over time making importing countries much more comfortable living "hand to mouth" to avoid the expense of maintaining large inventories. Political conflicts and trade barriers have been reduced considerably, although serious problems remain. Remember, markets are dynamic. And as the old saying goes, "it's not what we don't know that gets us into trouble, it's what we think we know."

Before I start my review of the wheat markets, I want to mention that USDA recently made a significant adjustment in China's historical wheat stocks. This information was released in November by the Foreign Agricultural Service, USDA, and incorporated into



the November World Agricultural Supply and Demand Estimate published by the World Agricultural Outlook Board, USDA. These revisions changed the historical stocks and stocks to use ratios that many analysts use. The current world wheat situation, shown in Table 1, uses these revised estimates. While the stocks and stocks to use ratios are considerably higher after the adjustment, no impact on the current market is expected. The baseline for making historical comparisons has been changed, however.

### **World Wheat Situation**

Table 1 shows current estimates for the 2002-03 world wheat crop and seven years of historical data, including production, use, stocks and stocks to use ratios. While it doesn't contain all the information found in more detailed commodity market balance sheets, Table 1 has the pertinent supply and demand information needed to evaluate the market. Percentage change in production, use and ending stocks from the previous year indicate trends. Both the current fundamentals and the trend in market fundamentals support the higher wheat prices seen in recent months.

World wheat production has declined for five consecutive years. Change in utilization from one year to the next is more erratic, increasing some years and decreasing in others. Overall, utilization continues to grow along with world population. Utilization has increased by 3.2 percent in the past five years. Projected ending stocks of 169.5 MMT for 2002-03 are 14.7 percent below last year's stocks level, and 16.2 percent below the 5-year average of 202.3 MMT. A drop in the projected stocks to use ratio to 28.4 percent also supports higher wheat prices. While higher in absolute terms than the 153 MMT ending stocks in 1995 that triggered record high prices, the stocks to use ratio is almost identical. A stocks to use ratio below 30 percent can only be viewed as very bullish. But as U.S. wheat producers well know, the positive fundamentals on a world level don't automatically translate to higher domestic prices. A high-valued dollar and export subsidies from competitors have limited U.S. wheat producers' access to some markets in recent years, resulting in lower than expected prices. U.S. trade embargoes also continue to limit U.S. wheat growers' access to some markets.



Most information in recent WASDE reports has been positive, although the market has not always reacted as expected. The November report reduced 2002 production by major exporters by 2.5 MMT compared to the October report and the December WASDE report dropped production by another .6 MMT. European Union production was reduced by .5 MMT in November and raised by .2 MMT in December. Australia's drought ravaged crop was reduced by 2.0 MMT in November and by an additional .5 MMT in December, good news for PNW soft white wheat growers. Australia's 10.5 MMT wheat crop is less than half the 24 MMT they produced last year, and significantly below their 10-year average of 19.4 MMT. The overall quality of Australia's wheat crop has suffered as well.

### **U.S. Wheat Situation**

Table 2 provides information on the U.S. wheat market similar to that shown in Table 1 for the world situation. As I mentioned initially, the declining level of projected ending stocks continues to be a very positive factor when analyzing the U.S. market. The U.S. is projected to carry out a record minimum of only 348 million bushels of wheat from the 2002/03 marketing year. This is below the 376 million bushels ending stocks for 1995/96 that helped trigger record high prices. Using the relative measure of stocks to use, the 16.4 percent ratio for 2002/03 is slightly above the 15.8 percent for 1995/96, but well below both last year's 35.9 percent and the 5-year average of 36.5 percent. The precipitous decline in ending stocks was achieved mostly on the supply or production side. Table 2 includes July estimates, which shows how much and how fast the U.S. wheat crop declined because of weather problems. Projected demand or use is down slightly from last year, based mostly on a decline in wheat fed to livestock. Even though U.S. wheat producers planted 761,00 more acres to wheat, harvested acres declined by 2.61 million acres and average yield dropped by a whopping 4.9 bushels per acre (Table 3).

Since the production side of the market is fairly well established, the market will focus most of its attention on the demand side (use), at least until planting intentions and crop



condition reports for the 2003 crop become available. At this time, the market has more upside price potential than downside. Prices will likely stay volatile, however, moving up on prospects for better export demand and reports of poor crop conditions in the 2003 crop, and moving down when export markets are disappointing or crop condition reports are favorable. For growers still holding wheat, any price rally should be seen as a selling opportunity.

The average price received by U.S. farmers for all wheat during the first six months of the 2002/03 marketing year was approximately \$3.75 per bushel. This is at the lower end of the range of USDA's December seasonal average price forecast of \$3.65 - \$3.95. The implication is that wheat will trade at a higher price for the second half of the year than it did in the first half in order to meet the mid-point of the December forecast price range.

Table 3 provides some additional information that can be useful in analyzing the U.S. wheat market. Planted wheat acres in 2002 (60.4 million acres) were up from the previous year, but it is still the second smallest planted wheat acreage since 1973. The drop in yield from the previous year was a significant departure from the record and near record yields of the previous five years. Wheat yields in 2002 will be the lowest since 1991, and the first time in five years that the average U.S. wheat yield dropped below 40 bushels per acre. U.S. wheat production of 1.625 billion bushels is the smallest since 1972. The mid-range price from USDA's latest price forecast, \$3.80, is a dollar per bushel higher than the average farm price paid for the 2001 crop.

### **PNW Soft White Wheat**

While soft white wheat (including Club) still dominates the Pacific Northwest wheat market, its share in Idaho has declined somewhat over time. From three quarters of Idaho's planted wheat acreage in the mid 1990s, soft white wheat had dropped to just under 60 percent in 2000. During the same time period, hard red spring wheat went from around 12 percent to approximately 22 percent. The downward trend for soft white



wheat plantings has reversed the past two years. Soft white wheat as a percent of Idaho's total planted wheat acreage was just under 65 percent in 2002 according to the Idaho Agricultural Statistics Service

A comparison of the different wheat market class fundamentals can be useful in explaining the relative strength or weakness of a given class. For the past two years (2001 and 2002) soft white wheat had stronger market fundamentals (a lower stocks to use ratio) in comparison to the hard red wheats. Last year's stronger price for soft white relative to other market classes reflected this. The situation has reversed this year. Soft white wheat fundamentals are now weak in comparison to hard red wheat. A comparison of price changes for hard red spring, hard red winter and soft white bears this out. In early December, the average price change to year-earlier was approximately \$.45 for soft white wheat, \$.95 for 11 percent hard red winter and \$.80 for 14 percent hard red spring. The year-to-year comparison was even greater in October, before wheat prices started to drop, but the relative changes are comparable.

The 25 percent stocks to use ratio for soft white wheat (Table 4), while certainly not high by historical standards, is the highest of all major wheat classes. By comparison, the stocks to use ratio based on the December WASDE report has soft red at 11 percent (the lowest of all classes), hard red spring at 17 percent and hard red winter at 15 percent. This situation will likely continue to temper price increases for soft white wheat relative to other market classes for the remainder of the marketing year. But for all wheat classes, the low stocks to use ratio suggests a potential for a very volatile market—something that we've already seen.

I'm projecting the marketing year average price for soft white wheat to fall between \$4.30 and \$4.40, \$.70 to \$.80 higher than last year's price. (Table 4 shows the midpoint, \$4.35.) While the market peaked above this price in October and will likely go above it this spring, prices in early December were \$.45 to \$.50 below the peak prices. Lower prices early in the marketing year will also drag down the marketing year average price. While there is never any certainty in commodity markets regarding future price direction, additional price rallies are quite likely before next summer, especially after the



market slumped in November. What is less predictable is the timing and duration. Stronger than expected export demand or poor crop condition reports on the 2003 crop would be the likely trigger. Without a rally, however, the price of soft white wheat will likely trade in the \$4.20 to \$4.50 range and keep the seasonal average price at \$4.25. A price rally could easily add \$.35 to the price in this range. It's quite unlikely that we would see a price over \$5, however.

Between July and December, Portland hard red spring 14-percent protein wheat has traded between \$4.20 and \$6.00. Because of the lower prices early in the market year, the price will likely average around \$5.50, significantly above last year's average price of \$4.05. The market will likely trade in a range between \$5.10 and \$5.50 without a price rally. A price rally could easily add another \$.30 to the top end of this price range, and put prices back to the levels seen in early October. Protein premiums are much smaller this year owing to the overall higher protein in the hard red spring crop.

## **Outlook**

The market will focus on two factors as we move from the 2002/03 crop to the 2003/04 crop: 1) weather (crop condition), and 2) exports. The winter wheat crop is in much better shape than at this same time a year ago. As of the end of November, only 8 percent of the winter wheat crop was rated poor to very poor. At the same time last year, 20 percent of the crop was rated poor to very poor. However, drought problems remain and are a significant problem in Oregon and Washington where 45 and 20 percent of the crop was rated poor to very poor, respectively.

One interesting thing of note is that in spite of small wheat crops in Canada and Australia, the USDA is not expecting the U.S. to capture any additional market share. Their explanation is that non-traditional exporters, primarily the Soviet Union and India, have increased market share dramatically. Also, the EU was quite aggressive in their marketing efforts early in the current marketing year.



The next U.S. crop condition report from USDA will not be out until April 3, 2003, although state reports from Kansas, Texas and Oklahoma are generally available through much of the winter. Crop condition reports can vary significantly over the season, so caution is always warranted when using early crop condition reports to forecast market conditions in the future.

Because of higher prices for the 2002 crop, expect acreage and production to increase in 2003. My initial forecast for the 2003 U.S. wheat crop (Shown in the bottom of Table 3.) is 2.3 billion bushels. This assumes a 7.5 percent increase in planted acreage to 65 million, with 86 percent of the planted acres harvested and a 41-bushel per acre yield. The acreage would be similar to the 1998 crop, but I wouldn't expect to see the yield approach the record 43.2 bushels from that year. The weather patterns are just too uncertain and drought will likely constrain yields in several states. While this forecast is mostly speculation on my part, these aren't unreasonable estimates. As USDA releases more information on planted acreage and crop condition, projections can be refined. The marketing year average wheat prices for the 2003 crop will likely drop if we get a 2.3 billion bushel crop, although prices early in the 2003-04 marketing year could still be quite strong. The average U.S. wheat price could drop to a \$3.40 to \$3.60 range and Portland's soft white wheat price to between \$3.80 and \$4.20. Wheat production of only 2.0 billion bushels would likely see the average U.S. wheat price stay in the \$3.80 range and Portland soft white around \$4.35. Production of 2.4 billion bushels would mean the average U.S. wheat price would drop to around \$3.20 and Portland's soft white wheat price would stay around \$3.40.

As I mentioned earlier, the factors that have limited U.S. wheat growers access to world markets, a high-valued dollar and export subsidies from competitors, are still in place. An increase in U.S. production in 2003 without some increase in exports could quickly rebuild stocks and wheat prices could weaken quickly. Keep in mind that what has really improved wheat prices this year is the weather-induced supply reduction.



## **Sources of Planning Information**

Planning price projections for Idaho commodities can be found on the homepage for the Department of Agricultural Economics and Rural Sociology. Projected prices for the 2002/03 marketing year and historical price averages are currently available at

<http://www.ag.uidaho.edu/aers>

The first U.S. winter wheat plantings estimate by USDA will be released in January. The March 31<sup>st</sup> Prospective Plantings report will have estimates for all U.S. wheat planted acreage. The first winter wheat production estimate from USDA will be released in the May Crop Production report. The first spring wheat production estimate will be in the July Crop Production Report on July 11<sup>th</sup>. Both U.S. and world supply and demand estimates are revised and published monthly by the World Agricultural Outlook Board, USDA. The May report will contain USDA's initial assessment of the 2003/04 U.S. and world wheat supply and demand and prospects for U.S. wheat price. All USDA reports available electronically, including Crop Production and WASDE reports, are available at the Mann Library at Cornell University:

<http://www.mannlib.cornell.edu/usda/usda.html>. A monthly schedule of report release dates is also available.



Table 1. World wheat production, use, ending stocks, and stocks to use ratio, marketing years 1995/96 – 2002/03.

