



**Winter 2002 Idaho Agricultural Outlook**

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and Neil Meyer

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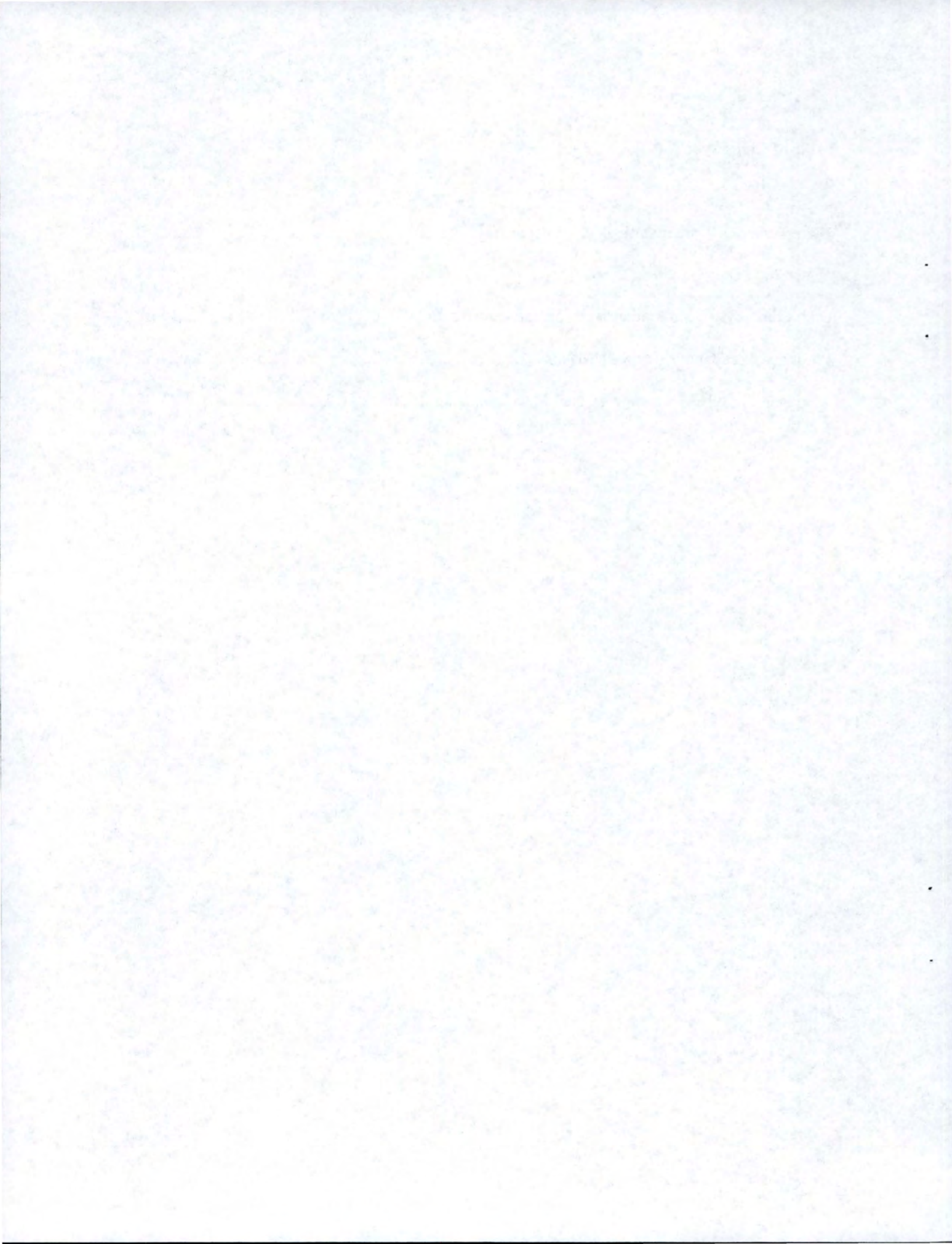
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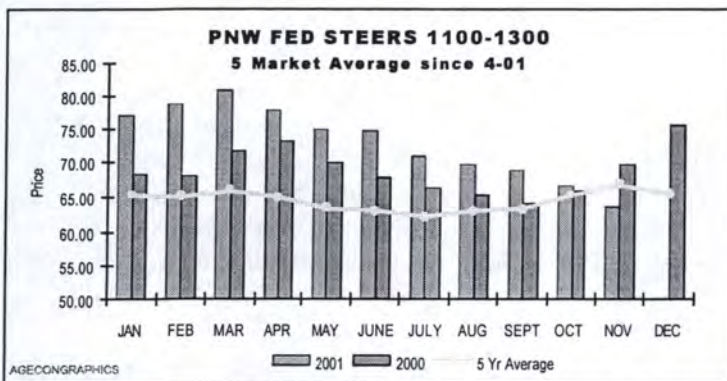


## Winter 2002 PNW Beef Outlook

By C. Wilson Gray<sup>1</sup>

### Overview of situation and outlook

Fed cattle prices have continued to slide this fall. PNW cattle prices have declined since June, with the November average of \$63.62/cwt. 9 percent under a year ago and down 5 percent from the previous five-year average. Lower prices and uncertainty in the fed cattle market have pulled at feeder and calf prices also. Other problems plaguing the industry have been questions over domestic and export demand for beef, availability of forages in drought areas and a large supply of heavier cattle on feed. Fed cattle prices usually trend upward after September. The decline has only happened in five years since the mid-1970's (1975, 1980, 1981, 1982, 1993).



Although feedlot placements have slowed, so have marketing's. The result has been record heavy slaughter weights. Burdensome beef supplies may be with the industry well into the first quarter of 2002, which will keep well below 2001's weather supported levels. Winter weather in the major feeding

areas will play a role in determining rate of gain and pace of marketing this winter.

Consequently the feeder calf market has weakened and given producers lowered income expectations compared to earlier in the fall. Feedlots have been showing red ink since late summer. Some producers have been looking at alternative marketing strategies for calves.

Of course, shocks such as those of this past fall can still occur. But, as 2002 progresses the situation may continue to improve as domestic beef supplies moderate. By next summer cattle prices will likely post year-to-year increases.

### Ag Trade and New Negotiations

The World Trade Organization (WTO) recently initiated new negotiations on trade in agriculture. These negotiations are focusing on extending the gains to world trade achieved in the 1994 Uruguay Round Agreement on Agriculture (URAA). Gains to world trade have occurred under the URAA as a result of limits placed on the use of tariffs and non-tariff barriers to trade, export subsidies, and the type and level of spending for domestic support programs by WTO member countries. For the beef sector, the URAA has further increased U.S. and world beef trade. U.S. gains from these new negotiations

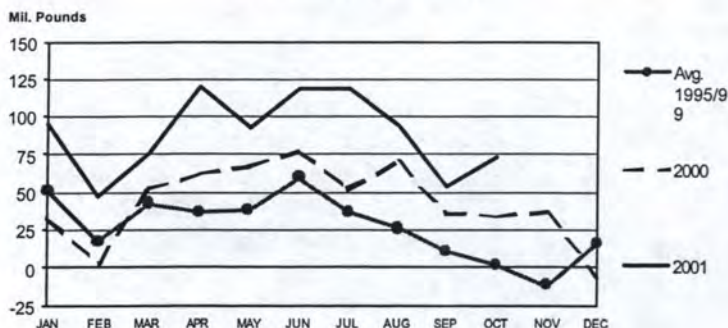
<sup>1</sup> Gray is District Extension Economist located in the University of Idaho Twin Falls Research and Extension Center, Twin Falls, ID (208) 736-3622 or wgray@uidaho.edu.

will be down-the-road, and the level those gains will largely depend upon the degree of foreign tariff reductions.

### Trade Potential

World beef production, trade and consumption is limited to a dozen or so countries (counting the European Union (EU)-15 as one country) according to a report just released by USDA's Economic Research Service<sup>2</sup>. An estimated 90 percent of production and 85 percent of consumption occurs in the 13 largest beef producing countries. Over half is produced and consumed in the US, EU and Brazil. Consumption is higher than production in five countries (US, Russia, Mexico, Japan & Korea) while the reverse is true in eight others. The US accounts for about 27 percent of world production and consumption.

**U S NET BEEF IMPORTS**  
Carcass Weight, Monthly



Seven of the 13 largest beef producers are also responsible for nearly 90 percent of beef imports. Two of the largest importers are also among the smallest beef producing countries, Japan and Korea. The US accounts for almost 30 percent of world imports. Beef exports are also concentrated with 10 countries doing 95 percent of the export trade. Australia is the largest exporter although it is only

the sixth largest producer. The US is the second largest exporter although we produce nearly six times the beef the Aussies do.

Several factors interact to determine a country's position in world beef trade. These include land and forage availability, cultural practices concerning cattle, feed grain production, indigenous genetic stock that allow optimum marbling and a country's disease status, especially relative to foot-and-mouth disease (FMD) and bovine spongiform encephalopathy (BSE). A country declared free of these diseases can export fresh/chilled and frozen beef to more markets. Australia is the largest exporter tonnage-wise, primarily in grass-fed beef, but only the United States and Canada enjoy all of the advantages listed above.

A series of multilateral and bilateral market access agreements for agricultural products, which began in 1978 with the Tokyo Round and ended in 1995 with implementation of the URAA, has allowed international comparative advantage to influence U.S. beef trade. The United States has a comparative advantage in producing and exporting higher valued grain-fed beef, while importing lower valued grass-fed beef for grinding and as prepared and preserved products. While all of the agreements opened growing

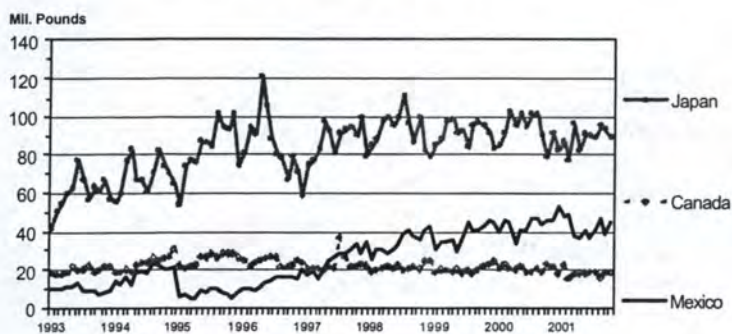
<sup>2</sup> The full report, "The New Agricultural Trade Negotiations: Background and Issues for the U.S. Beef Sector" (LDP-M-89-01), is available on the ERS website at <http://www.ers.usda.gov/publications/so/view.asp?f=livestock/ldp-mbb/>

foreign markets to the United States, the URAA and NAFTA also allowed increased access of beef to the U.S. market.

### U.S. Trade in the World Market

The U.S. experienced a ten-fold increase in beef exports during the 1980's and 1990's, a period of agricultural trade liberalization due to several different agreements. As a percent of world beef trade, US exports went from near 2 percent to 20 percent of the world total. This increased beef exports from 1 percent to about 10 percent of domestic production. Although the volume of imports continues to exceed the volume of exports, it is very critical to note that the value of exports has exceeded the value of imports since 1992. The US exports mainly higher value cuts or subprimals. These products go

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



to rather high-income markets. For example, in the 1998-2000 period Japan, Mexico, Canada and South Korea accounted for 90 percent of the value of U.S. beef exports. Inclusion of Russia, Hong Kong, and Taiwan add another 5 percent, and the EU accounts for 0.5 percent. Higher valued loin cuts as fresh and chilled exports have increased more rapidly than frozen

product. This expansion is due to improvements in the transportation and packing sectors and growth in demand in the higher income markets. The largest US beef markets are Japan and Canada; the most rapidly growing market is Mexico. Korea has is a major destination for frozen product.

Under present trade policies the world trade in beef by the nine major importers is expected to expand by 20 percent (2.15 billion lbs.) by 2010. Much of the increase will be by higher income countries. Korea and Mexico are expected to each account for 1/3 of the increase and Japan for another 14 percent. Most of the increase will be for grain-fed beef and the US should be able to supply about 25 percent of the increased demand. Greater access to certain select markets could increase the potential significantly. Most competition in the grain-fed market will come from Canada and possibly South America. Oceania will continue to be a major exporter of beef but since they are dominated by lower quality grass-fed beef they are not seen as a major competitor in the grain-fed markets.

Canada will likely increase its herd size. But the Canadian cowherd will remain about 10 percent of the US herd size, still smaller than Texas. Argentina and Brazil both have significant feed grain capacity but lack the capital investment in a feeding sector. Becoming FMD free would be critical to obtaining that investment. Also, Zebu type cattle dominate due to climatic reasons so shifting to a grain-fed system would also require a major change in genetics to more European breeds that do better on grain finishing.

Growth in beef imports by the US will mainly be influenced by a cyclic need for processing beef, the majority of imports. This comes mainly from the Oceania countries.

There will also be some increase in fresh/chilled imports from Canada. This all serves to accentuate the importance to US cattlemen of increasing market access. US producers will likely gain the most benefit from broader access to specific countries.

The next round of trade negotiations will focus on expansion of achievements from the Uruguay round in the early 1990's. That would include additional increases in tariff rate quotas (TRQ's) accompanied by reductions in bound tariffs. Presently Japan and Korea do not have TRQ's but reducing their bound tariffs could significantly increase export potential.

Other issues that may be significant in trade talks include pressure on the US from South America to reduce tariffs and to increase quota levels. Improved access to Korean markets will continue to be an issue even though they have begun to remove discriminatory distribution system and other barriers. EU issues around export subsidies may be lessened since the EU has reduced internal support prices on beef and is committed to the previous GATT round that called for lowering subsidies. The US and some other countries are calling for complete elimination of export subsidies. How this will play against reduced EU beef consumption after BSE and FMD and the value of the Euro currency remain to be seen. Sanitary and Phytosanitary (SPS) regulations will also continue to be a concern. The major SPS issue for the US and EU is their ban on imports of hormone-treated beef and continued refusal to abide by the 1999 WTO ruling.

Other issues that will be discussed include food safety, animal health and disease, recognition of disease free regions, and animal identification and tracking. Animal welfare and trade in agricultural products that are of biotechnology related origin. While biotech issues are principally related to crops for now, animal feed is a current concern, and cloning or other animal specific issues could arise later. Country of origin labeling will also be on the table. Both Canada and the EU have tracking systems in place currently. Countries without may be at a competitive disadvantage for trade. Both tracking and country of origin labeling pose some problems for US since about 5 percent of cattle slaughtered here are of either Mexican or Canadian origin.

### ***BSE in Japan***

Japan's first BSE cow was detected in September. That discovery led to a plunge in beef demand and a drop in wholesale prices of 50 percent. At least six other countries, including South Korea and America, have banned Japanese beef imports. The discovery of a second infected cow in late November and the maladroit manner with which the Japanese Agriculture Ministry mishandled the situation has drastically reduced Japanese consumer confidence in beef. Despite reassurances by the ministry that the first cow was destroyed and it was an isolated incident, the animal was accidentally allowed to enter the animal feed chain as meat and bone meal (MBM). Now all 5,100 animals that have been fed MBM will be destroyed.



Photo 0 Courtesy Economist Magazine

(GAP PHOTO)

On the heels of this it is now reported that Tokyo blocked the publication of a European Union study that

warned Japan was at high risk for mad cow disease.

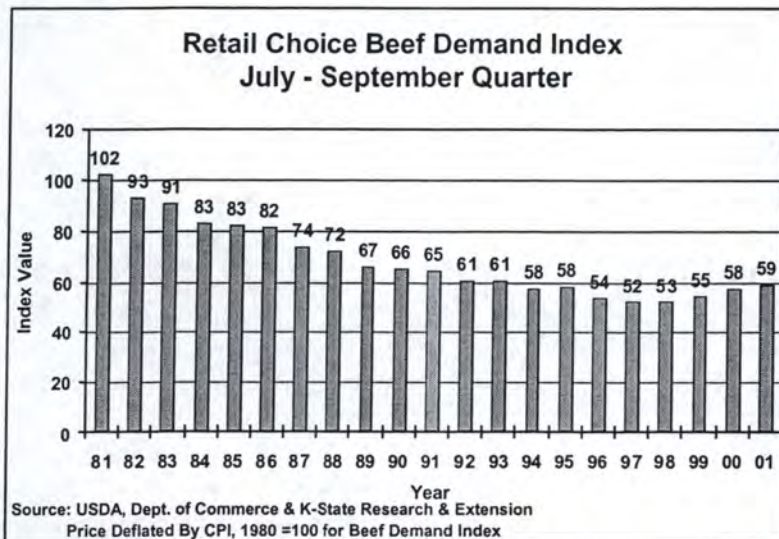


In a story by the Economist,<sup>3</sup> the Mainichi newspaper report followed a government announcement that a fourth suspected case of the brain-wasting disease had been discovered. Citing a 12-page document dated February ; Mainichi reported that the EU study claimed that misguided Japanese policies would increase the likelihood of mad cow contagion rather than its prevention. Japan had continued to allow use of MBM in cattle feed although the US and most other countries following the outbreak of BSE in Europe in the late 1980's had banned it. The EU report said that although at the time no mad cow cases had been confirmed there was a high possibility that animals in Japan had already been infected. The Japanese government had commissioned the EU study, which began in 1998, but stifled its publication after learning its contents. Japan is the only country in Asia where cattle have been affected by the disease, which has ravaged Europe's beef industry.

The trade implications of the situation are decidedly negative, especially in the near term. As in Europe, Japanese consumers have taken the road of extreme caution toward beef by not consuming it. Mishandling of the situation and misleading statements by the Agriculture Ministry have seriously eroded confidence in the Governments ability deal with the problem, and to be truthful to citizens about it. While there should be some opportunity for US beef to be marketed as coming from a BSE free environment, the distrust may extend to beef in general. Recovery for beef consumption in the EU has been quite slow.

## Demand and Economic Situation

It's finally official; the US economy has been in recession since last spring. No surprise to the thousands who've been laid off this year. At the Federal Reserve Board meeting



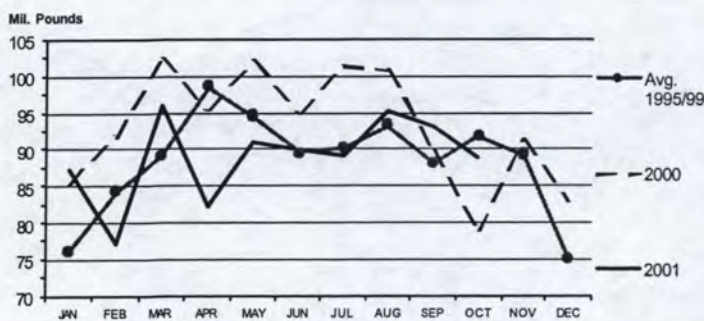
in early December interest rates were again cut a ¼ of a point. Interest rates are now there lowest in the US since 1961. Is this enough to get things moving? Some seem to think so although the latest retail figures for November were very discouraging. With layoffs and economic malaise hitting like a winter cold, will beef demand continue to recover?

The components of beef demand can be separated into domestic consumption and exports. As noted above, exports are about 10 percent of production so domestic consumption is the other 90 percent. Domestic consumption is divided between beef consumed at home and that consumed away from home. While USDA measures retail prices at grocers, there isn't a

<sup>3</sup> Go to <http://www.economist.com/library/articlesBySubject/topics.cfm> and click on the BSE topic.

comparable index for the Hotel, Restaurant and Institutional (HRI) side of things. Experiential information indicates that dining out, especially at higher end establishments, and exports have fallen off. At the same time, demand by households appears to have held up quite well. The retail demand index as reported by Kansas State University indicates that retail beef demand increased by 3.7 percent in the first quarter and by 5.8 percent and 3.4 percent in the second and third quarters, respectively versus year earlier figures. No direct measure exists in the HRI trade but weakness in some high value wholesale cuts versus a year ago would indicate slower demand at the HRI level.