Market Year	--Production--		-----Use-----		-Ending Stocks-		Stocks to use ratio
	MMT <sup>1/</sup>	% Change	MMT <sup>1/</sup>	% Change	MMT <sup>1/</sup>	% Change	%
95/96	538.4		545.5		153.0		28.0
96/97	582.0	+ 8.1	570.2	+ 4.5	164.8	+ 7.7	28.9
97/98	610.1	+ 4.8	579.4	+ 1.6	195.5	+ 18.6	33.7
98/99	589.7	- 3.3	579.1	- 0.1	206.1	+ 5.4	35.6
99/00	586.0	- 0.6	585.2	+ 1.1	207.0	+ 0.4	35.4
00/01	584.0	- 0.3	586.6	+ 0.2	204.4	- 1.3	34.8
01/02	579.5	- 0.8	585.3	- 0.3	198.6	- 2.8	33.9
5-Yr Avg	589.9		583.1		202.3		34.7
02/03 <sup>2/</sup>							
Nov-02	569.3	- 1.6	595.1	+ 1.7	172.5	- 13.0	29.0
Dec-02	568.7	- 1.9	597.8	+ 2.1	169.5	-14.7	28.4

Source: USDA, FAS revised estimates released November 12, 2002 unless otherwise noted.

%Change: Percentage change is calculated from the previous year.

<sup>1/</sup>MMT = million metric tons.

<sup>2/</sup> USDA projection in the monthly WASDE reports as indicated.



Table 2. U.S. wheat supply, use, ending stocks, and stocks to use ratio, marketing years 1996/97 to 2002/03.

Market Year	---Supply--- <sup>1/</sup>		-----Use----- <sup>2/</sup>		-Ending Stocks-		Stocks to use ratio
	Million Bu.	% Change	Million Bu.	% Change	Million Bu.	% Change	%
95/96	2,757		2,381		376		15.8
96/97	2,746	- 0.4	2,302	- 3.3	444	+ 18.1	19.3
97/98	3,020	+ 10.0	2,298	- 0.2	723	+ 62.8	31.5
98/99	3,373	+ 11.7	2,427	+ 5.6	946	+ 30.8	39.0
99/00	3,339	- 1.0	2,390	- 1.5	950	+ 0.4	39.7
00/01	3,272	- 2.0	2,396	+ 0.3	876	- 7.8	36.6
01/02 <sup>3/</sup>	2,941	- 10.1	2,164	- 9.7	777	- 11.3	35.9
5-Yr Avg	3,189		2,335		854		36.5
02/03 <sup>4/</sup>							
Jul-02	2,626	-10.7	2,106	- 2.7	520	- 33.1	24.7
Nov-02	2,474	-15.9	2,116	- 2.2	358	- 53.9	16.9
Dec-02	2,474	- 15.9	2,126	- 1.8	348	- 55.2	16.4

Source: USDA, Economic Research Service Wheat Yearbook (3/02) unless otherwise noted.

% Change: Percentage change is calculated from the previous year.

<sup>1/</sup>Supply = Ending stocks from previous year + current year's production + imports.

<sup>2/</sup>Use includes exports (trade) and domestic use.

<sup>3/</sup>USDA estimate in December 2002 WASDE report.

<sup>4/</sup>USDA projection in monthly WASDE reports as indicated.



Table 3. U.S. wheat crop for 1991 to 2000 – all wheat.

Year	Planted (1,000 ac)	Harvested (1,000 ac)	Yield (bu/ac)	Production (1,000 bu)	Farm Price (\$/bu)
1993	72,168	62,712	38.2	2,396,440	3.26
1994	70,349	61,770	37.6	2,320,981	3.45
1995	69,132	60,955	35.8	2,182,708	4.55
1996	75,105	62,819	36.3	2,277,388	4.30
1997	70,412	62,840	39.5	2,481,466	3.38
1998	65,821	59,002	43.2	2,547,321	2.65
1999	62,714	53,823	42.7	2,299,010	2.48
2000	62,629	53,133	42.0	2,232,460	2.62
2001	59,597	48,633	40.2	1,957,043	2.80
2002 <sup>1/</sup>	60,358	46,022	35.3	1,624,636	3.80
5-Year Avg	62,224	52,123	40.7	2,132,094	2.86
10-Year Avg	66,818	57,171	39.1	2,231,945	3.32
10-Year Max	75,105	62,840	43.2	2,547,321	4.55
10-Year Min	59,597	46,022	35.3	1,624,636	2.48
<u>2003Forecast<sup>2/</sup></u>					
Expected	64,900	55,900	41.1	2,288,000	3.50
Low	63,375	53,800	37.5	2,000,000	3.80
High	66,390	58,400	42.0	2,400,000	3.20

USDA, Economic Research Service Wheat Yearbook (3/02), unless otherwise noted.

<sup>1</sup> USDA, NASS Small Grains 2002 Summary (9/2002) and the WAOB December 2002 WASDE report. Price is midpoint in range given by USDA.

<sup>2/</sup> Author's forecast. Note: low production results in high price and high production results in low price.



Table 4. White wheat balance sheets.

	2000/01	2001/02 <sup>1/</sup>	2002/03 <sup>1/</sup>
	----- (Million bushels) -----		
Beginning stocks	91	75	73
Production	303	232	239
Supply, total <sup>2/</sup>	399	315	319
Domestic use	120	95	101
Exports	204	147	155
Total Use	324	242	256
Ending Stocks	75	73	63
Stocks to Use Ratio (%)	23	30	25
Portland Soft White Price: <sup>3/</sup>			
Seasonal Average (\$/bu)	\$ 3.03	\$ 3.58	\$ 4.35 <sup>4/</sup>

Source: USDA Economic Research Service Wheat Yearbook (3/02) unless otherwise noted.

<sup>1/</sup> USDA December 2002 WASDE report.

<sup>2/</sup> Includes imports

<sup>3/</sup> Simple average of monthly prices (July– June) reported by USDA, AMS.

<sup>4/</sup> Author's forecast.



# Feed Grains Market Situation and Outlook

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## World Coarse Grains

Coarse grain supplies are at historically low levels, making further short-term gains in price likely (Table 1). The world coarse grain production forecast for 2002/03 was revised down slightly (.8 MMT) in the December World Agricultural Supply and Demand Estimate (WASDE) report from USDA. But projected use was reduced even more, resulting in slightly higher projected ending stocks for the 2002/03 marketing year. Ending stocks of 144.4 MMT (million metric tons) are 17.1 percent below last year's ending stocks, and 27.5 percent below the five-year average. At 16.2 percent, the stocks to use ratio is significantly below the five-year average of 22.6 percent, and three percentage points below last year's. Even more significantly, ending stocks whether measured in MMT or as a percent of use, are below the 1995 levels that triggered record high feed grain prices. (See Table 3 for U.S. corn prices.) The current fundamentals in the world coarse grain market can be characterized as very bullish with volatile prices, since markets tend to over react when supplies are limited. Note that the values in Table 1 represent the revised data issued by USDA that adjusted Chinese stocks numbers up substantially.

## U.S. Feed Grains

U.S. total feed grains production for 2002/03 was unchanged in the December WASDE report (Table 2). The 245.2 MMT production for all feed grains is down 6.2 percent from the 2001/02 crop. Projected total use for 2002/03 (213.4 MMT) was up slightly from November's report, but still represents a 1.8 percent decrease over the 2001/02 marketing year. This is the second consecutive year-to-year reduction in ending stocks. Ending stocks of 24.8 MMT are down 45 percent from 2001/02. The stocks to use ratio calculated using the projected ending stocks and use for the 2002/03 crop is 11.6



percent, down from last year's 20.8 percent and eight percentage points below the five-year average of 19.6 percent.

The export situation for U.S. feed grains has been somewhat disappointing given the overall world coarse grain situation. U.S. feed grain exports for 2002/03 are projected at 55 MMT, almost identical to last year's 54.7 MMT. Corn exports for 2002/03 are projected at 1,900 million bushels, an increase of only 11 million bushels over last year's 1,889 million bushels. Projected barley exports of 20 million bushels for the 2002/03 marketing year are 7 million bushels below last year and less than half the 58 million bushels exported in 2000/01. The strong dollar continues to handicap the U.S. in an increasingly competitive export market. The European Union has been very aggressive in their marketing efforts, which has hurt U.S. barley sales.

### **U.S. Corn Crop**

Corn dominates U.S. feed grains, accounting for 92 percent of all feed grain production. Table 3 shows the acreage, production and price information on recent corn crops. While barley may be the dominant feed grain produced in many western states, including Idaho, corn is the key to all feed grain prices. Even in Idaho, bringing corn from the Midwest by large unit trains to specialized grain handling facilities serving Idaho's dairy and beef sectors has diminished the importance of feed barley.

USDA is currently forecasting the average price for the 2002/03 corn crop to fall within the \$2.20 to \$2.60 per bushel range. Table 3 shows the midpoint of \$2.40. The 2002 corn crop—just over nine billion bushels—was relatively small given the number of planted acres. Weather problems curtailed production. Only 89 percent of the planted acres were harvested, compared to a 10-year average of 91 percent, and yields were off considerably, dropping almost 10 bushel from last year. A higher price for corn has allowed feed barley prices in Idaho to rise as well.

The 2002 U.S. barley crop was down 9 percent from 2001, 29 percent from 2000 and the smallest crop since 1937. North Dakota, the nation's number one barley state,



accounted for much of the decrease in production. But South Dakota, Minnesota and Oregon also experienced significant declines. Idaho was the only major barley producing state to show an increase in production over 2001. Table 4 shows recent data on Idaho's barley crop. Keep in mind, however, that two-thirds of Idaho's barley acres are planted to malting varieties, up from 50 percent in the mid 1990s. Two things are happening. Fewer total acres have been planted to barley, and then more acres are growing malting barley. The biggest change in barley production has occurred in the irrigated regions of southern Idaho. The higher production expense because of irrigation has forced growers to seek more profitable alternatives. Dryland producers often have no alternatives. The price shown in the last column of Table 4 is derived from the Idaho Agricultural Statistics Service (IASS) monthly feed barley price, averaged over the July to June marketing year and converted to a price per hundredweight (cwt). The \$4.90 price for the 2002 crop is my estimate and represents a 15 percent increase over last year's price. Varying by location, feed barley will likely continue to trade in the \$4.50 to \$5.50 per cwt range for the remainder of the 2002/03 marketing year.

Acreage and price forecasts for the 2003/04 crop are shown at the bottom of Table 4. These would normally appear in our spring outlook done in April, but that has been discontinued. I expect to see barley acreage for both malt and feed use in Idaho increase. I expect to see the yield to stay below the 5-year average because of lingering drought conditions. The low yield level would occur if things get worse rather than better relative to precipitation. Even if production falls to the level shown in my low production forecast, I expect the price of feed barley to decline, mostly because I expect a larger corn crop that will effectively cap the feed barley price.

### **Sources of Planning Information**

Planning price projections for Idaho commodities can be found on the homepage for the Department of Agricultural Economics and Rural Sociology. Both projected prices for the 2002-03 marketing year and historical price averages are currently available at <http://www.ag.uidaho.edu/aers>



The March 31<sup>st</sup> Prospective Plantings report will have estimates for all U.S. crops. The first production estimate for the various feed grains will be in the July Crop Production Report. Both U.S. and world supply and demand estimates are revised and published monthly by the World Agricultural Outlook Board, USDA. All USDA reports available electronically, including Crop Production and WASDE reports, are available at the Mann Library at Cornell University: <http://www.mannlib.cornell.edu/usda/usda.html>. A monthly schedule of report release dates is also available.



Table 1. World coarse grains production, use, ending stocks, and stocks to use ratio, marketing years 1995/96 – 2002/03.

Market Year	--Production--		-----Use-----		-Ending Stocks-		Stocks to use ratio %
	MMT <sup>1/</sup>	% <sup>2/</sup> Change	MMT <sup>1/</sup>	% <sup>2/</sup> Change	MMT <sup>1/</sup>	% <sup>2/</sup> Change	
95/96	801.8	- 7.8	841.2	- 2.1	153.7	- 19.9	18.3
96/97	906.6	+ 13.1	874.7	+ 4.0	187.6	+ 22.1	21.4
97/98	882.8	- 2.6	872.8	- 0.2	198.8	+ 6.0	22.8
98/99	889.8	+ 0.8	869.0	- 0.4	220.1	+ 10.7	25.3
99/00	876.6	- 1.5	883.0	+ 1.6	214.7	- 2.5	24.3
00/01	859.8	- 1.9	880.8	- 0.2	188.8	-12.1	21.4
01/02	887.5	+ 3.2	902.1	+ 2.4	174.2	- 7.7	19.3
5-Yr Avg	879.3		881.5		199.3		22.6.0
02/03 <sup>3/</sup>							
Nov-02	861.7	- 2.9	892.3	- 1.1	143.1	- 17.9	16.0
Dec-02	860.9	- 3.0	890.8	- 1.3	144.4	- 17.1	16.2

Source: USDA, World Agricultural Outlook Board.