**U S BEEF EXPORTS TO JAPAN**  
Carcass Weight, Monthly



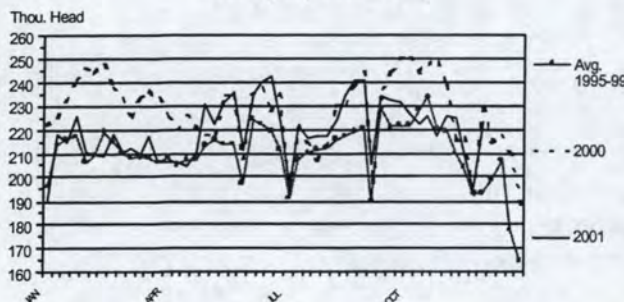
As commented above, Japan is a major export market for US beef, and exports now account for a significant portion of U.S. production. For the first nine months this year, US beef exports have been less than last year, down about 13 percent from the same period a year ago. Industry sources put initial beef shipments since the discovery of BSE infected cattle in Japan, down 50 percent to Japan. Japan also imports large quantities of

beef from Australia and Canada. Their exports have fallen as well. For the past 15 – 20 years annual increases in beef exports were the typical situation and domestic consumption less certain. Things may now be in the reverse with the uncertainty of exports to Japan, and an apparently strong domestic desire for beef.

If the optimists are correct and the US economy is on-track to recover by the second half of 2002 US beef demand could continue to improve. The U.S. economy will be the key to supporting continued improvements in demand for the next several quarters.

## Slaughter, Production and Numbers

**HEIFER SLAUGHTER**  
Federally Inspected, Weekly



For nine of the 11 months so far reported in 2001 daily FI slaughter has been less than a year ago, May and June being exceptions. Slaughter has been lower because packers have been trying to maintain wholesale prices by not speeding up kill rates, and feedlots have been reluctant to sell at depressed prices. A slower slaughter rate and mild weather with low cost feed has contributed to record heavy weights. Steers

averaged 826 lbs. in October and increased to 830 lbs. for November, 5 percent above the previous five-year average. Weights will likely remain high into January barring

**HEIFERS HELD AS BEEF  
COW REPLACEMENTS**  
July 1, U.S.



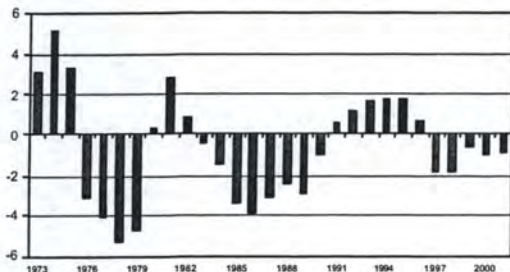
continued to be significant this year as beef cow slaughter is up nearly 8 percent from last year. The portion of heifers in the slaughter mix has also remained high, keeping more feeders in the supply line, but putting off a recovery in beef numbers. Per capita consumption for 2001 will be near 67.5 lbs. down 1.9 lbs. from last year based on lower total production. Demand is strong based on higher retail prices.

US cattle numbers will be a half to 1 percent lower again on January 1 (Cattle report will be out February 1) due to the high beef cow slaughter rate and low heifer retention plans.

## Outlook for Production and Prices

Looking into 2002 beef production is likely to be down 2.5 to 3 percent from 2001. Fed cattle prices may begin to recover late in the first quarter of 2002. Tighter slaughter supplies and a quicker marketing pace will be key here. Additional price strength should carry on into the second quarter. The strength of the domestic economy will be quite

**PERCENT CHANGE IN CATTLE INVENTORY**  
U.S., January 1



unseasonably cold weather. Downward pressure on carcass prices has resulted as the percent of yield grade 3's (Y3's) compared to Y2's has increased with the heavier weights. On a better note, placements have slowed this fall, which may help work out of the slow marketing pace by the second quarter of 2002. Commercial beef production for 2001 is likely to be down about 2.8 percent compared to 2000. Non-fed slaughter has

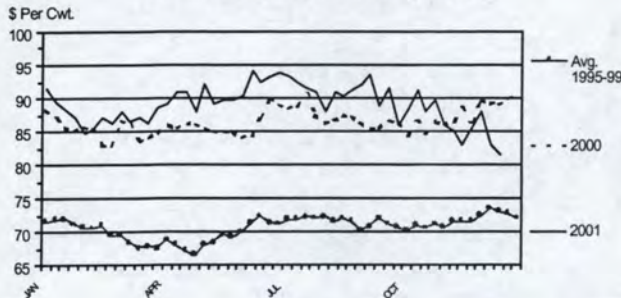
important to beef demand. Exports will remain weaker into 2002 due to the BSE situation in Japan and the likelihood that it will be some time before Japanese consumers regain confidence in beef. Another factor depressing prices is a weaker market for hides and offal. By-product values are down about a \$1 per cwt. since September. This impacts what packers can offer and so affects carcass prices.

Fed cattle prices will languish in the low to mid \$60's through January. Prices should be into the low \$70's by late February or March and stay in the \$70's at least through the first half of second quarter. Prices will likely decline seasonally into the upper \$60's at times in the third quarter before seasonally strengthening next fall.

Feeder calf prices regained some ground in November and early December after sliding earlier. Additional price strength will be conditioned on improvement in fed cattle prices and feeders willingness to place calves. Price direction is likely sideways until fed prices pick up later this winter.

## Retained Ownership Prospects

**MED. FRAME #1 FEEDER STEER PRICES**  
700-800 Pounds, Southern Plains, Weekly



With calf prices off as much as 10 cents a pound this fall compared to contracts offered last spring, some producers may have opted to hold on (out) for better days. Late season calves can go into a background program and come out in early May from where they could go to grass or into a feedlot. Alternatively these calves could go into a feedlot now and come out in June, usually a lower price period for fed cattle.

The table below outlines comparisons of over wintering a 550 lb. calf to 700 lbs., taking the calf through the summer to 900 lbs. and placing that calf in a feedlot to finish at 1,150 lbs. Feedlot data is based on A to Z program experience.

**Table 1 Comparison of over-wintering, pasture and feedlot alternatives**

Item	Over wintering	Over winter & Pasture	Feedlot
Purchase Price	\$90.00	\$90.00	\$90.00
Purchase Weight	550	550	550
Shrunk Sale Weight	701	895	1,150
Expected Sales price	\$90.00	\$76.00	\$72.00
Days on feed	150	250	196
Feed conversion	14.5	14.5*	6.0
Feed cost per lb. gain	\$0.79	\$0.48	\$0.39
Cost of gain per head	\$123.42	\$169.65	\$319.47
Cost of gain per day	\$0.82	\$0.68	\$1.63
Total cost incl. Feeder	\$618.42	\$664.65	\$814.47
Interest charge @ 9%	\$21.31	\$38.56	\$30.98
Net return (loss) per head	\$12.77	\$15.79	\$9.39
Break even sale price @ purchase price	\$88.18	\$74.24	\$71.18
Break even purchase price @ sale price	\$92.32	\$92.87	\$91.71
* for over wintering phase only			



## Winter 2002 PNW Dairy Outlook

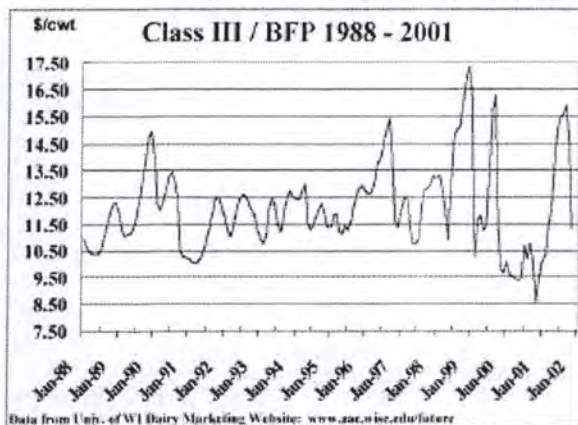
An average year?

By C. Wilson Gray <sup>1</sup>

### Overview of Dairy Situation

**C**lass III and IV prices reversed in the November 30 announcement with Class III falling below IV for the first time since June. This makes Class IV the mover for Class I again. The cost of replacement heifers to Idaho dairies continued above a year ago and November prices rose to within \$2 of the June high for the year. This despite the Idaho herd-size is just holding steady at 369 thousand head. Milk per cow in the state for November was up 50 lbs. to 1,720 due in part to mild weather. Washington herds increased milk production ½ percent on 1,000 fewer cows and 15 lbs. more milk per cow. The U.S. herd actually increased by 8,000 head from October and per cow production increased 21 lbs. to achieve a 0.4 pct increase in total milk production. Still, the USDA reports that nationwide the dairy cowherd

is 1 percent smaller (down 78,000 head) than a year ago.



In the Dec 4<sup>th</sup> Dairy products report October U.S. total cheese output at 681 mil. Lbs. was down 1.1 percent from a year ago but 5.6 percent higher than September. American cheese production was 295 mil. Lbs. or 3.2 percent above a year ago and 4.3 percent above September. Butter at 111 mil. Lbs. was also above year ago and September figures by 6.9 and 25.2 percent respectively. Idaho's total cheese production was 4.1 percent over year ago levels and 6.8 pct.

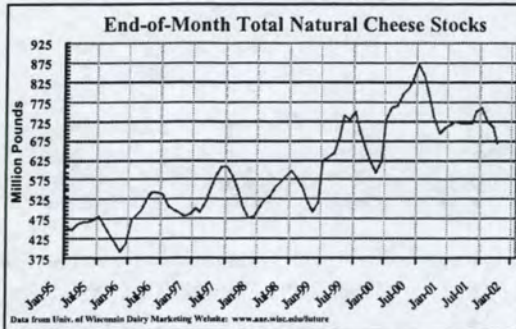
higher than September.

As this year winds up – or down depending on your perspective – we wonder what a New Year will bring. Milk prices in 2001 haven't been too bad on average. For the 11 months so far, Class III prices have averaged \$13.41/cwt. That is considerably better than the \$9.37 average for 2000. We are ending as we started though, on a weaker note. In a compilation of "Blue Chip" forecasts for Class III prices by Mark Stephenson at Cornell University, the projected 2002 average is \$11.92. It moves from a low near \$11 in March to a high near \$13 by September/October. Much is dependant on the economy and whether recovery will happen as quickly as most would like. While most experts are talking about recovery by the second half of next year, a recent article in the Economist magazine points out that economists are notoriously bad in being able to detect when a recession will begin, and worse on when it will end. While this recession now officially began last spring, as late as October some experts were still projecting a near miss.

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## Are Supplies too high?