Includes revised Chinese data.

<sup>1/</sup>MMT = million metric tons.

<sup>2/</sup>%Change: Percentage change is calculated from the previous year.

<sup>3/</sup>USDA projection in the monthly WASDE reports as indicated.



Table 2. U.S. feed grains supply, use, ending stocks, and stocks to use ratio, marketing years 1995/96 - 2002/03.

Market Year	---Production---		---- Use <sup>1/</sup> ----		Ending Stocks		Stocks to use ratio
	MMT <sup>2/</sup>	% Change	MMT <sup>2/</sup>	% Change	MMT <sup>2/</sup>	% Change	%
95/96	209.8	- 25.9	243.4	- 9.3	14.4	- 68.2	5.9
96/97	265.5	+ 26.5	255.7	+ 5.1	27.0	+ 87.5	10.6
97/98	260.2	- 2.0	251.9	- 1.5	38.1	+ 41.1	15.1
98/99	271.5	+ 4.2	261.0	+ 3.6	51.3	+ 34.6	19.7
99/00	262.9	- 3.1	268.1	+ 2.7	48.8	- 4.9	18.2
00/01 <sup>3/</sup>	273.1	+ 3.9	215.4	- 19.7	52.7	+ 8.0	24.5
01/02 <sup>3/</sup>	261.9	- 4.1	217.3	+ 0.9	45.1	- 14.4	20.8
5-Yr Avg	265.9		242.7		47.2		19.6
<u>02/03<sup>4/</sup></u>							
Nov-02	245.2	- 6.4	212.6	- 2.2	24.9	- 44.8	11.7
Dec-02	245.2	- 6.4	213.4	- 1.8	24.8	+ 45.0	11.6

Source: USDA, Economic Research Service Feed Grain Yearbook (5/00) unless otherwise noted.

% Change: Percentage change is calculated from the previous year.

<sup>1/</sup> Use includes exports (trade) and domestic use

<sup>2/</sup> MMT = million metric ton

<sup>3/</sup> USDA estimate in December 2002 WASDE report.

<sup>4/</sup> USDA projection in monthly WASDE reports as indicated.



Table 3. U.S. corn crop, 1991 to 2000.

<b>Crop</b>	<b>Planted</b>	<b>Harvested</b>	<b>Yield</b>	<b>Production</b>	<b>Farm Price<sup>2/</sup></b>
<b>Year</b>	(1,000 ac)	(1,000 ac)	(bu/ac)	(1,000 bu)	(\$/bu)
1993	73,239	62,933	100.7	6,337,730	2.50
1994	78,921	72,514	138.6	10,050,520	2.26
1995	71,479	65,210	113.5	7,400,051	3.24
1996	79,229	72,644	127.1	9,232,557	2.71
1997	79,537	72,671	126.7	9,206,832	2.43
1998	80,165	72,589	134.4	9,758,685	1.94
1999	77,386	70,487	133.8	9,430,612	1.82
2000	79,551	72,440	136.9	9,915,051	1.85
2001	75,752	68,808	138.2	9,506,840	1.97
2002 <sup>1/</sup>	78,947	70,541	127.6	9,003,364	2.40
5-Year Avg	78,360	70,973	134.2	9,522,910	2.00
10-Year Avg	77,421	70,084	127.8	8,984,224	2.31
10-Year Max	80,165	72,671	138.6	10,050,520	3.24
10-Year Min	71,479	62,933	100.7	6,337,730	1.82

USDA, Economic Research Service Feed Grain Yearbook (5/02), unless otherwise noted.

<sup>1/</sup> USDA estimates from November 2002 Crop Production Report and the December 2002 WASDE report. Price is midpoint in range given by USDA.

<sup>2/</sup> Marketing Year Average



Table 4. Idaho all barley crop for 1993 to 2002.

Year	Planted (1,000 ac)	Harvested (1,000 ac)	Yield (bu/ac)	Production (1,000 bu)	Farm Price <sup>1/</sup> (\$/bu)
1993	770	750	80	60,000	4.55
1994	740	720	75	54,000	4.60
1995	780	760	80	60,800	6.40
1996	750	730	73	53,290	5.70
1997	780	760	79	59,250	4.80
1998	780	760	78	59,280	3.75
1999	710	690	78	53,820	3.85
2000	750	730	76	55,480	4.00
2001 <sup>2/</sup>	700	670	75	50,250	4.25
2002 <sup>2/</sup>	730	710	76	53,960	4.90
5-Year Avg	744	722	77.2	55,616	4.15
<u>2003 Forecast<sup>3/</sup></u>					
Expected	755	735	76	55,860	4.40
Low	730	700	74	51,800	4.60
High	775	755	78	58,890	4.20

USDA, Idaho Agricultural Statistics Service Annual Report, unless noted otherwise.

<sup>1/</sup> IASS, USDA monthly feed barley price per bushel averaged for July through June, converted to hundredweight and rounded to nearest \$.05. Price for 2002 is author's forecast.

<sup>2/</sup> USDA, NASS Small Grains 2002 Summary (9/2002). Price for 2002 is author's forecast.

<sup>3/</sup> Author's forecast. Note: low production results in high price and high production results in low price.



## **The 2002 Farm Bill: New Directions for Commodity Farm Policy?**

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I purposefully posed the title of this article as a question, not as a statement of fact. While there are certainly a number of new programs in the 2002 farm bill, there are also a lot of holdovers from the 1996 Farm Bill as well as a number of recycled programs that make it difficult to characterize the philosophical direction of this farm bill. At best, the 2002 farm bill can be seen as a new paint job on an old pickup. Unfortunately, not all the rust spots got covered up.

The official name of the new farm bill is the Farm Security and Rural Investment Act of 2002. In one significant way this bill departs from its predecessor, the 1996 Federal Agricultural Improvement and Reform Act, or the FAIR Act. Congress didn't come up with the usual catchy acronym. But more seriously, the move to eliminate income support programs, a prominent feature of the 1996 Farm Bill, was abandoned—at least temporarily. The FAIR Act eliminated counter cyclical payments, which were designed to stabilize farm income by paying a per bushel deficiency payment to eligible producers when the market price fell below a set target price. These were converted to a declining fixed payment AMTA payment (Agricultural Market Transition Act). AMTA payments were scheduled to expire at the end of the 1996 Farm Bill and “get the government out of agriculture.” While this concept looked good on paper, especially with grain prices at record levels when the 1996 farm bill started, the initial enthusiasm for the “freedom to farm” concept dropped along with grain prices in the late 1990s. Ad hoc disaster payments, another program that was to be phased out under the FAIR Act, became ever more prominent as Congress struggled with the issue of how to support farmers suffering from a combination of natural disasters and low commodity prices. The supply management components of earlier farm programs designed to moderate production



stimulating aspects of the farm program were eliminated. Growers no longer need to idle or "set-aside" a percentage of their base acres as a condition to receive program benefits. Supply management programs helped to limit the exposure of the U.S. Treasury to the huge expenditures needed for price and income support programs when markets decline.

The failure to fully implement the 1996 farm bill set the stage for a very contentious debate on the 2002 farm bill. Ideological diehards wanted to reduce the government's involvement in agriculture and continue the trend established with the FAIR Act. But the convergence of a number of factors created the "perfect storm" that made it politically impractical to accomplish this and resulted in a farm bill that is philosophically quite different from its predecessor. The first two components of the perfect storm were, as I mentioned previously, low grain prices, and widespread crop production disasters related to weather problems. The third component, and some would argue the most important part of the perfect storm, was a crucial national election where control of the House and Senate depended on holding or regaining seats in several agriculturally dependent states or congressional districts. Political considerations have always been and will continue to be part of any policy debate. The relative importance of politics seemed to be much greater this time around.

I think it can be useful to review the objectives of any governmental policy before discussing a specific program. Below I've listed a number of stated or implied farm policy objectives. The list is far from comprehensive. The last one is seldom explicitly stated, but it's always there.

Traditional farm policy objectives:

- Sustainable prosperity for farmers and rural communities
- Provide an abundant, affordable, safe and nutritious food supply
- Stabilize or support farm income
- Maintain, develop or restore prosperity to the agricultural sector
- Preserve the family farm



-To get politicians reelected

## Overview

While the 2002 farm bill provides a significant increase in authorized farm program spending in comparison to the 1996 farm bill, the 2002 authorized level is fairly comparable to what was actually being spent in recent years when the authorized 1996 farm program payments and the emergency (market loss) payments are combined. I want to emphasize the word "authorized" when discussing the new farm bill. Even though the dollar amounts in the program titles are dramatic, its only money farmers can spend if it gets appropriated. With federal deficits re-established and growing dramatically and the need to spend more money on national security, funding on discretionary things like agriculture could take a significant hit. The safety net under the 2002 Farm Bill is quite large, theoretically. But so are the holes in the net through which farmers can fall. A large percentage of farmers receive no farm program benefits, and benefits are concentrated on large farms. According to the 1997 Census of Agriculture, 64 percent of farmers received no farm program payments. This can be misleading, however, since having a \$1,000 in gross farm sales will make you a farmer. And according to USDA's Economic Research Service, three-fourths of farm program payments in 1999 went to the top 16 percent of farmers.

Theoretically, the new farm bill reduces the need for ad hoc disaster and supplemented appropriations. But several billion dollars in disaster payments were authorized before the ink was dry on President Bush's signature on the new farm bill. There should be more stability and predictability in the level of farm program expenditures. With some new commodities eligible for benefits, several more commodities reinstated and an expanded conservation title, the constituent base for farm programs has been broadened. Not only has the potential pie gotten bigger, the number of farmers eligible to get a slice of the pie has increased. While the 2002 Farm Bill maintains many features of the 1996 farm bill, a significant change is the reinstatement of counter-cyclical payments found in previous farm



programs. Planting flexibility, a key provision of the 1996 farm bill, is retained, but there are no set aside provisions. Planting of fruits, vegetables and wild rice on base acres is still prohibited. There is more money available to promote and develop trade of agricultural commodities and products.

The 2002 farm bill temporarily replaces the permanent farm program legislation authorized under the Agricultural Adjustment Act of 1949. It's important to recognize that concerted efforts in 1996 to repeal the permanent legislation failed. The re-establishment of parity-based provisions under the 1949 permanent legislation and the tremendous cost of these programs to the U.S. treasury provides the leverage used to get a new farm bill written periodically. The 2002 farm bill has a six-year life and an estimated cost of \$80 billion, or roughly \$12.5 billion each year. But the actual cost could be much greater. The full cost of the counter cyclical payments will only be felt when low grain prices return. Many analysts feel the new farm bill will stimulate production since it greatly reduces downside price risk and has no acreage set aside. Cheap grain prices and significant counter cyclical payments may not be far off.

Table 1 provides some historical data on total U.S. commodity receipts, direct government payments, net farm income and the percent of net farm income coming from government payments. I think it helps illustrate how difficult it can be to achieve policy objectives. The 1996 Farm Bill was going to phase out direct government program payments and reduce agriculture's dependency on the government. The years 1990 and 1995 can serve as a baseline to show what happened. Even though the 1996 Farm Bill was designed to phase out government program payments, direct government payments mushroomed. Farmers became more dependent on the government as the percent of net farm income coming from government payments shows.

Farm policy has implications to trade agreements under the World Trade Organization that cannot be overlooked. Policy provisions are color-coded to indicate to what extent they are considered trade distorting. The most trade distorting are designated as "red box" and



are prohibited. Those given an amber box designation are considered somewhat trade distorting and the amount that a country could spend on amber box programs is limited. The final designation, green box, is given to policy programs and provisions considered non-trade distorting. Green box programs are not prohibited or subjected to an expenditure cap. Another way of viewing a policy tool's level of trade distortion is based on whether the program is "coupled" or directly tied to a commodity's production or price. The AMTA payments under the 1996 act are an example of a decoupled payment. The AMTA payment didn't change when price or production changed. However, the deficiency payment under previous farm bills was coupled to price. While there are ten different titles in the 421-page Farm Security and Rural Investment Act, I'm going to concentrate mostly on the commodity programs and I will briefly outline the conservation title.

## **Commodity Provisions**

No farm bill would be complete without some new terminology. The 2002 farm bill introduces "covered commodities." These are the commodities eligible for direct payments and counter cyclical payments. These include: wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans and other oilseeds. Other oilseeds include: sunflower seed, rapeseed, canola, safflower, flaxseed and mustard seed. "Loan commodities" isn't a new term, but the commodities eligible for loan has changed. In addition to the covered commodities already listed, loan commodities include: extra long staple cotton, wool, mohair, honey, dry peas, lentils and small chickpeas. The pulse crops are new loan commodities; whereas wool, mohair and honey were historically eligible and were merely reinstated after having been eliminated under the 1996 farm bill.

The farm bill has three farm income support measures (a.k.a. the Safety Net Provisions). These include: 1) marketing assistance loans, 2) direct decoupled payments, and 3) counter-cyclical payments. The first two are carryovers from the 1996 farm bill. The last is a major feature from farm bills prior to 1996. Marketing assistance loans apply to actual production and are not limited to "calculated" production using base acres and program



payment yield. As mentioned, the number of commodities eligible for loan was expanded. Also, loan rates on all the commodities eligible under the 1996 act were increased, with the exception of soybeans. The non-recourse loan can be extended for up to nine months. Loan options include: 1) repayment before maturity at lower of loan rate or posted county price (PCP), 2) repayment of loan and accrued interest at maturity, and 3) default at maturity with forfeiture of the commodity to the government. Repayment at less than loan rate will trigger marketing loan gain (MLG). Loan deficiency payments (LDPs), a carryover from the 1996 farm bill, are continued in the new farm bill. An LDP is paid on eligible production in lieu of taking a marketing assistance loan. An LDP can be taken any time after harvest and before losing beneficial interest.

$$\text{LDP} = \text{Local Loan Rate} - \text{Posted County Price}$$

The payment limitation on marketing assistance loans, including MLG and LDP, is \$75,000. Marketing loans are "coupled" to production and price. Loan rates under the 1996 Farm Bill and the 2002 Farm Bill are shown in Table 2. Note that the loan rates drop slightly after the first two years.

Direct de-coupled payments under the 1996 Farm Bill were known as AMTA (Agricultural Market Transition Act) or "Freedom to Farm Payments." These commodity specific payment rates are fixed for the life of the 2002 Farm Bill (Table 3). Over the life of the 1996 Farm Bill, payment rates declined and were set to drop to zero. Direct payments are available for all "covered commodities" and are based on calculated production, not actual production. Calculated production is a function of payment yield and payment acres. Payment acres are equal to 85 percent of base acres. Payment yield is the current program yield used in the Production Flexibility Contracts under the 1996 Farm Bill, which is based on the 1981 to 1985 farm production history.

$$\text{Direct Payment} = \text{Payment Rate} \times \text{Payment Acres} \times \text{Payment Yield}$$

Direct payments are made regardless of the commodity price. The payment limitation on direct decoupled payments is \$40,000. A comparison of direct payment rates for relevant Idaho commodities available under the 1996 Farm Bill and the 2002 Farm Bill are shown in Table 4. Since rates varied under the 1996 Farm Bill, Table 4 shows both the highest and



the 2002 rates for comparison. An advance payment option is available for direct payments. Up to 50 percent can be received beginning December 1 in the year prior to harvest, with the balance paid in October of the harvest year. The direct payment for 2002 will be calculated under the new Farm Bill provisions. The amount of direct payment already made to producers under the 1996 provisions for the 2002 crop will be subtracted from the new direct payment.

The third leg of the safety net under the 2002 Farm Bill is the counter cyclical payment (CCP), which is similar to the deficiency payment under previous farm bills. CCPs are made on covered commodities when the effective price falls below the target price. The direct payment adds a wrinkle that was not present when calculating earlier deficiency payments, and hence the term "effective price."

Effective Price = Direct Payment + the higher of:

- 1) National Loan rate, or
- 2) 12-month Marketing-Year Average U.S. Price

Target prices are commodity specific and are shown in Table 3. Target prices were not part of the 1996 Farm Bill as there were no counter-cyclical payments. Target prices under the 1990 Farm Bill are shown at the bottom of Table 3 as a reference. Like the loan rates, target prices are different in the first two years of the farm bill than the last four years. Target prices for 2004 through 2007 are slightly higher than for 2002 and 2003. Advance payments are available with 35 percent of the estimated counter-cyclical payment available in October of the harvest year. An additional 35 percent, or up to 70 percent if no advance was taken in October, can be taken the following February. The balance of the CCP (less any advance payments) will be paid in the month following the end of the commodity marketing year (July for wheat, barley and oats). The payment limitation on CCPs is \$65,000. Counter-cyclical payments are coupled to price and decoupled from production since the payment is made on a calculated production rather than actual production.

Table 3 contains two other pieces of information that are useful in helping to understand how the 2002 Farm Bill works and how it differs from the 1996 Farm Bill. The minimum



effective price and the maximum counter-cyclical payment are specified for each commodity shown in Table 3.

$$\text{Minimum Effective Price} = \text{Loan Rate} + \text{Direct Payment}$$

The difference between the target price and the minimum effective price is the maximum counter-cyclical payment.

$$\text{Maximum Counter-Cyclical Payment} = \text{Target Price} - \text{Minimum Effective Price}$$

Table 5 provides an example of how the 2002 Farm Bill safety net will work for wheat. The direct payment of \$.52 per bushel, shown in the first column, is not impacted by the market price, shown in the second column. But remember, the direct payment will only apply to the "old" yield bushels. The market price or loan rate, once the market price falls to the loan rate, added to the direct payment gives the effective price in the third column. When the effective price falls below the target price (\$3.86), the counter-cyclical payment starts to kick in. The loan rate provides a floor, and when it is added to the direct payment, this gives the minimum effective price of \$3.32 (shown earlier in Table 3). Once the market price drops to the loan rate, the maximum counter-cyclical payment rate of \$.54 is reached.

While this is an important feature of the safety net to farmers, it also explains why some analysts (including the author) feel the 2002 Farm Bill will stimulate production, and ultimately, lower prices. A great deal of the downside price risk for producers has been eliminated. A drop in price is a market signal to curtail production. If the price signal is masked by government program payments, will growers reduce planted acres? Or, will they simply wait for Mother Nature to correct the situation, as she is wont to do from time to time?

Other agricultural economists argue that the supply problem in agriculture results because farmers don't respond to the negative price signals even when they are available. Therefore the floor established by the minimum effective price really won't make any difference in farmer behavior. Only time will tell who is right. While the maximum counter-cyclical payments show the highest price support available to producers under this



provision of the 2002 Farm Bill, the marketing assistance loans pick up where the counter-cyclical payments leave off.

## **Enrollment Options**

While program participation should be obvious to all producers, the 2002 Farm Program is more complicated since the farm owner must make some decisions beyond simply participating or not participating. Under the 1996 Production Flexibility Contracts, base acres were frozen at the 1981-85 level. Under the 2002 Farm Bill, there is an option to update base acres. The decision to update or not update applies to all program commodities. I'm going to simplify the discussion of base acre update by ignoring the soybean options since soybeans aren't grown in Idaho. How to handle soybean base acres adds a complicating wrinkle that I see no need to mention.

Owner's Initial Base Acre Options:

- 1) Retain "old" base acres from existing PFC contracts, or
- 2) Update to "new" base, using 1998-2001 planted and prevented planted acres

The owner also has a decision to make as to adjusting the yield on which counter-cyclical payments are made.

Payment Yield Options:

- 1) Retain "old" yields and add "old" oilseed yields, or
- 2) Partial update to 1998-01 "new" yields if base acreage is updated

The partial update has two options:

- 1) the 70% method, and
- 2) the 93.5 % method

In the first of these, the difference between the "old" and "new" yields are calculated. Seventy percent of this difference is added to the "old" yield. The second partial update method simply uses 94.5 percent of the "new" yield.



The simplest way to handle these decisions is to pay a visit to the local Farm Service Agency offices. Each owner will receive a printout that shows all the options and calculates the potential payout under each. This is an important decision and the implications should be fully understood before signing any contract.

## **Conservation Provisions**

I'm not going to spend much time on the conservation provisions, not because they are not important, but because the rules for implementation have not all been written. My objective is to merely provide an overview of the conservation title of the 2002 Farm Bill.

Authorized spending for conservation programs was increased by 80 percent, to approximately \$17.1 billion. There are two new programs I want to highlight: 1) Grasslands Reserve Program, and 2) the Conservation Security Program. The purpose of the Grasslands Reserve Program is to restore or preserve eligible land, which would include restored or improved grassland, rangeland or pastureland. It will use a combination of rental agreements and easements. The rental agreements can be for 10-, 15-, 20-, or 30-years. Easements can be for 30 years, permanent, or the longest legally permissible in that state. Up to two million acres can be placed in the Grasslands Reserve.

The other new program of note is the Conservation Security Program. This program allows "green payments" for adopting environmentally beneficial practices on farmed land. This is an important difference from most other conservation programs that traditionally take the land out of production. Land management practices as well as vegetative and structural conservation practices are eligible. The land must be private agricultural land and can include cropland, grassland, range and improved pasture. The farm must have a Conservation Security Plan. What that all entails is not yet clear, nor are the specific program implementation rules and regulations available.



While certainly not a new program, the Conservation Reserve Program (CRP) is again a prominent conservation provision of the 2002 Farm Bill. CRP authorization was increased from 36.4 million acres to 39.2. As in the past the program will utilize rental agreements between 10 and 15 years, where the annual rental rate will be determined by bid. The program continues to cost share establishment costs at 50 percent. The Wetlands Reserve Program also saw an increase in authorized acres, increasing from 1.075 million acres to 2.275 million. An as yet unanswered question is how will conservation programs be treated under WTO? Will they be given "green box" status, as most would expect?

## Summary

The new Farm Bill is a change in the direction of farm policy initiated under the 1996 Farm Bill, but it is not necessarily new policy. The 2002 Farm Bill increases direct support for farmers, but without the supply constraints of earlier farm bill set-aside provisions. The safety net provisions support farm income by providing an effective commodity price. Each of the three safety net provisions is tied to a slightly different production base (old, new or actual), which makes some aspects of the program more complicated than previous farm bills with similar provisions. The \$80 billion estimated cost of the 2002 Farm Bill will provide significant support to agriculture, assuming all the programs are funded at the authorized level. But will it be enough and will the support be curtailed by the Secretary of Agriculture in order to meet our WTO commitments?

While acreage limitations eliminated under the 1996 Farm Bill were not re-established, farmers participating in the 2002 Farm Bill must still comply with the conservation and wetlands protection requirements that were originally part of the 1985 Farm Bill. To retain eligibility, the land enrolled must be used for agricultural or conserving use. Land going into housing developments, for instance, will no longer be eligible for enrollment. There are some eligibility requirements. The participant must receive 75 percent or greater average annual gross income from farming, or less than \$2.5 million average adjusted gross



income over previous three years. The payment limitations for each segment of the safety net under the 2002 farm bill sum to \$180,000 per individual. But the old three-entity rule is maintained, meaning a producer can qualify for payments up to the full limit under one entity and can also qualify for payments of up to half the limit under two additional entities. Effectively, this means a limit of \$360,000 payment per individual.

The safety net programs established in the commodity title of the 2002 Farm Bill are more complicated than those found in the 1996 or 1990 farm bills and therefore, can be difficult to understand and interpret. Program participation decisions will require a comprehensive analysis of the legislation and the options available to producers. The local Farm Service Agency office will provide each farm owner/operator with an analysis of the base update options using actual farm unit records. Farm operators, whether owner or tenant, and landowners should all be familiar with the 2002 Farm Bill requirements and options. The accuracy of the Farm Service Agency records should be reviewed and verified by all parties with an interest.

Farm bill decision calculators are available at several web sites, including:

Texas A & M at <http://www.afpc.tamu.edu/models/base>

University of Missouri at <http://www.fapri.missouri.edu>

and Farm Service Agency at <http://www.fsa.usda.gov/pas/farmbill>

Another useful site to check for information about the conservation provisions of the 2002 Farm Bill and published rules and public notices is:

<http://www.nrcs.usda.gov/programs/farmbill/2002>



Table 1. Historical commodity cash receipts, government program payments and net farm income, billion dollars.