The short answer is – no. For the first ten months milk production was below year earlier levels. November was only up 0.4 percent. Total cheese production for the first 10 months has averaged 91 percent of a year-ago. For October, cheese production was off



1.1 percent for the US and down in 7 of the reporting states, including Wisconsin and Minnesota, and the "other" category. Seven states including Idaho, California, New York and the Dakotas showed increases. Regionally, the East coast and Western states had increases while the Central regions were lower on cheese output.

Milk production has decreased each month this year compared to last year until November. Milk cow numbers have also declined (see table below) for the most part. Between April and June numbers increased 5,000 head, then resumed their decline. In November numbers again bounced up 8,000 head. Milk per cow has only been above year ago levels in four of the past 11 months. This decrease in total production has helped bring cheese stocks lower. Unfortunately butter has not followed suit as end of month stocks for October were nearly 63 percent over year ago levels.

Table 1: Milk Cows and Production: By Month, 20 Selected States, 2000-2001 1/  
from Milk Production, December 14, 2001, USDA-NASS

Month	Milk Cows 2/		Milk Per Cow 3/		Milk Production 3/		Change From 2000
	2000	2001	2000	2001	2000	2001	
Percent	1,000 Head		Pounds		Million Pounds		
Jan	7,764	7,783	1,579	1,550	12,259	12,062	-1.6
Feb	7,766	7,767	1,506	1,431	11,694	11,112	-5.0
Mar	7,776	7,756	1,632	1,599	12,687	12,401	-2.3
Apr	7,789	7,744	1,593	1,570	12,411	12,158	-2.0
May	7,799	7,745	1,636	1,632	12,758	12,638	-0.9
Jun	7,808	7,749	1,547	1,556	12,082	12,057	-0.2
Jul	7,821	7,745	1,561	1,552	12,205	12,020	-1.5
Aug	7,820	7,737	1,525	1,522	11,928	11,772	-1.3
Sep	7,820	7,723	1,464	1,474	11,451	11,387	-0.6
Oct	7,817	7,719	1,511	1,520	11,813	11,732	-0.7
Nov	7,805	7,727	1,459	1,480	11,385	11,436	0.4
Dec	7,803		1,519		11,855		
Annual	7,799		18,532		144,528		

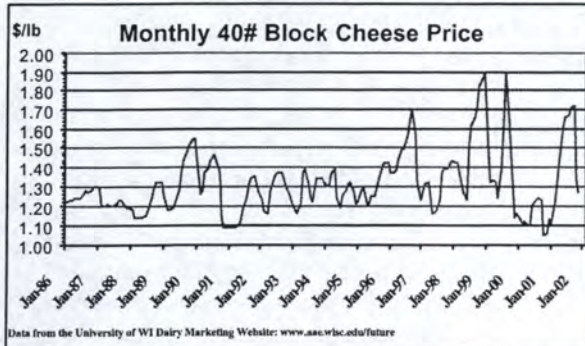
1/ 2001 revised.

2/ Includes dry cows, excludes heifers not yet fresh.

3/ Excludes milk sucked by calves.

## Is Demand Depressed?

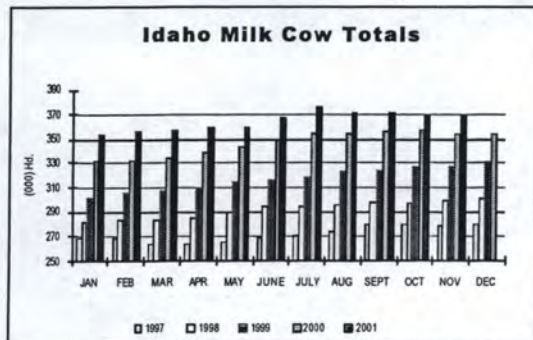
The short answer is – yes. Dairy products are a big part of the 50 percent of meals eaten away from home. Many of these “fast food” meals are heavy on cheese. With the stock market and high tech sector decline over the year, as well as big layoff announcements by Boeing, Enron and many more companies, consumers have gotten cautious. The slowing of away from home demand for dairy products led wholesale and retail purchasers to cut back as they anticipated even lower prices.



Stocks did build over the summer to a peak in July at 760 mil lbs., but that is below most of 2000 and not much above the peak of 748 mil lbs. in July 1999. Commercial disappearance for the first nine months of the year increased a paltry 0.4 percent compared to the same period in 2000. Over the past 3 years annual increases have been in the 2.5 to 3 percent range. Italian type cheese seem to be hit the hardest. This would indicate the pizza index of cheese indicators has slumped badly recently.

Hanging over the market is an aura of uncertainty. Many in the industry are hopeful that cheese sales will soon start to improve. Cheese prices tumbled from \$1.72 at the beginning of September to near \$1.20 at the end of October. Prices have moved sideways in the low \$1.20's since. This has pulled the Class III price down from \$15.90 in September to \$11.31 for November. Class III might recover 25 – 50 cents for December depending on how cheese fares this holiday month.

## Where Next?



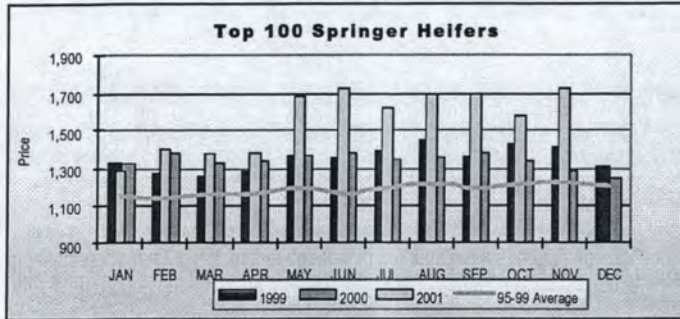
Much is dependant on the state of the economic recovery, since recession is now official. Much of the “expert opinion” places the end of the recession at second or third quarter of 2002. Since World War II the average recession has been about 11 months. The consensus forecast is for one of the mildest recessions on record. Decline is expected to be 1% with recovery to begin as soon as February. The average decline in recessions since WW II has been 2%. Further, most recessions since WW II were led by a decline in consumer demand. Prior to WW II

most recessions were caused by over investment, over-capacity and retrenchment by industry, as is more the case this time. Those recessions lasted an average of 21 months.

The November Class III price of \$11.31/cwt. is very near the five-year average and above the November price for the previous two years. December's price should be near average also. With supplies not excessive and demand not red-hot but not absent either, prices in 2002 may be more “average” than not for the year. USDA's forecast at this date is for Class III prices to bounce between \$10.50 and \$12.70/cwt. with the low point during 2<sup>nd</sup> quarter and the high in 3<sup>rd</sup> quarter. It seems likely at this juncture that Class IV will be the Class I mover in 2002.

Compared to October, the November production report indicated 0.4% increase in milk

and 8,000 more cows. This could be revised in the January report, as is often the case. October's figures were revised down 0.4% compared to the preliminary figures in November. If that happens, the gain could easily become a reduction again. Feed prices will likely hold steady for concentrates and forage costs are unlikely to increase unless



the weather turns harsher. Replacement costs averaged \$1,356 per head in the first quarter, \$1,597 and \$1,655 in the second and third quarters respectively. Early figures indicate fourth quarter will average over \$1,700 per head. Although dairy cow numbers are up 4.2% compared to a year ago, the 369 thousand head on hand is 7,000 fewer than the July peak. Numbers have been slowly declining since August. High replacement costs, uncertainty over milk prices and demand have likely combined to limit expansions and some producers continue to exit the industry. With a reasonable feed cost outlook and near average milk prices it should be a decent year for most Northwest producers. It probably just won't be a record setting one.

In 2002 USDA is projecting a 2.7% increase in total milk production to 169.9 bill. Lbs. Commercial use is projected to be 173.1 bill. Lbs. or a 1.8% increase. While better than the 0.4% seen this year, it is still under the recent past of 2.7 to 3% gains per year. If production outpaces supplies prices will feel pressured, especially by second half of 2002.

Feed outlook is also available on the AERS web page at <http://www.ag.uidaho.edu/aers/>, then click on publications and scroll down to Outlook. Other links to USDA sites of interest are available with the links button.

**Table 2: Quarterly forecast planning prices for PNW livestock.**

		2002 Quarterly Forecast			
	Unit	Qtr I	Qtr II	Qtr III	Qtr IV
Utility Cows	cwt.	45-52	45-52	42-50	41-46
Milk, Class III	Cwt.	11.10-11.95	11.80-12.55	12.10-13.00	12-13
Springer Heifers	Top 100 average per head	1500-1800	1600-1850	1600-1900	1550-1850

## Sideshows

For the past four years congress has passed special legislation to assist farmers totaling \$70 billion. The proposed farm bill, covering the next ten years, has \$168 billion (House)



or \$171 billion (Senate) to continue the idea of high fixed annual payments or higher support payments respectively. No new ideas in either case. The bulk of government payments go to few, large farms. Roughly 20% of farms collect around 80% of payments. While one purported aim of farm legislation has been to keep farmers farming, the various programs have universally been a failure at stemming the drain of rural America.

## **The Farm Bill**

With both a House and Senate version on the table before Christmas recess, congress can pick up the debate next year. The White House isn't happy with either version as Secretary Veneman has argued for an approach that subsidies should be spread more evenly to help smaller farmers, and should include more payments for conservation. While this is embodied in conservation legislation co-sponsored by Sen. Harkin, as per normal, the various farm groups are circling the wagons to shoot it out with each other. The dairy title has often been quite contentious and this time will be no exception. Compacts, tilts, Class III versus Class IV, regional strategizing imports, DEIP programs and small versus big (east versus west) are a few of the issues just in the dairy sector to be hashed out. Extending the support price at some level near the current \$9.90 level is virtually certain. Patching up a worn-out and possibly outmoded Federal Order system that sets prices will take considerable time.

The US and arguably the North American market is essentially one, which obsolesces the need for regional market orders. Nearly all milk produced today is Class I (fit for fluid consumption), which argues against the idea that the current class system is very necessary. If all milk were required to be Class I, which many processors now do, then milk could be priced by the market for end use. Rather than the current complex and unsatisfying scheme where Class I and Class II are priced from either Class III or Class IV.

With too many special interests involved such a simplification is unlikely but in the longer term might actually improve milk markets compared to the swamp they are wading in now.