	1990	1995	2000	2001	2002	1992-01 Average
Commodity Cash Receipts	169.5	188.1	193.7	202.8	195.8	190.6
Direct Govt. Payments	9.3	7.3	22.9	20.7	16.2	13.0
Net Farm Income	44.7	36.0	48.0	45.7	35.2	46.9
% Govt. Payment	21	20	48	45	46	28

Source: ERS-USDA, Agricultural Outlook, Table 30. 2002 is forecast.



Table 2. Marketing loan rates by commodity, 1996 and 2002 farm bills.

Commodity	Unit	1996 Farm Bill Rate	2002 Farm Bill Rates	
			2002-03	2004-07
<u>Traditional Commodities</u>				
Wheat	bu	2.58	2.80	2.75
Corn	bu	1.89	1.98	1.95
Barley	bu	1.65	1.88	1.85
Oats	bu	1.21	1.35	1.33
Oilseeds	cwt	9.30	9.60	9.30
<u>Pulse Crops*</u>				
Small Chickpeas	cwt	na	7.56	7.43
Lentils	cwt	na	11.94	11.72
Dry Peas	cwt	na	6.33	6.22
<u>Other Commodities*</u>				
Honey	lb	na	0.60	0.60
Graded Wool	lb	na	1.00	1.00
Non-graded Wool	lb	na	0.40	0.40
Mohair	lb	na	4.20	4.20
Unshorn Pelts	lb	na	0.40	0.40

\* Note: Loan rates will be used to calculate loan deficiency payments.



Table 3. Safety net provisions of the 2002 farm bill.

Commodity	Target Price	Direct Payment	Loan Rate	Minimum Effective Price	Maximum Counter-cyclical Payment
<u>2002-03</u>					
Wheat	3.86	0.52	2.80	3.32	0.54
Corn	2.60	0.28	1.98	2.26	0.34
Barley	2.21	0.24	1.88	2.12	0.09
Oats	1.40	0.024	1.35	1.374	0.026
Oilseeds	9.80	0.80	9.60	10.40	0
<u>2004-07</u>					
Wheat	3.92	0.52	2.75	3.27	0.65
Corn	2.63	0.28	1.95	2.23	0.40
Barley	2.24	0.24	1.85	2.09	0.15
Oats	1.44	0.024	1.33	1.354	0.086
Oilseeds	10.10	0.80	9.30	10.10	0

Note: Minimum effective price = loan rate + direct payment.

Target prices under the 1990 Farm Bill: wheat \$4.00, corn \$2.75, barley \$2.36, oats \$1.45 and there were none for oilseeds.



Table 4. Direct payment rates: 1996 and 2002 farm bills.

Commodity		1996 Farm Bill		2002 Farm Bill
		Highest Rate	2002 Rate	2002-07 Rate
Wheat	bu	0.874	0.461	0.52
Corn	bu	0.486	0.261	0.28
Barley	bu	0.32	0.202	0.24
Oats	bu	0.03	0.022	0.024
Oilseeds	cwt	na	na	0.80

Table 5. How the 2002 Farm Bill safety net works—wheat example.

Direct	Market Price	Effective	Counter-	Price
Payment	or Loan Payment	Price	Cyclical Payment	Received
\$.52	\$3.50	\$4.02	\$0	\$4.02
\$.52	\$3.35	\$3.87	\$0	\$3.87
\$.52	\$3.25	\$3.77	\$.09	\$3.86
\$.52	\$3.00	\$3.52	\$.34	\$3.86
\$.52	\$2.80	\$3.32	\$.54	\$3.86

Wheat example assumes 2002-03 target price (\$3.86) and loan rate (\$2.80).





## DAIRY OUTLOOK: WINTER 2002-2003

*Prepared by C. W. Gray<sup>1</sup>*

*District Extension Economist*

*University of Idaho*

### WHAT'S THE ECONOMY GOT TO DO WITH IT?

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In the September 28 issue of The Economist magazine a special survey article titled "*The unfinished recession*" makes a number of key points. One is that this recession, unlike all others since World War II, was not lead by a drop in consumer demand, but rather a build-up in supply by over investment in capacity. This time the over investment was in information technology (dot com's or IT) and telecommunications. Those bubbles burst in 2000 and the tide has been moving out since. Another key point is that investment led downturns, which were common in the late 1800's and early 1900's, take longer to wring out the excess capacity and revalue assets. Therefore, a recession of this sort typically lasts up to 24 months.

Earlier this fall the blue ribbon consensus opinion was for the fourth quarter of 2002 to grow by 2.5% and for 2003 to pick up to 3% to 3.5% growth in GDP. Those forecasts have recently been modified to 1% for 4<sup>th</sup> quarter of 2002 and 2% in 2003. This is considerably less than what the economy can do when things are going smoothly. Economic growth potential is nearer 4% to 5%. Rather than a recession, we could muddle along on the economic bottom at 1.5% to 2% growth in GDP. This could lead to higher unemployment and general economic malaise for several years as we try to extricate ourselves from a stagnant situation. None of this bodes well for consumer demand.

*Pushing through the bubble*



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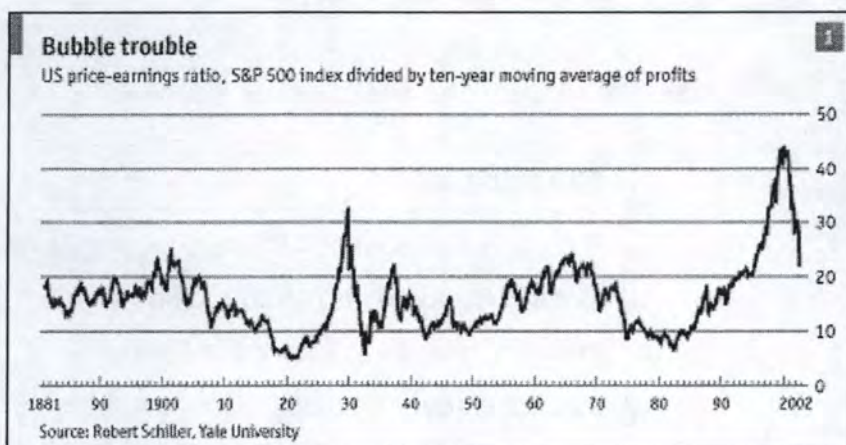
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So far, in part due to the Federal Reserve's lower interest rates, housing demand is still strong. Consumer debt is at near record levels as new homes are purchased or refinanced to pull out equity dollars. This trend will have to change as unemployment rises and the economy remains sluggish.

### The power of cheese...

In an address to Dairy Management, Inc.'s recent annual meeting Madlyn Daley, made the following points:

- Consumer confidence is at its lowest level since the 1991 recession
- 2002 cheese sales are the worst in a decade as the 0.6-percent increase is a decrease in per capita consumption
- Sales were up 5.5% in 1999, 4.1% in 2000, And almost 1% in 2001 One out of five pounds of cheese produced is used on pizza. Pizza sales for June–August were down 2.7 percent and September–October sales were up only 1–2 percent, compared with a year ago. In addition crucial food service sales have cooled, and 49 percent of all cheese sold is through food service.



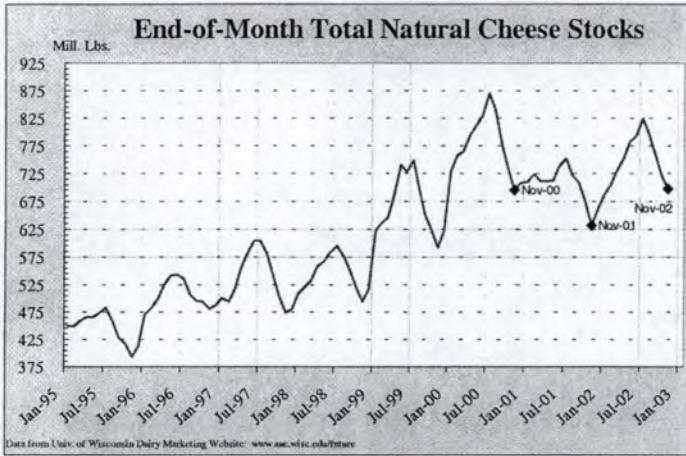
Since the bubble burst in March 2000 the stock markets have lost 40%, or \$7 trillion of their peak value. This has impacted the financial well-being of nearly everyone, as noted by the slowdown in food service (hotel, restaurant and catered) sales.

American style cheese disappearance to date in 2002 has been 5% above the 5 year average, but is off 1% from 2001 for the same period. Total commercial disappearance for the first 8 months is off 3/10ths of a percent from 2001. Cheese production is 8,269 million lbs. through September on a rolling 12 month total. The period ending in October 2000 is the last time



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cumulative cheese production reached this high. The year 2000 was also a low milk and cheese price year. Cheese production over the 12 months through September has increased



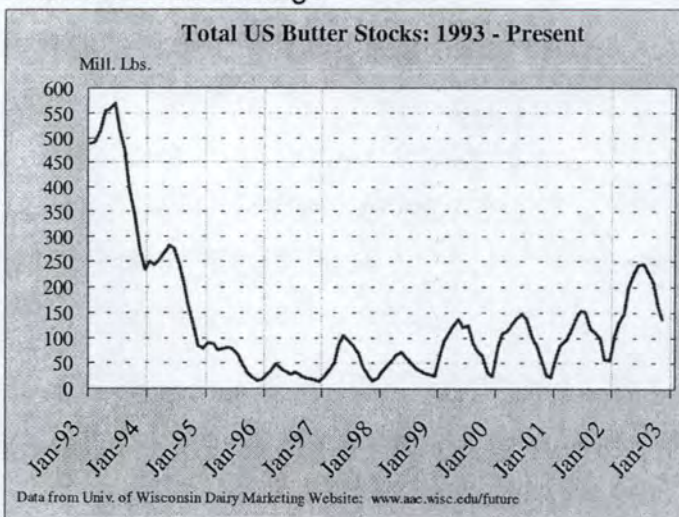
1.7% from the same period a year ago.

The "gap" between increasing production and reduced use has built cheese stocks.

End of the month stocks for November were 697,974 thousand lbs. –slightly above November 2000's 695,979 thousand lbs. Month-end stocks have closely paralleled 2000 but not quite

reached the same levels until November. Ending stocks have exceeded every month compared to 2001 except for January and February. This cumulative burden has helped weigh down prices.

Retail cheese prices have continued to maintain or widen margins. Retail cheddar price has averaged \$4.25 per lb. so far this year, a 5% increase from last year and a 15% hike from the 5 year average of \$3.68 per lb. On the other hand, wholesale prices have languished as evidenced by the CME prices on blocks and barrels. Forty lb. block prices have averaged \$1.18 per lb. this year, 17% under last year's \$1.44 per lb. average, and just 4 cents better than the 2000 average.



### GOT MILK?

A companion question to the above may be Got MILC payments? With total milk production up by 2.7% for 2002, any additional revenue helps. Cow numbers have increased every month except January, February and September so far. By November there were 54,000 more milk



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cows than a year ago and 1,000 more than October. Per cow output has increased nearly 2.4% this year, so total milk has gone up, adding to stocks in storage of American cheese (up 8.3%), butter (up 135.3%) and powder (up 44%) – of which 94% is held by Uncle Sam.

### **Its not us, its them...**

Imports of milk protein concentrate (MPC) have been controversial when milk prices are low. No one in the US currently makes MPC. US processors prefer non-fat dry milk (NFDM) powder, which is readily salable to the government. However, MPC is popular with ice cream and cheese makers and many food manufacturers.

During the last WTO negotiations tariffs on certain dairy products were established. MPC's weren't commercially available when the negotiations took place so MPC's aren't subject to the same import restrictions. In a recent study on the issue Dr. Ken Bailey at Penn State found that:

- When the world price of NFDM is below the US price, MPC imports increase
- MPC's substitute for NFDM, though not one-for-one. When MPC imports rise, as in 2002, domestic use of NFDM falls
- There are different grades of MPC's, some of which are not sensitive to world protein prices. MPC with protein levels above 40% are in demand for functional properties in food processing and are imported regardless of price. Lower protein MPC's are imported when prices are favorable for use in cheese production, displacing use of NFDM. That tends to enhance cheese output and increase the surplus of NFDM.
- For the first 8 months this year MPC imports are up 27% and NFDM consumption is down 26%. Thus MPC's are a contributing factor to current low prices, but they are not the sole cause.