## **Dairy Option Pilot Program**

Begun as a means to educate dairymen about the use of futures options to manage price risk, the DOPP program is now entering its fourth round. Idaho has participated in rounds II and III and is set for entering round IV. Each time additional eligible counties have been included. Three more have been added to the latest round. Ada, Cassia and Shoshone counties join Canyon, Gooding, Jerome, Twin Falls, Bingham and Franklin counties.

By attending a DOPP workshop to learn about the mechanics of the program, participants are eligible to sign up and have the Risk Management Agency (RMA) pick up the tab for three put options. The idea is learn by doing so by giving participants some incentive to do a few trades and see how it can work, RMA hopes more will make use of the Options contracts to manage risk and in the future reduce the need for direct government payments.

## **Producer Education**

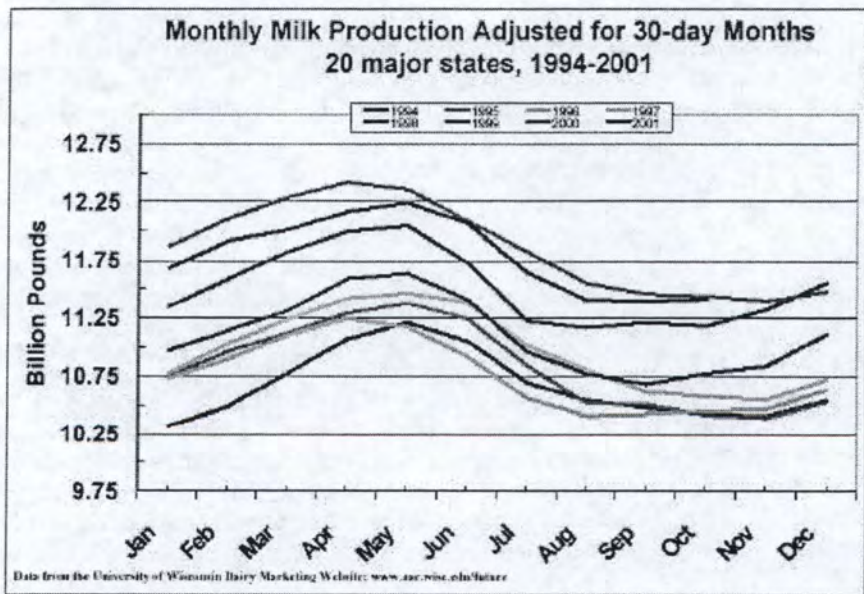
In addition to the DOPP workshops, which are required for participation, the University of Idaho will be offering a series of three-day workshops after the first of the year on price risk management. These Achieving Risk Management Success (ARMS) workshops will focus on the basics of futures and options, price management strategies, and how the markets and pricing work. These should serve to give producers a good foundation to begin

managing price risk with several alternatives including the futures and options markets. Watch for announcement by your area Extension Educator for signup and location information on the ARMS program.

## Summary

Milk pricing over the coming year may be less interesting than in the previous few. However the excitement of debate on farm legislation and the DOPP program should serve to hold producer interest in 2002.

The national economy will hold a major key to dairy fortunes this year. If the recession drags on longer than currently anticipated, dairy product will be negatively impacted. Price volatility has become more of a management problem since price supports were lowered in the late 1980's. The RMA program and Extension education ARMS programs slated for this winter should provide producers with information on how to manage price risk for their operations.



## **Idaho Edible Dry Bean Market Situation and Outlook for 2001-02**

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The December estimate for 2001 dry edible bean production by USDA (Table 1) was up 0.206 million cwt from the previous estimate made in October. The 1.1 percent increase over the October forecast put dry bean production at 19.602 million cwt, 25.8 percent below 2000. This is the second consecutive year with a reduction exceeding twenty percent, making this the smallest crop since 1988. The upward revision in production is not expected to have a negative impact on the market in aggregate. The December report may help explain why the price of some bean classes have remained relatively weak given the magnitude of the dry bean supply reduction, and why these prices have not improved as much as I had anticipated when I wrote the fall outlook back in October. The December report is the first estimate with class specific production information. I would also add that I did not factor the garbanzo market situation into my October outlook. I've traditionally focused only on the dry bean classes grown in southern Idaho. While this did not present a problem historically because of the relatively small garbanzo bean crop in Idaho that is no longer true today.

Idaho's production was up 5.4 percent in the December estimate compared to the earlier October estimate. California, Minnesota and Nebraska were the other major dry bean states with a higher estimate in December, up 5.9 percent, 8.6 percent and 11.4 percent, respectively. Colorado's December estimate was unchanged, while North Dakota and Michigan had reductions of 1.6 percent and 36.6 percent, respectively.

U.S. harvested dry bean acres were only 88 percent of planted acres, four percentage points below the typical level of 92 percent. The higher than normal unharvested acres reflect the water and weather related problems that plagued many dry bean production areas. Dry summer weather and water shortages hurt crops in the North East, Midwest, parts of Western

Plains and in the West. Michigan was especially hard hit by drought conditions with yields falling to 1936 levels.

U.S. planted acreage was down 329,800 acres (18.8 percent), harvested acreage was down 357,300 acres (22.2 percent) and yield per acre was down 75 pounds (4.6 percent). Among the top seven producing states, which produce over 85 percent of the dry beans in the U.S., only Nebraska and Minnesota had higher yields than the previous year. Idaho's yield was unchanged. The largest reduction in production occurred in Michigan for the second straight year where production declined 81 percent in 2001 after dropping 44 percent last year. Michigan's ranking dropped from number two to number 7. Number one ranked dry bean producer North Dakota produced 18.6 percent fewer beans, Nebraska was down 1.4 percent, Minnesota was down 34.4 percent, Colorado was down 9.8 percent, California was down 22.2 percent and Idaho was down 17 percent.

While total U.S. dry bean production was down 25.8 percent, there was a wide range in production changes by bean class. Pintos, Idaho's leading bean class, was down only 19.6 percent nationally over 2000 and down 18.3 percent in Idaho. Nebraska, the number three producer of pinto beans, increased production by 39 percent. The below average reduction is at least one factor explaining why pinto prices have not improved as much as other dry bean prices since harvest. Garbanzos are Idaho's second largest bean class, number one if ranked based on acreage. U.S. garbanzo production was up by one third, while Idaho production was similar to last year. But Idaho's production of garbanzo beans has gone up dramatically in previous years. It's only been two years since Idaho replaced California as the number one producer of garbanzo beans. It was at the same time that garbanzos were separated from the "Other" bean class in Idaho's statistics, which is a catchall for the minor bean classes. The price for garbanzos has dropped \$1 since harvest, most likely because of the pressure from increased supplies. Production of pinks was up both for the U.S. and in Idaho, increasing 1.25 percent and 52.9 percent, respectively. Production of great northern beans was off 17.1 percent for the U.S. and nearly 40 percent in Idaho. Nebraska, which dominates great northern production—

producing 85 percent of the crop—saw only a 13.7 percent reduction. The production of small reds was off dramatically in both Idaho, down 43.5 percent, and for the U.S., down 45 percent. The price of small reds has seen the biggest improvement since harvest, most likely in response to the drastic cut in supplies. Navy bean production also saw a significant reduction this year. U.S. production was down 51.5 percent and production in Idaho was off 60.6 percent. Michigan, the traditional leader in navy bean production, dropped to third place with a 91 percent reduction in production. Michigan produced only seven percent of the navy bean crop this year compared to 37 percent in 2000 and 47 percent in 1999. The production of small white beans dropped 40.6 percent in the U.S. and 34.5 percent in Idaho.

Exports for the first three quarters of calendar year 2001 are up 14.1 percent over 2000. But there are significant differences in exports by class. Pinto exports were up 22.3 percent for the same time period. Great northern, navy, light red kidneys, and cranberry beans had increases of 17.6, 27.8, 98.6, and 34.8, respectively. Garbanzo, dark red kidney, small red, pink, and white bean exports were down 20.3, 16.5, 29.7, 88.2, and 13.6 percent, respectively. The big unknown on exports is whether the fourth quarter for 2001 will continue the overall positive trend for dry beans.

### **Review of the 2001-02 Marketing Year**

The price on all market classes of dry beans grown in Idaho—except garbanzos-- were higher in December than when the marketing year began in September. Pinto prices to growers during the first four months of the 2001-02 marketing moved from \$19—the price that prevailed as the 2000-01 marketing year ended in August—to \$21 by mid December. The price of great northern has also moved up about \$2 above the \$16 price at the beginning of the marketing year. The price of small whites was higher than most classes at the beginning of the marketing year and have moved up only \$1.50 to \$20.50. The market for pinks has been the real bright spot so far this year with prices moving from \$18 to the \$24 to \$25 range. Small reds have seen a price improvement comparable to small whites, but with a wider trading range. Prices

started the marketing year at \$17 and by mid December they were bringing growers \$22 to \$25. Garbanzo prices have dropped a dollar from the \$17.50 price prevailing in the early fall.

Where will prices go from here? USDA economists writing in the November "Vegetables and Specialties Situation and Outlook Report" indicated that the aggregate dry bean price should continue to strengthen throughout the remainder of the marketing year. They don't make predictions on individual market classes, however. I expect to see the composite Idaho dry bean price continue to increase over the marketing year from its current level of around \$19. Will the dry bean market behave like the 1995 when the composite Idaho dry bean price improved from \$18 in the first one-third of the market year to hit a high of \$26 by late summer? Perhaps. But even with this dramatic increase, the market year average price was still under \$21. The supply side of the supply and demand situation for the current market year would certainly support a price rally similar to 1995. Table 3 contains historical prices for Idaho's major dry bean classes for 1996 through 2000 and my price forecast for each class for the 2001 market year.

Although I'm still as optimistic about higher prices as I was in October, I did drop my composite dry bean market year average price to \$22, down \$1 from the midpoint in my October forecast. I did this to reflect the overall greater impact that the lower price for garbanzo beans will have on the dry bean composite price. It also reflects the fact that we are one-third of the way through the market year and the composite dry bean price is still only \$19. I'm still optimistic on the price of the dry beans traditionally produced in southern Idaho. The price of some bean classes could very easily approach \$30 by the end of the current market year if export demand is strong.

To help others who analyze the dry bean markets, I've included my dry bean stocks estimates (Table 2). I first included this table in the Fall 2000 dry bean outlook article. I continue to make modifications. I now lag all the domestic uses as well as exports by one year to better correspond to the marketing year. Exports and domestic use are reported on a calendar year,

not a market year. The 8.25 million hundredweight shown for marketing year 2000 is the USDA forecast for calendar year 2001. The change in stocks, both in absolute and relative terms is what should drive market price changes and should be of most interest to the reader since USDA does not develop stocks estimates for dry beans. I use this table to provide some analysis of the overall dry bean market. It will not help when looking at an individual bean class, however.

### **Projections For 2002-003**

While making a market forecast is always risky, I think that forecasts are useful if the focus is on the analysis, rather than simply trying to out-guess the market. My first attempt at forecasting the market for the 2002 crop uses a high, expected and low prediction for U.S. dry bean production, 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 production ranges from a low of 24.5 million cwt--a 25 percent increase-- to a high of 28.5 million cwt—an increase of 45 percent. 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 2.07 million cwt. Given the expected values on production and exports, I expect to see the price for dry beans in Idaho to stay in the low \$20s. The high end of my composite dry bean price forecast, \$24, would occur if the low production scenario occurs and exports are even average. The low price forecast, \$19, would result from the high production and low export scenario. With relatively stable domestic utilization of around two million hundredweight, exports are the key to the demand side. The importance of supply—production for 2002—will have a more dominant influence on the market than has been the case for several years. There are no longer any significant carryover stocks to buffer prices. Even if the low end of my price forecast for the 2002-2003 market year is realized, prices early in the new market year should remain strong.

Table 1. Dry Edible Beans: Area Harvested, Yield, and Production by State and United States, for 2000 and 2001 1/

State	2000	2001	2000	2001	1999	2000	2001
	Area Harvested		Yield		Production		
	--- 1,000 Acres --		---- Pounds ---		----- 1,000 Cwt -----		
CA	112.0	89.0	1,840	1,800	2,455	2,059	1,602
CO	110.0	105.0	1,800	1,700	2,755	1,980	1,785
ID	88.0	73	1,950	1,950	2,112	1,716	1,424
KS	16.0	14.0	1,810	1,850	387	289	259
MI	275.0	130.0	1,500	600	7,350	4,125	780
MN	150.0	105.0	1,600	1,500	2,558	2,400	1,575
MT	34.8	31.8	1,400	1,290	441	486	409
NE	156.0	148.0	2,070	2,150	3,740	3,230	3,185
NM <sup>2/</sup>		13.0		2,000	18		260
NY	24.5	22.3	1,460	870	414	358	194
ND	525.0	400.0	1,450	1,550	8,265	7,613	6,200
OR	11.7	9.5	1,800	1,810	174	211	172
SD <sup>3/</sup>	10.8	17.0	2,090	1,620		226	275
TX	16.6	24.4	950	1,300	701	158	318
UT	3.0	5.7	330	300	53	10	17
WA	32.0	34.0	2,000	1,700	750	640	578
WI	8.1	6.5	1,800	1,600	124	146	104
WY	34.0	22.0	2,240	2,110	788	762	465
US	1,607.5	1,250.2	1,643	1,568	33,085	26,409	19,602

Source: USDA, NASS December Crop Production Report.

1/ Excludes beans grown for garden seed.

2/ Estimates discontinued in 2000 and restarted in 2001.

3/ Estimates began in 2000.



**Table 2. Estimating dry bean stocks by marketing year.**

	<u>1994</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Arbitrary Beginning Stocks	12.0	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
Calculated Beginning Stocks	xxxxxx	13.17	14.45	18.05	15.32	4.90
Production	28.95	30.418	33.085	26.409	19.602	26.000
Imports <sup>1/</sup>	0.853	1.256	1.291	1.300	1.200	1.150
Total Supply	41.8	44.84	48.82	45.76	36.12	32.05
Domestic Use: <sup>1/</sup>	20.43	20.90	21.62	20.89	21.25	21.20
Population (millions)	261.5	271.0	273.0	275.0	277.0	280.0
Per Capita Consumption <sup>1/</sup>	7.7	7.6	7.8	7.5	7.6	7.5
Other Domestic Use	0.29	0.30	0.33	0.26	0.20	0.20
Domestic Use as % of Total Supply	49%	47%	44%	46%	59%	66%
Exports (lagged one year) <sup>1/</sup>	8.133	8.238	7.861	8.250	8.770	8.770
Exports as % of Total Supply	19%	18%	16%	18%	24%	27%
Total Utilization	28.56	29.14	29.49	29.14	30.02	29.97
Projected Ending Stocks	13.25	14.45	18.05	15.32	4.90	0.93
Change in Stocks	1.25	1.28	3.60	-2.73	-10.42	-3.97
Percentage Change	+10%	+10%	+25%	-15%	-68%	-81%

<sup>1/</sup> Imports, exports and domestic consumption data is reported on a calendar year basis. Values in this table are lagged one year to better correspond to the market year (September – August).

Note: Stocks are calculated by the author, not by USDA.

Table 3. Historical Idaho dry bean market year average prices by class, 1996–2000 and projected prices for 2001.

Market Year	Pinto	Great Northerns	Small White	Pink	Small Red	Garbanzo
1996	\$22.15	\$20.50	\$28.00	\$25.40	\$28.60	\$
1997	\$21.05	\$19.10	\$20.55	\$21.75	\$21.00	\$20.50
1998	\$15.65	\$17.50	\$19.35	\$18.50	\$19.25	\$20.55
1999	\$15.60	\$17.00	\$17.65	\$14.15	\$14.45	\$24.15
2000	\$16.70	\$16.10	\$17.00	\$15.55	\$15.55	\$20.70
5-Yr. Avg.	\$18.25	\$18.05	\$20.50	\$19.05	\$19.75	\$21.50
2001	\$22	\$19	\$22	\$25	\$25	\$17

Source: USDA. Prices rounded to nearest 5 cents for 1996 - 2000. 2001 market year prices are the author's forecast.

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)
1996-97	27.91	9.00	1,907	\$23.65
1997-98	29.37	7.81	2,156	\$21.00
1998-99	30.42	10.66	2,112	\$17.00
1999-00	33.09	8.24	2,112	15.10
2000-01	26.41	7.86	1,716	\$17.35
5-yr Average	29.44	8.71	2,001	\$18.80
2001-02 <sup>3/</sup>	19.60	8.25	1,424	\$22
<u>2002-03<sup>4/</sup></u>				
High	28.5	8.5	2,065	\$24
Expected	26.0	8.0	1,895	\$21
Low	24.5	7.5	1,780	\$19

Source: USDA: Vegetable and Specialties Yearbook, July 2001, 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 IASS for the crop-marketing year Sept. 1 – Aug. 31.

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

<sup>4/</sup> 2002-03 marketing year forecasts are the author's.

## WHEAT AND FEED GRAINS

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### Current World Situation for Wheat and Coarse Grains

The USDA's May World Ag. Supply/Demand (WASDE) report contained substantial adjustments to historical grain (wheat, rice, and corn) use and stock levels for China. Thus, you will see numbers in Table 1 that seem larger than you remember seeing in the past. Keep in mind that these are all relative adjustments that go back over 20 years. Thus, numbers that are larger in an absolute sense have the same relative relationship historically. A complete discussion of these adjustments is included in the 2001 May 10 WASDE report.

**Wheat:** The 2001/02 world wheat crop is currently forecast at 577.0 million metric tons (MMT), down just under 1 percent from the previous year (Table 1). The projected 2001/02 world wheat crop is below the 5-year average level of production by just over 12 MMT (about 2 percent). However, the years used in the 5-year average represent some of the largest world wheat crops on record. Total production is well below total use for 2001/01, and world wheat stocks are projected to decline to 144.0 MMT by the end of the marketing year. Under the revised USDA estimates, 144 MMT is the lowest level of world wheat ending stocks since 1995/96 and well below the 5-year average. When ending stocks are compared to current use levels (measured by the stocks-to-use ratio), the current projected 2001/02 stocks-to-use ratio of 24.2 percent is the lowest level since the mid-1970s. World wheat stocks continue to move in the right general direction for a price recovery. By historical standards (as adjusted), world stock levels are projected to reach a point that should support wheat prices at significantly higher levels. This is particularly true since stocks are declining as utilization continues to increase, resulting in a stocks-to-use ratio that is clearly approaching historically low levels. Factors that seem to be holding back the

price rally likely include: 1) a world market that seems increasingly more comfortable with lower levels of carryover, 2) though tight, still adequate world supplies of coarse grains, and 3) grain stocks in the US that are getting tighter, but still not historically tight.

**Coarse Grains:** World coarse grain production is projected to increase by 16.3 MMT or 1.9 percent in the 2001/02 marketing year (Table 1). Projected world production of 873.2 MMT for world coarse grains in 2001/02 is about 10 MMT below the five-year average. US production of feed grains is expected to be down about 11 MMT, and foreign coarse grain production up about 27 MMT. Eastern Europe and the Former Soviet Union (FSU) countries account for the big increase in world coarse grain production. In spite of higher production, world stocks will decline 10.9 percent (to 166.7 MMT) because total use is projected to increase significantly. A 2001/02 world coarse grain carryover of 166.7 MMT is still well above the carryover levels of 1995/96. However, when compared to utilization using the stocks-to-use ratio, stocks are relatively tight.

### **Current Situation for US Wheat and Feed Grains**

The higher levels of US grain production and increasing carryover levels occurring after the high prices of the mid-1990s appear to have turned around. The process has, however, proceeded slower than expected. Planted US wheat acreage declined steadily from 75 million acres in 1996 to 60 million acres in 2001. However, record per acre yields maintained production at average to above average levels until the 2001 crop. Wheat carryover stocks in the US initially increased, and then declined slowly. Although planted acreage for feed grains other than corn declined, corn acreage stayed around 79 to 80 million acres, with some decline in 1999 and 2001. Relatively high per acre yields have also kept US corn production over 9 billion bushels since 1996/97. Feed grain carryover in the US has generally grown since 1996/97, with the only significant decline projected for the 2001/02 marketing year. Thus, the US is just beginning to show definite signs of tighter grain supplies.