Because the current support program has specifications on product the government will buy, there is some incentive to produce for the government. Powder has historically fit that bill



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better than most other products. NFDM is relatively easy to manufacture and has a long shelf life, with less expensive storage requirements than cheese or butter.

To resolve the MPC issue a number of alternatives could be approached. Eliminating the support program would nearly eliminate MPC imports, eliminate government purchases of NFDM, and potentially initiate a domestic MPC industry. If congress legislated tariffs similar to those on other dairy imports, MPC imports would be reduced, but the danger of retaliation on other farm commodities exists (an example is the steel tariff and broiler issues between the US and Russia). With negotiations underway on trade and tariffs it should be possible to include MPC's and perhaps handle other unforeseen imports as well. Thought should also be given on means to stimulate domestic MPC production if it is such a desirable commodity for processors.

The net result of reduced utilization, higher production and more imported MPC has been low milk prices. Recent CME cheese prices have rallied a bit but it is early to say if that is some last minute holiday buying or a turnaround in the market.

### **Is improvement possible?**

Realistically, total production needs to get in line with consumption, which will mean fewer cows, not more. Higher grain costs have lowered the milk/feed price ratio<sup>1</sup> to 2.39 in November, down from 2.42 for October. November 2001 was 3.29. A ratio under 3 is considered unfavorable to increased production.

So, how soon might production moderate? Rumors abound regarding financial stress in the dairy sector. Some bankruptcy filings have been made. A few more may follow. The MILC payments will shore up some operations, particularly those which maximize their payments. For example, If your cumulative production reached the 2.4 million lb. limit, payments averaged \$1.0832 per cwt. or \$25,995 maximum. For large producers who can pick a month, September yielded \$1.4535 per cwt. or \$34,884 and October yielded \$1.593 per cwt. or \$38,232, a total of \$73,116.

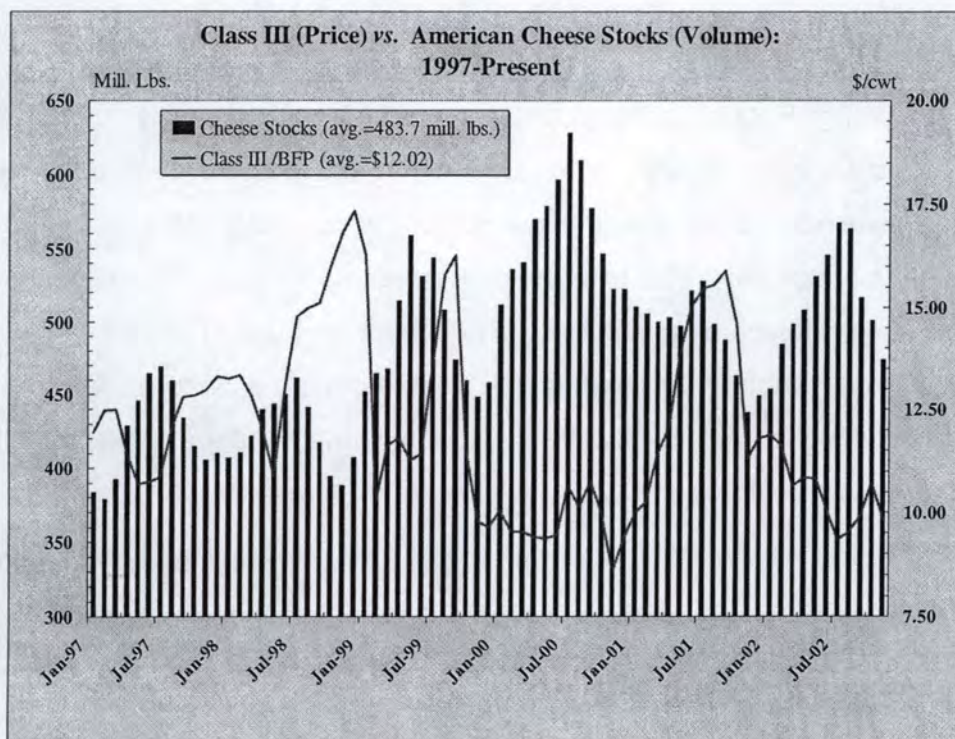
Late December futures are more optimistic, projecting \$10.57 per cwt. in the first quarter, \$11.72 in the second, \$13.05 for the third and \$12.32 in the fourth. While these prices look



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good from where we are now, they are not far from seasonal norm's. This implies, *strongly*, that milk production is expected to decline as we go into 2003. Whether that is the case, and what the rate of decline is, will have much to say about how well and how fast prices recover.

*Yes Virginia, there is a relationship between price and quantity...*



This observer's crystal ball is a bit cloudy; however, first quarter Class III milk prices will likely average about \$10.50 per cwt. Second quarter could slide a bit to near \$10, then improvement into third quarter reaching \$11.50 to \$12 and fourth quarter near \$12 to \$12.50.

There is a long road between now and next fall. Much needs to happen in production and sales to make price recovery workable. However, the current futures market optimism could help price risk strategies capture some of this price improvement currently on the board into producers pocket books between now and next fall.

<b>PNW 2003 Quarterly Forecast</b>					
	Unit	I-f	II-f	III-f	IV-f
Milk, Class III	cwt	10.35-10.75	10.-10.50	11.25-12	12-12.50
Springer Heifers	head	1375-1500	1400-1550	1500-1800	1550-1900
Utility Cows	cwt	38-42	40-45	39-43	40-45

<sup>1</sup> The milk/feed ratio is the number of lbs. of 16% protein feed a hundredweight of milk will buy.



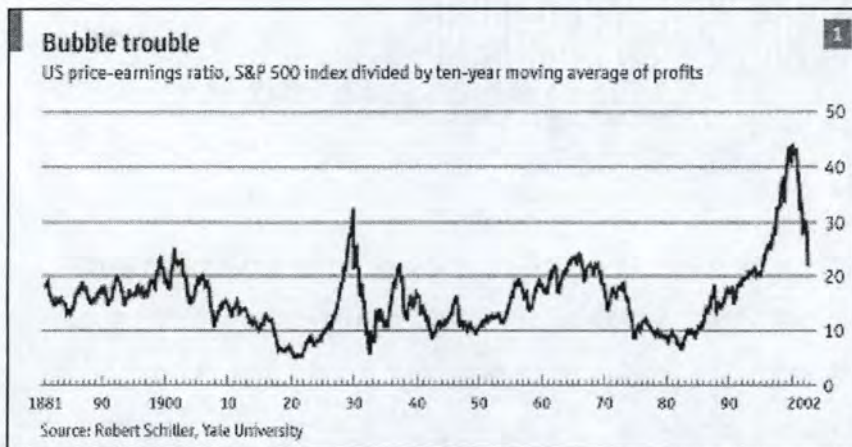


## CATTLE OUTLOOK: WINTER 2003

Prepared by C. W. Gray<sup>1</sup>  
District Extension Economist  
University of Idaho

### WHAT'S THE ECONOMY GOT TO DO WITH IT?

In the September 28 issue of The Economist magazine a special survey article titled "*The unfinished recession*" makes a number of key points. One is that this recession, unlike all others since World War II, was not lead by a drop in consumer demand, but rather a build-up in supply by over investment in capacity. This time the over investment was in information technology (dot com's or IT) and telecommunications. Those bubbles burst in 2000 and the tide has been moving out since. Another key point is that investment led downturns, which were common in the late 1800's and early 1900's, take longer to wring out the excess capacity and revalue assets. So a recession of this sort typically lasts up to 24 months.



Earlier this fall the blue ribbon consensus opinion was for the 4<sup>th</sup> quarter of 2002 to grow by 2.5% and for 2003 to pick up to 3% to 3.5% growth in GDP. Those forecasts have recently been modified to nearer 1% for this year and 2% in 2003. This is half or less of what the

economy has done when things are going smoothly. Economic growth potential is nearer 4% to 5%. Rather than a recession, we could muddle along on the economic bottom at 1.5% to 2.5% GDP growth. This could lead to higher unemployment and general economic malaise for several years as we try to extricate ourselves from a stagnant situation. None of this bodes well for consumer demand.

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## CATTLE SITUATION & OUTLOOK

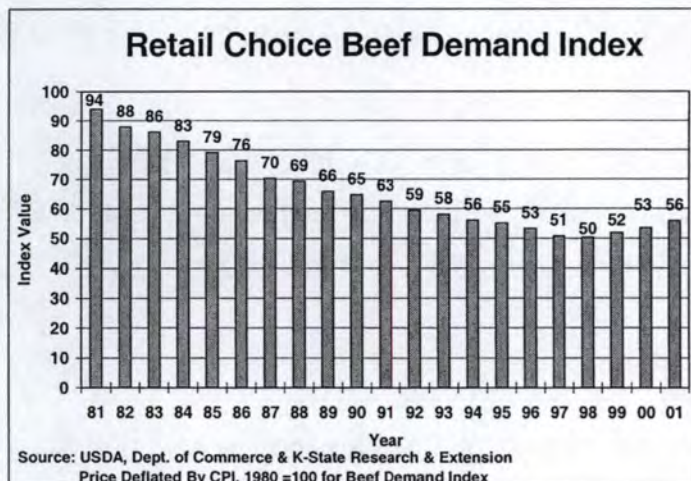
So far, in part due to the Fed.'s lower interest rates, housing demand is still strong. Both for new homes and to refinance and pull out equity dollars. Consumer debt is near record. That will have to change as unemployment rises and the economy remains sluggish.

### DEMAND STILL STRONG

Consumers continue to like beef. Data for the 9-months through September indicate that consumer demand increased about 1 percent from a year ago. Wider marketing margins at the processor-retail levels kept prices somewhat weaker at the live cattle level. However, retail level prices are down 2.2 percent for the same 9-month period compared to year-ago levels.

This has been a VERY good thing since beef production was up 3.7% in 2002. Since the terrorist attacks on 9/11 the Food Industry Trade Center at the University of Minnesota did several focus group studies on attitudes toward food. They found in general that the attacks accelerated existing attitudes and behaviors about food rather than causing new trends. There were some changes worth noting however.

*USDA started a new retail price series using cash register scanner data. This gives a weighted average price including sales or specials, something the old series lacked. It is a sample since it covers about 20% of retail meat sales, and is subject to sampling error. A comparison with the old BLS series indicates the old series overstated prices by giving the same weight to regular and specially advertised volumes. In short, the new series should be a better reading on retail sales prices.*



- ✓ Refocusing on what is truly important – relationships, self identity and morality, and quality of life. This has resulted in a return to comfort foods and nurture such as baking, more elaborate meal preparation and indulging in high gratification foods

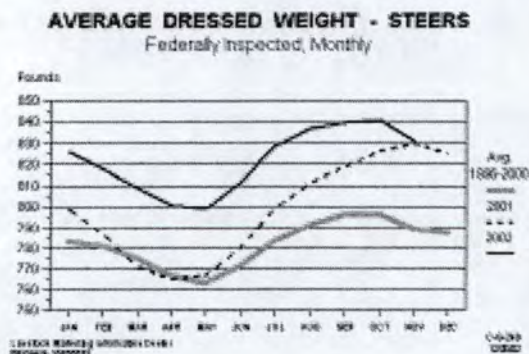


## CATTLE SITUATION & OUTLOOK

- ✓ Budget cutting – watching spending. Rooted in the recession which began well before 9/11, the trend has been to buy more foods in bulk and do without non-essentials.
- ✓ Increased sensitivity about food safety – Concern over the potential for terrorists to contaminate our food supply. More suspicion of damaged packaging and about how food might be prepared.
- ✓ Choosing fresh produce, dairy, and meats over prepackaged foods – Consumers voiced more confidence in being able to visually inspect fresh, non-packaged items than with sight-unseen packages that could have been altered in the plant.

Depending on how the economy manages in the next few quarters (see above) and what retail prices do in the face of an anticipated reduction in beef supplies consumer demand may face another challenging year.

### Supply Side Forces



Commercial beef production at 27,066 million lbs. is up 3.7% in 2002 compared to 26,107 million lbs. in 2001, which was down 2.5% from 2000. The 27 billion lbs. is a new record for beef. Commercial beef production is forecast to decline by 2.9% in 2003 to 26,285 million lbs. and another 1.8% in 2004. These production declines should provide continued support to improving cattle prices in 2003 and 2004.

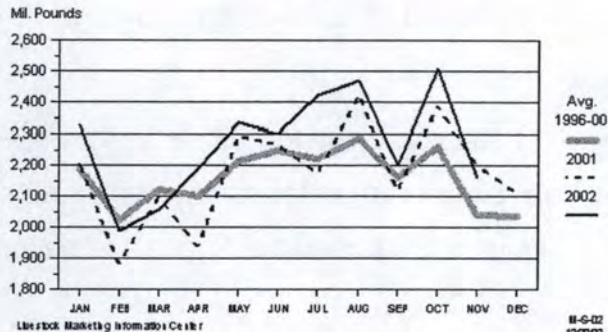
Heifer slaughter has declined nearly 1% for the first three quarters of 2002, compared to a year ago. Late October/November figures indicate heifer slaughter is increasing again, potentially because as producers moved into the principle marketing season one way to meet cash flow requirements was to sell more heifers. Steer slaughter is up 3.6% for the first 9 months of 2002.

Two contributors to the record beef production have been weights and numbers. Fourth quarter of 2001 saw prices drop. Cattle moved slower through the marketing system but



# CATTLE SITUATION & OUTLOOK

**COMMERCIAL BEEF PRODUCTION**  
Monthly

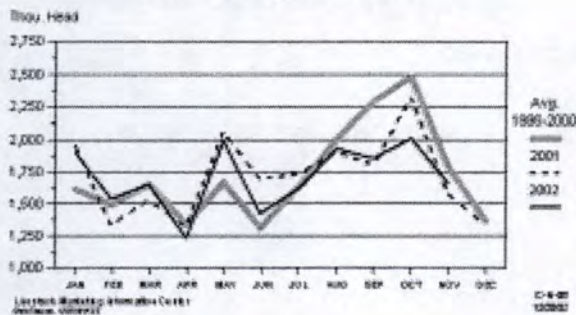


heavier dressed weights increased production 3% in the first quarter of 2002. Fed prices averaged near \$70/cwt. and 500 – 600 lb. Steers were in the mid \$90/cwt. range. Second quarter beef production continued larger by 5% from a year earlier. Again heavier dressed weights were the major factor. Summer quarter was a repeat with quarterly beef production exceeding 7 billion lbs. for the first time.

Dressed steer weights for the first three quarters averaged 819 lbs. or 30 lbs. more than the same period for 2001. That pressured fed cattle prices down over 9% from 2001 levels. Calf prices were pressured 11% lower.

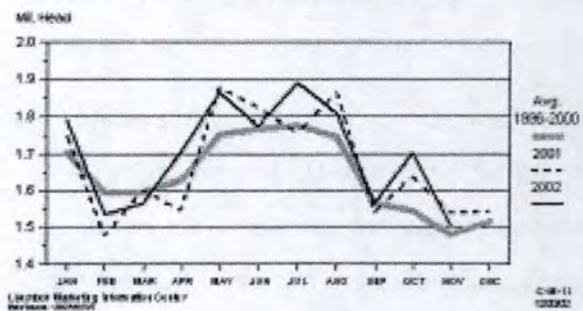
Late November, early December production is declining seasonally. Lower slaughter levels from reduced placements of cattle earlier this spring and summer are showing up, and weights

**FEEDLOT PLACEMENTS**  
Seven Historical States, Monthly



*IN...*

**FED CATTLE MARKETINGS**  
Seven Historical States, Monthly



*and Out...*

are tracking closer to seasonal norms. Prices have recently responded to the prospect of lower beef supplies in 2003. November and December are the first months in 2002 that cattle feeders made money.

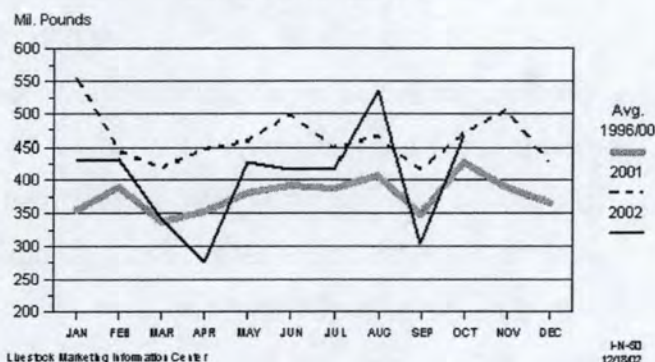
## A word from our competition...

During the second quarter of 2002 both pork and poultry production increased markedly. Pork production was up 5% and broiler production increased 3%. A trade dispute with Russia



## CATTLE SITUATION & OUTLOOK

**U S BROILER EXPORTS**  
Monthly, RTC Weight



resulted in a halt to broiler exports to Russia. Domestic poultry supplies increased 11%, affecting all meats negatively.

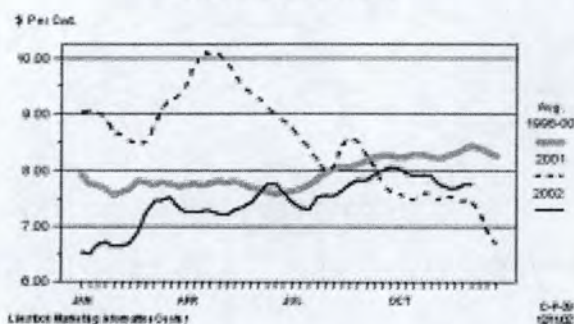
In reaction to the low prices and the loss of export market for poultry, both pork and poultry production are forecast to be lower in 2003.

### HIGHER? HIGHER...

From the current vantage point beef looks like it is poised for a rebound in 2003. Cattle numbers are on the low side of the cattle cycle, operators in general have yet to pursue significant heifer retention strategies, and the competition (pork & poultry) is backing off production also. Fed cattle prices are projected to be above last years levels each quarter in 2003. Increases of 8% to 11% are possible. Calf and yearling prices were strong in the first quarter of 2002 before diving. First quarter 2003 prices are likely to be about the same as year-ago levels and then remain higher the rest of the year.

Cull cow prices may not participate as fully as the rest of the market. Dairy cow culling – pressured by low milk prices – has been increasing since last summer. This has put cull values \$5 to \$8 per cwt. under year ago levels since last summer. Milk prices are not expected to recover until the second half of 2003 so culling pressure may dampen normal seasonal increases in cull values.

**STEER HIDE AND OFFAL VALUE**  
Live Animal Basis, Weekly



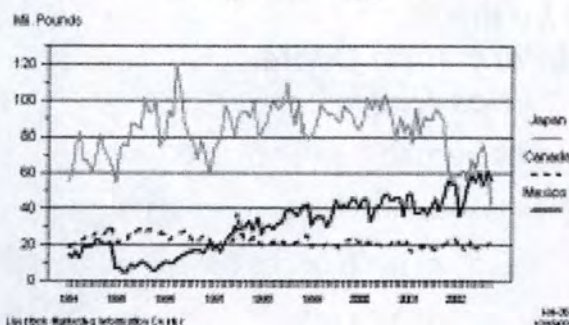
### What else can happen?

Well Bunky, the unforeseen is always possible. Although trends and numbers should generally be supportive of cattle prices, that can change. Drought in several states was a key factor in



## CATTLE SITUATION & OUTLOOK

**U.S. BEEF EXPORTS TO MAJOR MARKETS**  
Monthly, Carcass Weight



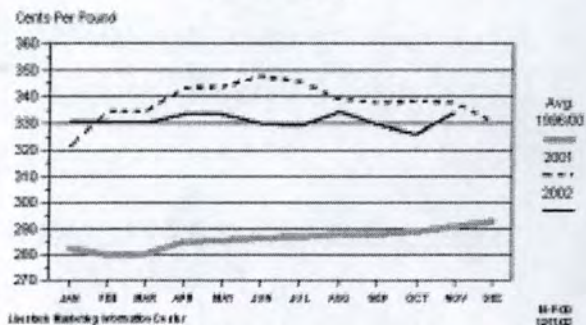
2002. It could be again in 2003. Drought can impact cow-calf producer breeding herd decisions rather quickly, it often changes the flow and weights of cattle into feedlots, and it can dramatically depress calf prices if feed grain prices skyrocket.

In terms of competing meats and poultry, the major uncertainty will be poultry production.

Poultry production will ramp-up as soon as prices for poultry products rebound and if U.S. export prospects improve.

International trade will be a bigger risk factor for cattle prices in this decade than it was in the last two decades. The reason is that U.S. exports of beef are now a significant amount of production. Another lesson from 2002 was that the beef industry must also look at indirect impacts of international trade. That is, imports and exports of broiler and pork can have an impact. Trade disputes and policy in other countries and on beef and other products, including grains, can spill over into the domestic market for beef and cattle.

**RETAIL BEEF PRICE**  
Choice, Monthly



And don't forget domestic demand. All things considered domestic demand did quite well in 2002. Hopefully 2003 will repeat that story.

*Table 1 Quarterly average projected prices for PNW cattle (\$/cwt.)*

	Fed Cattle	400-500 lb. Steers	700-800 lb. steers
1st Quarter 2003	76.77	95.88	80.34
2 <sup>nd</sup> Quarter 2003	73.76	98.47	80.86
3 <sup>rd</sup> Quarter 2003	68.56	93.57	80.80
4 <sup>th</sup> Quarter 2003	71.04	91.71	80.09





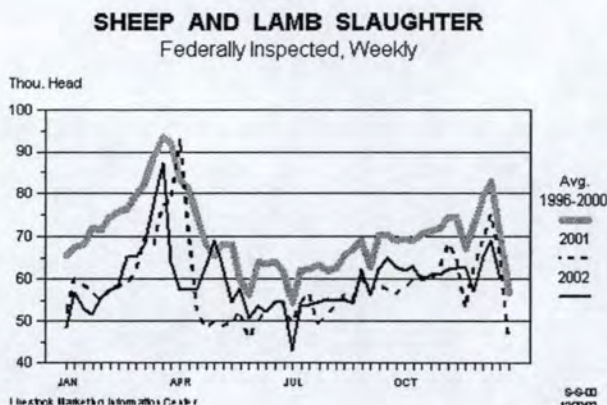
## SHEEP & LAMB OUTLOOK: WINTER 2003

*Provided by the  
Livestock Marketing Information Center  
James Robb and Erica Rosa<sup>1</sup>*

During the second half of 2001 and well into the second quarter of 2002, lamb prices were depressed due to several factors. Since last summer, slaughter lamb prices have been well above a year earlier. Still, recent slaughter lamb prices have only matched longer-term (1996-2000) averages and feeder lamb prices remain below the previous 5-year average. Even though there are some recent positive trends in the industry, several negative factors have caused the persistent decline in the U.S. breeding flock to continue in 2002.

The outlook is for year-to-year increases in lamb prices for the balance of this year and likely into next year also. But, as is especially true in this industry, price pressure can return rather quickly. Two keys to prices in 2003 will be: 1) whether or not lamb feeders fall back into the trap of over finishing slaughter lambs and 2) the level of lamb imports from Australia and New Zealand.

### Inventory Numbers and Slaughter



As of January 1, 2002, USDA's National Agricultural Statistics Service<sup>2</sup> reported there were 6.7 million head of sheep, 4 percent below 2001's. Since 1990, the last time the total U.S. sheep and lamb inventory posted a year-to-year increase, the number of sheep has been shrinking at an average rate of 4.3 percent per year

<sup>1</sup> The University of Idaho is a member Institution of the LMIC. James Robb and Erica Rosa are the Center Director and Agricultural Analyst respectively for the LMIC

<sup>2</sup> For the balance of this article USDA will be used to refer to United States Department of Agriculture, National Agricultural Statistics reported data.

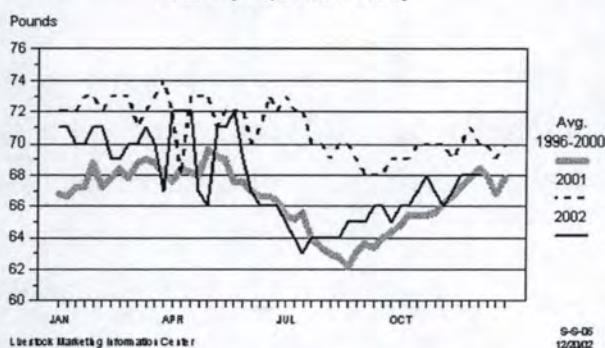


## IDAHO Situation & Outlook

(a decline of about 4.7 million head each year).