**Wheat:** The 2001 US wheat crop is forecast at 1.958 billion bushels (Table 2). The official final estimate comes out in January, but don't expected much of a change. The 2001 crop is the first time US wheat production has been under 2 billion bushels since 1991, and is well below the five-year average. In spite of lower projected domestic use and exports, carryover for the 2001/02 marketing year is expected to decline to 687 million bushels, the lowest since 1996/97. Although the lowest carryover of the last 5 years, 652 million bushels is still above the 376 million bushel carryover of 1995/96. Farm level wheat prices for 2001/02 are currently forecast to average \$2.85 per bushel. That price is above last year's average price of \$2.62, but still below the five-year average farm level wheat price of \$3.09. Disappointing export shipments early in the current marketing year have consistently reduced the USDA forecast for US wheat exports. The most recent projected level of US wheat exports is down to 1.0 billion bushels. As of early December, US wheat export shipments for 2001/02 are at 90 percent of last year. Although catching up, the current pace is not adequate to meet the 1.0 billion bushels of exports currently being forecast.

White wheat estimated production is 232 million bushels for the 2001 crop. White wheat production is well below last year, and notably under the five-year average (Table 2). The projected carryover of white wheat (71 million bushels) is below the five-year average, but still above levels experienced in 1995 and 1996. The Portland price averaged just over \$3.00 per bushel for the pervious marketing year (2000/01). For the current marketing year (2001/02), Portland has averaged \$3.62 since July, and demonstrated pretty steady improvement since the beginning of the marketing year. Beginning in early October, Portland white wheat has been moving between \$3.70 and \$3.80. The historical average differential between the Portland and the US average wheat price is 56 cents per bushel. If the USDA farm-level price estimate (\$2.85) is correct, this implies a Portland average of about \$3.41. At this point, Portland white wheat is trading well above average relative to other classes.

**Feed Grains:** Projected US corn production for the 2001 crop is currently 9.546 billion bushels. Although down about 4 percent from the 2000 crop, the 2001 crop is about equal to the five-year average. For the other US feed grains, grain sorghum production is projected up by 14 percent to 537 million bushels, and barley production is down almost 22 percent to 250 million bushels (the smallest US barley crop since the early 1950s). Total US feed grain production is down just over 4 percent to 263.2 MMT. With just slightly lower domestic use and higher exports for the 2001/02 marketing year, US feed grain ending stocks are expected to drop from 52.7 to 44.0 MMT (about 17 percent). Farm level corn prices for 2001/02 are currently projected in the \$1.85 to \$2.15 per bushel range, which is above last year's average of \$1.85. With tighter supplies and lower export prospects, barley prices are projected to increase slightly in the 2001/02 marketing year. The average farm level price for barley is projected at \$2.25 per bushel (\$94 per ton) in 2001/02, compared to \$2.11 per bushel (\$88 per ton) in 2000/01.

### **Outlook for 2001**

After experiencing historically large crops and increases in stocks, world grain markets are showing definite signs of improving. World supplies remain adequate, but are reaching the point of being considered tight. This tightening is particularly noticeable when stocks are compared to the level of utilization using the stocks-to-use ratio. This is especially true for wheat. By historical standards, wheat carryover is projected to approach record low levels. World coarse grain supplies are becoming tighter, and are moving toward the tight supply levels of the mid-1990's. US feed grains and wheat have the potential to rally in the face of threats to the 2002 world grain crop. Wheat will likely be more sensitive to production concerns than will feed grains.

**Wheat:** US carryover stocks for wheat are projected to reach below average levels by the end of the 2001/02 marketing year. Additionally, the 2001/02 drop in world ending stocks to 144.0 MMT (Table 1) approaches levels experienced in the mid-1990s. However, lack of export activity, renewed concerns about the world political and economic environment,

and adequate US supplies of wheat and feed grains seem to have the market in a neutral mood regarding prices. Wheat prices have generally moved in a choppy sideways pattern since October. Any significant price rally seems unlikely at this point without some event to get the market focused on the issue of adequate supplies. An unexpected increase in export demand, or concerns about future production are possible events. At this point, a major concern about the size of the 2002 crop appears to be the event with the greatest probability of occurring. Therefore, planted acreage and condition of the 2002 wheat crop are the likely keys to any opportunity for a substantial price increase between now and next harvest. The first official indication of planted wheat acreage is the January *Winter Wheat Seedings* report scheduled for release on January 11, 2002. The general expectation is that planted acreage of winter wheat should be up between 1 and 2 million acres (1 to 3 percent). Any substantial variation from that could have a price impact either way. The *Planting Intentions* report, which indicates acreage planted for all major crops, is scheduled for release on March 28, 2002. With regard to 2002 crop conditions, the last national *Crop Progress* report for 2001 was released November 26. That report includes emergence and crop condition reports for winter wheat. The next national report is scheduled for release April 1, 2002. However, some of the major wheat producing states release crop condition reports during late fall and early spring. As of the last report, winter wheat emergence is average to slightly above average. Condition of the crop is generally below average, especially in the hard red winter wheat belt states of Oklahoma and Texas. Right now, it is likely too early to judge yield impacts. Unless fall winter wheat conditions are really dismal, the general consensus is that unfavorable fall conditions can be (and often are) overwhelmed by what happens during the spring.

The general outlook for all wheat using USDA projections suggests farm level prices for 2001/02 will average \$2.85, above last year's average of \$2.62 per bushel. As of December 1, the marketing year average farm level price for all wheat was just over \$2.80, suggesting a slight increase as the marketing year progresses. Futures markets or deferred cash bids are generally offering some modest carries (9-11 cents per bushel from December to March), with the exception of white wheat. Wheat futures markets are



currently showing a very small premium for new crop, reflecting some uncertainty about next year's crop. Wheat prices generally seem to be in a holding pattern, with the expectation of some normal seasonal increases. The current strong position of white wheat relative to other classes suggests a greater potential for some downward pressure on white wheat prices. Although white wheat could maintain its current premium if food aid donations continue to favor white wheat, the lack of support for any increase in the price of all wheat indicates the probability of a decline is greater than an increase. Portland's average marketing year price is expected to increase from about \$3.04 in 2000/01 to \$3.65 for 2001/02. With current Portland prices above \$3.70, the implication is that current Portland price levels are pretty favorable. It is important to recognize that any concern about the 2002 wheat crop can have major impacts on projected price levels. Unless the *Winter Wheat Seedings* report in January has some unexpected surprise, it may be March or April before crop conditions are well established. The next wheat outlook from the University of Idaho is currently scheduled for April of 2002.

**Feed Grains:** Although 2001/02 US feed grain production is projected to be down from last year, foreign coarse production has more than made up the difference. Much like wheat, the feed grain markets just do not seem particularly excited about the reduction in stocks. Supplies are adequate, and prices seem to be in a holding pattern. Given the unusually low level of production for US barley, feed barley prices could show some strength relative to corn. This would be especially likely if export prospects for barley were to pick up. At this point, the USDA estimate for 2001/02 barley exports is about one-half of last year (30 million bushels versus 58 million last year). The December 10 export inspection report put year-to-date barley export inspections at 15.6 million bushels. US barley export shipments were 32.8 million bushel at this time last year. Thus, Portland feed barley prices should hold about \$10 per ton above last year's \$80 to \$90 per ton level.

The Agricultural Economics and Rural Sociology Department website contains links to sources for commodity information from the US Department of Agriculture and various other public and private sources. The Department also publishes long range and short

range planning prices for a wide range of commodities produced in Idaho and the Pacific Northwest. The URL for the website is: <http://www.ag.uidaho.edu/aers> Click on publications.

Several workshops are scheduled this winter to help producers sharpen their marketing and management skills. While other workshops will be scheduled, the following dates and locations have been set:

The University of Idaho is conducting risk management and marketing workshops for grain producers on January 30 and 31 in Moscow and Craigmont, respectively. Contact the Latah or Lewis County Extension office for more information.

The Idaho Barley Commission has scheduled workshops in two locations to discuss production issues, risk management, and marketing. One workshop is scheduled for Idaho Falls on February 18 and another for Burley on February 19. The date for a third workshop to be held in Lewiston has not been set. For more information, contact the Idaho Barley Commission at (208) 334-2090.

Table 1. World Wheat and Coarse Grain Production, Use, and Ending Stocks, Marketing Years 1996/97 through 2001/02 and 5-year average.

Year	Production		Use		Ending Stocks		Stocks to Use Ratio (%)
	MMT	Annual % Change	MMT	Annual % Change	MMT	Annual % Change	
<b>Wheat</b>							
1996/97	581.9	+ 8.1	575.8	+ 5.0	145.6	+ 4.4	25.3
1997/98	609.2	+ 4.7	583.8	+ 1.4	171.0	+17.4	29.3
1998/99	588.7	- 3.4	585.2	+ 0.2	174.5	+ 2.0	29.8
1999/00	585.9	- 0.5	591.6	+ 1.1	170.1	- 2.5	28.8
2000/01	582.3	- 0.6	589.5	- 0.4	163.0	- 4.2	27.7
5-yr. Avg.	589.6	+ 1.7	585.2	+ 1.5	164.8	+ 3.4	28.2
Current Year:							
2001/02	577.0	- 0.9	596.0	+ 1.1	144.0	-11.7	24.2
<b>Coarse Grains</b>							
1996/97	908.5	+13.2	875.0	+ 3.9	185.3	+22.1	21.2
1997/98	883.9	- 2.7	873.4	- 0.2	195.8	+ 5.7	22.4
1998/99	889.0	+ 0.6	869.9	- 0.4	215.0	+ 9.8	24.7
1999/00	876.5	- 1.4	881.9	+ 1.4	209.6	- 2.5	23.8
2000/01	856.9	- 2.2	879.5	- 0.3	187.0	-10.8	21.3
5-yr. Avg.	883.0	+ 1.5	875.9	+ 0.8	198.5	+ 4.9	22.7
Current Year:							
2001/02	873.2	+ 1.9	893.4	+ 1.6	166.7	-10.9	18.7

Notes:

MMT = Million Metric Tons

Annual % change represents the percent change (+ for an increase; - for a decrease) from the previous year, with the 5-year average representing the average annual change over the previous five years.

1999/00, 2000/01, and 2001/02 marketing year estimates are from the USDA's December World Ag. Supply & Demand Estimates (WASDE) report. Previous years are from the Foreign Ag. Service, *Grain: World Markets and Trade*, FG10-01, October 2001.

Coarse grains include corn, barley, grain sorghum, oats, and rye.

Table 2. U.S. Wheat and White Wheat Balance Sheets for Marketing Years 1996/97 to 2001/02 and 5-year average.

	Marketing Year						5-year Average
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	
(billion bushels)							
<u>All US Wheat</u>							
Beginning Stocks	0.376	0.444	0.723	0.946	0.950	0.876	0.688
Production	2.277	2.482	2.547	2.299	2.232	1.958	2.367
Total Supply	2.746	3.020	3.373	3.339	3.272	2.924	3.150
Domestic Use	1.301	1.257	1.385	1.300	1.334	1.237	1.315
Export	1.002	1.040	1.042	1.090	1.061	1.000	1.047
Total Use	2.302	2.298	2.427	2.390	2.396	2.237	2.363
Ending Stocks	0.444	0.723	0.946	0.950	0.876	0.687	0.788
Stocks to Use Ratio (%)	19.3%	31.5%	39.0%	39.7%	36.6%	30.7%	33.2%
Average							
Farm Price (\$/bu)	\$4.30	\$3.38	\$2.65	\$2.48	\$2.62	\$2.85	\$3.09
(million bushels)							
<u>White Wheat</u>							
Beginning Stocks	55	59	90	87	91	75	76
Production	352	332	301	247	303	232	307
Total Supply	422	399	401	340	399	317	392
Domestic Use	126	104	116	89	121	91	111
Export	237	205	198	160	203	155	201
Total Use	363	309	314	249	324	246	312
Ending Stocks	59	90	87	91	75	71	80
Average Portland							
Price (\$/bu)	\$4.54	\$3.81	\$3.02	\$3.02	\$3.03	\$3.65	\$3.48

Notes:

1996/97, 1997/98, 1998/99 and 1999/00 marketing year values are from the USDA's *Wheat Situation and Outlook Yearbook* (March, 2001); 2000/01 and 2001/02 estimates are from the USDA's December World Ag. Supply & Demand Estimates (WASDE) report.

The 5-year average is for the five years prior to the current year.

Portland average price is based on monthly average prices for the marketing year (June through May) for 1996/97 through 2000/01. For the 2001/02 marketing year, the average Portland price is projected by the author.

Total supply includes imports.

## **Looking at Farm Bill Alternatives**

By Neil Meyer

12/21/01

By Neil Meyer

Currently there are a number of alternatives for federal food and agricultural legislation. The US House version, HR 2646, has already passed. Senator Harkin's agricultural bill, and some new ideas from various sources are being floated to explore policy alternatives. Until those ideas are defined in a bill, it is difficult to estimate the likely impacts on different vested groups and on the national budget. Currently the administration is supporting a much more conservative approach than the House bill.

As a citizen of the United States and the State of Idaho there are a number of issues to consider depending on how each of us is individually affected by different sections of the alternative legislative proposals. Below I am trying to highlight the points of conflict and consensus that must be considered and worked out before we will have our final legislation.

### **Commodities**

Programs for commodities such as wheat, feed grains, dairy and sugar come up often in discussions among agricultural and rural folks around Idaho. Generally, the specifics of these programs are very important to individual producers because they strongly affect individual livelihoods.

#### **Producers' Perspective:**

Individual commodity producers will want to know how new legislation effects their particular operation. This will be in both a physical operation sense and economically. Physical factors include the protection of the natural resource such as surface residue on soil, tillage on slopes, nutrients in run off water, erosion on tilled land, pesticide carryover in the soil. Another very important

factor is who benefits from these management actions. Will the costs be shared in a manner that reflects how the benefits are shared?

**Commodity Users' Perspective:**

Consumers are the users. They also usually have a personal perspective which includes cost and safety as well as a broadened social perspective such as air quality, water quality, and wildlife habitat. If consumers have a choice, they purchase what they want for the needs they identify. The family purchasing food is going to have different requirements than the person using an agricultural product as input such as making cheese or feeding livestock. Policies that adjust cost to consumers become a type of subsidy to someone. Low cost grains become a subsidy to livestock feeders. Low cost food becomes a subsidy to employers because it permits them to pay lower wages.

**Trade:**

Trade in recent years has been sold as the answer to all problems of agriculture. In theory that is true. However one person's export is another person's import. When we have non-competing and non-substitutable products that is certainly true. However when we have competing products it is another issue. Is Canadian beef substitutable for Idaho beef on consumer dinner tables? Is Mexican sugar different than Idaho sugar? In these and similar cases, there are risks of the import being substituted for our local production, reducing prices for our producers. The same situation can occur in countries importing our products so the politics are much more complicated.

**Exporter:**

The argument made for exports is that they permit production at a larger volume, which can be sold at higher prices because exports act like an increase in demand, thus increasing total revenue while decreasing the cost per unit of production. The net result is greater profits. The best example I can think of is the Soviet Union coming into western markets in 1973. Demand was expanded but it took several years for new investments to be made and for supplies to catch up. Agricultural producers, input handlers, output processors and handlers

experienced record profits in the years following. That is why many producers favor exports. The critical questions are how much to export and at what price? When the US subsidizes exports we are reducing the cost to consumers of those products or services. We are also charging taxpayers and giving it to producers internally as well as foreign consumers. Is the nation better off?

#### **User of Imports:**

Consumers of imports generally have three reasons to purchase imports: lower cost, higher quality and selection not available from domestic sources. Coffee and bananas are examples of non-competing products. In the case of commodities, if quality is acceptable then price becomes the determining factor. Many consumers do not care about the source of the product if it meets their needs. In the case of imports, strength of our currency also effects the costs of imports. If our currency is too strong and a substitute product can be imported, domestic producers are hurt because price is reduced and market share moves to imported product. Consumers may benefit from these lower prices but at the expense of domestic producers. This can set up some interesting political dynamics in the importing country.

#### **Food Nutrition and Safety:**

This is a section of interest to all persons. First, because we all are consumers of food. It's wholesomeness and safety are important because it is key to our health. Nutrition issues involving the provision of the basic nutrients needed for being in good health are of interest to most people. History has shown people resent taking unknown risks. In this case I am thinking of unknown or unhealthy substances in their food. That is the reason for such broad interest in food safety and nutrition.

#### **Safety:**

Food safety is becoming a more complicated subject almost daily. Some worry about biological contamination. Others worry about what "other" things might be included in the product being purchased. The concerns about pesticide

poisoning, residual pesticides, gene contamination and diseases are even higher since 9-11.

Food additives are a concern to some consumers. The use of hormones and low levels of antibiotics have actually closed some markets to US products. At the same time there is concern with US consumers about pesticide residues and bacteria on products we are importing. How many exist, what are their levels and are they cumulative? These are questions which consumers are asking.

Genetically modified organism (GMO) risks to most people are uncertain. They do not know if there are dangers and what they are. Therefore, the tendency is to be cautious and avoid unknown risks. This is limiting markets for the products in question.

Terrorism risks are the new thing on the block. I worked my way through college in the early 1960s developing strains of rust to destroy the Soviet wheat crop. Now those same concerns have come home to the point that many are hesitant to open a postal envelope. As a result we will likely see new sections in the farm bill aimed at protecting food and assuring consumers of the safety of our food.

Food aid has been important because it provides the major reason why urban legislators could support the food and agricultural legislation.

### **Conservation:**

This is the area where non-agricultural interests have exerted the greatest pressure for changes in policy. Current pressures are to do even more to protect soil, water and air quality. The broader public is saying if we are going to spend money to subsidize, then we should do it in ways which enhance the environment and wildlife. As a result we are seeing strong support for the Conservation Reserve Program (CRP), Wet lands Reserve, Environmental Quality Incentives Program (EQIP), Wildlife Habitat Incentive Program (WHIP), and various other programs designed to protect and enhance different sectors of the environment. The key debates in that areas relate to sharing costs and



where to find the money to finance the cost sharing. Some say take money from commodity programs while others that say new funds are needed because this is a new area of programming.

### **Conservation Reserve Program (CRP)**

This program has been in existence since the early 1980s. It is designed to take fragile and highly erodible lands out of production and replace crops with grasses to protect against soil and water erosion. This program has met the needs of production and environmental groups. Therefore it is popular with the general public as well as producers.

### **Wetlands Reserve**

This program permits focusing in land management actions which protect and preserve wetland. It is designed to improve water quality and enhance wildlife habitat. This is another program that meets the desires of both consumers and producers.

### **Environmental Quality Incentives Program (EQIP)**

Improving water quality has been the major effect of this program. The large increase in confinement livestock operations has raised concerns about protecting water quality. This program is designed to provide both technical and financial assistance and has the support of consumer and user groups. Level of funding to share the costs of implementation will be an important part of the farm bill discussions.

### **Credit:**

Financing for new and beginning producers is of concern because as the average age of producers increases, how do young persons get into production agriculture to assure the necessary skills and knowledge are passed on? For national food security, we need farmers. The programs are designed to facilitate new and younger persons getting into production agriculture. The questions here are funding levels and the willingness to be dependent on producers in other countries of the world for our food.

## **Rural Development:**

There are many people in rural America who are not agricultural producers. Their needs are similar to people all over the world. They need food, housing, employment, security, and services. To provide these, social and physical infrastructure is needed. How and to what level these should be provided are points to be discussed and debated. Currently much of the payment to commodity agriculture bypasses the rural community. Capital is needed for investment operations and infrastructure.

## **Research:**

The agricultural research establishment has been working for almost a century to discover means to make agricultural production more efficient. They have been very successful. Because the public benefits from low cost food the programs have been justified as helping all consumers. Producer benefits from new research have been unevenly distributed. Early adapters clearly received benefits. Late adapters may have been punished because their production costs were above average

## **Summary**

There are some very serious questions being asked by non-food producer residents. Because potentially, agricultural programs are becoming larger, they are being examined more closely. Agricultural producers need to articulate why consumers should continue to fund specific individuals at levels far above the average incomes of taxpayers. There are benefits to consumers in having safe food and water. They need to be articulated to consumers for continued support of agricultural programs. Commodity and general agricultural membership groups would do well to spend time and efforts articulating these benefits.