The inventory of ewes one year and older reported on January 1, 2002 was 3.98 million head, down 3 percent from 2001. As of July 1, 2002, USDA estimated the number of ewes one year and older at 2 percent below the previous year. The decline in the breeding herd has resulted in a smaller number of lambs available for slaughter. Total Federally Inspected (FI) sheep and lamb slaughter in 2001 was down 7 percent from 2000's. As of September 2002, FI slaughter was up about two percent from the same period in 2001.

**LAMB AND YEARLING DRESSED WEIGHT**  
Federally Inspected, Weekly



On January 1, 2002, the total number of market lambs and sheep reported was 1.7 million head; that was down 221 million head from 2001. 2002 FI lamb slaughter for the first three quarters was at 2.3 million head, about two percent above the same period last year. FI lamb slaughter following normal

seasonal trends, was down about a percent in the first quarter then slowly increased during the second and peaking in the third quarter. Third quarter FI lamb slaughter was about 4 percent above last year, much smaller than the 12 percent increase in slaughter posted in 2001 over 2000. The slight change in slaughter numbers in the third quarter coincided with normal seasonal slaughter patterns, but is also reflected in smaller supplies of market lambs. In August, FI lamb slaughter was down 5 percent but in September slaughter was 12 percent above 2001 for the respective month. For the beginning of the fourth quarter, FI slaughter was about 3 percent larger than last year on a weekly average basis.

Looking ahead to the January 1, 2003 inventory of sheep and lambs, forecasts suggest that recent trends will continue. Mature sheep disappearance, a key indicator of change in the breeding flock, includes two major factors: 1) cull ewe sales to Mexico (discussed below) and 2) mature sheep slaughter in the U.S. These factors indicated reductions in the U.S. breeding flock continued in 2002. Also, timely marketing's of slaughter lambs



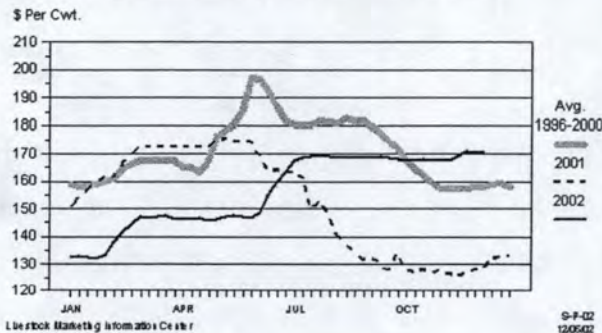
## IDAHO Situation & Outlook

in late 2002 should result in fewer heavyweight market lambs carried over into 2003. So, as has been the case in recent years, USDA's reported year to-year percentage decline in breeding flock and market lambs will likely be larger as of January 1 than indicated in the prior mid-year (July 1) report. Preliminary estimates suggest that the U.S. total sheep and lamb inventory on January 1, 2003 may be down 4 to 5 percent from a year earlier. Regionally, improved pasture and range conditions in Texas during 2002 compared to a year earlier may result in smaller declines in sheep and lamb numbers in Texas compared to the drought stricken Western states.

### Weights and Production Decline

Last year, beginning in the second quarter of 2001, the lamb industry was plagued with over-finished (excessively fat and old) slaughter lambs. Producers held back market

**WHOLESALE LAMB CARCASS PRICES**  
65-75 Lbs., Carlot Volume, East Coast, Weekly



ready lambs in anticipation of a summer price rally that never materialized. After September 11, 2001, over-finished lambs combined with difficulties in the "white table cloth" restaurants helped to perpetuate slow marketing's and heavy weights.

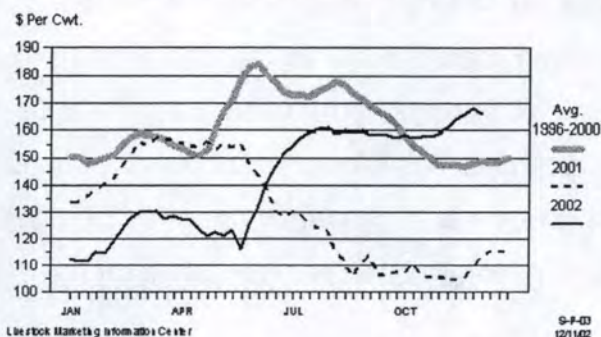
Unlike the large dressed weights seen last year due to feeders holding lambs back in hopes of better prices, average dressed weights this year have fallen to a more normal level. The FI average dressed weight in 2001 was 70 lbs, two pounds above the prior year. During 2002, FI dressed weights have fallen from a high of 70 lbs in January to 64 lbs in August. So far this year, dressed weights on average are three pounds lower than for the same period last year. In a normal year, weights usually drop in July and August and then moderately increase for the remainder of the year. In September, average dressed weights were up one pound from August, but still three pounds down from last year. Given current pasture and range conditions, weights may not increase as sharply during the fourth quarter as seen in past years.



## IDAHO Situation & Outlook

The decrease in dressed weights coupled with a modest decline in earlier in the year slaughter has resulted in a modest decrease in lamb production. Total lamb and mutton production during the first three quarters months of 2002 was 1.55 million pounds, about

**SLAUGHTER LAMB PRICES**  
Western (Colorado) Direct, Hot Carcass, Weekly



4 million (3 percent) pounds less than the same period in 2001. Depending on how much weights increase in the fourth quarter, the recent increase in slaughter numbers should post a slight increase in fourth quarter lamb and mutton production.

### International Trade

During the first three quarters of this year, exports of live sheep (slaughter lambs, slaughter ewes, and breeding sheep) totaled 322 thousand head. That was a 25 percent increase over the same period in 2001. For the week ending November 2<sup>nd</sup> exports were at 362 thousand head, up 64 thousand head from to last year. The greatest contributor to the export mix has been slaughter ewes. Almost all of the live sheep exported by the U.S are cull ewes for slaughter and were, as usual, shipped to Mexico. In fact, from January through September the U.S. shipped 267 thousand head of slaughter ewes to Mexico, an increase of 10 thousand head from last year. Based on preliminary weekly data, the total number of slaughter ewes exported by the U.S. to Mexico from January through October of this year was about 303,510 head, a slight decrease of 2,972 head from a year ago. There is no question as to the importance of the Mexican market to the U.S. sheep industry as it is providing an outlet for those sheep that lack a demand in the U.S. market.

The live sheep import market is relatively small but it has experienced moderate growth over the past five years. In 2001, live sheep imports for the nine months was around 66 thousand head. For the same period this year, imports were 88 thousand head, a 35 percent increase. All imports so far this year have been from Canada and given the



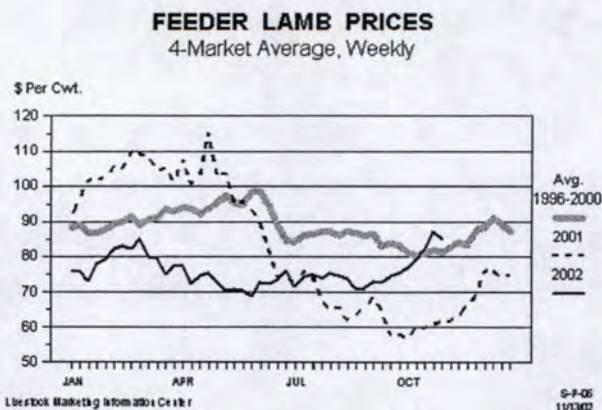
## IDAHO Situation & Outlook

current drought situation, it would not be a surprise to see a large increase in imports this year over last year.

On a different front, the U.S. international trade for lamb and mutton meat has increased both on the export and import side. From January to September, lamb and mutton exports were up 128 thousand pounds on a carcass weight basis (up about 3 percent) compared to last year. Lamb and mutton imports continue to grow. From January through September of this year, U.S. lamb imports from Australia and New Zealand totaled 90,031 thousand pounds on a carcass basis, over 11 thousand pounds (14 percent) more than 2001's. Overall, in terms of lamb meat tonnage in the domestic market, lamb and mutton imports have generally been compensating for the decline in U.S. production.

### Recent Price Trends

For the week ending January 4, the lamb cutout value (carcass value less processing costs) was reported at 132.36 \$/carcass. During mid-June, the cutout value jumped 6 percent from 134.42 to 142.46 \$/cwt, and has continued to remain strong since. In October the cutout value averaged 162.05 \$/carcass and continues to hold steady into November. This increase can be attributed to the seasonal decline in the supply of lamb available after the Easter holiday, in addition to lighter weight lambs.



The primal rib and loin are the main drivers behind the cutout value. As weights have dropped, the pounds available have also declined. In terms of price, this has resulted in a steady increase in the value of the primal rib. The primal loin has also seen a moderate increase, but it appears to be more

sensitive to available supplies, dropping off recently due to an increase in poundage.

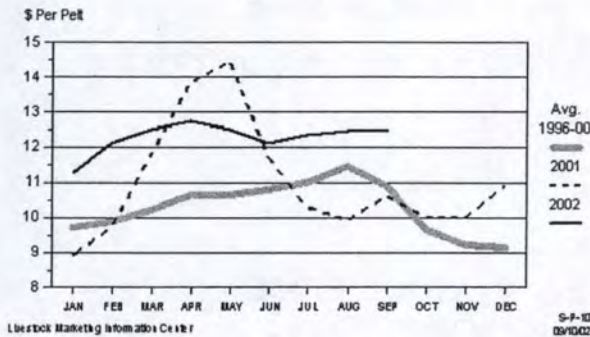
During the first and second quarters, the three-market average slaughter lamb price was down 21 and 12 percent from 2001. However, prices began to rise above 2001



## IDAHO Situation & Outlook

prices late in the second quarter. For the third quarter, slaughter prices were on average 54 percent higher than last year for the respective period. Slaughter prices during October have been in the mid \$70s range, averaging \$75.42, 79 percent increase in price from the respective period last year. This improvement in slaughter prices increased feeder lamb prices in the third quarter and into the fourth quarter. On a live basis, the four-market average feeder lamb prices during the first two quarters of this year were 23 and 22 percent below 2001, respectively. During the third quarter, feeder prices on average were 12 percent higher compared to last year. The weekly average October feeder lamb price was \$82.17, \$22 (38 percent) greater than last years October price. The fourth quarter will post a large yearly increase in feeder and slaughter lamb prices.

**NO. 1 U S LAMB PELT PRICES**  
FOB, Monthly



Another factor that has contributed to better slaughter lamb prices has been pelt prices. The October number 1 pelt price was \$13.30, \$3.33 (33 percent) greater than last years price. On average, pelt prices have been above 2001 prices being 10 percent higher during the first three quarters, which has helped lamb

prices this year. It is more than likely pelt prices will be above last year in the fourth quarter, which should support lamb prices into next year.

### Outlook

Several factors have improved for the U.S. sheep industry compared to earlier this year: 1) wool prices have improved significantly; 2) lamb feeders have seen the huge positive impacts of not over finishing lambs; and 3) pork and poultry production prospects for the balance of 2002 and 2003 have moderated significantly. In terms of feeder lamb prices, a positive factor, is that feed grain prices may not be as high as projected just a few weeks ago. Still, the U.S. industry faces uncertainty about competition from overseas and the quantity of imported lamb.



## IDAHO Situation & Outlook

Projections into 2003 and 2004 suggest that the number of mature ewes should decline modestly (about 2 percent) each year. As the sheep industry consolidates, the industry will continue to gain in efficiency as evidenced by above 100 lambing percentages over the past five years. However, despite this trend, the overall decline in numbers will tighten the supply of market lambs available for slaughter by 3-5 percent in 2003.

Given smaller supplies of slaughter lambs, if lamb feeders continue to market lambs at normal weights, and favorable conditions in the pelt market hold, prices should at least hold steady for feeder and slaughter lambs. On a year-to-year basis, the largest lamb price increases for slaughter lambs are expected to be much larger in the first half of 2003 than in the second half of the year. In contrast, feeder lamb prices may post rather consistent year-to-year price increases throughout 2003 if feedstuff prices do not skyrocket. In the first half of 2003, slaughter lamb prices, on a dressed basis, are forecast to be in the \$140's and \$150's (up 15 to 25 percent from a year earlier). In most of 2003, feeder lamb prices, on a live basis, may average in the \$80's and low \$90's in the Texas auctions (70 to 90 pound).

**MONTHLY AVERAGE U.S. WOOL PRICE**  
26.4-27.84 Micron (USDA 56s), Clean, Delivered

