1998-99 Planning Prices and Outlook for Idaho Crops and Livestock

by
C. Wilson Gray, Joseph F. Guenthner, Larry D. Makus,
Neil L. Meyer, Paul E. Patterson, and Neil R. Rimbey

Department of Agricultural Economics and Rural Sociology

University of Idaho

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Prepared by

Paul E. Patterson, C. Wilson Gray and Neil R. Rimbey

Commodity prices can vary significantly, not only between years, but within the marketing year as well. Prices tend to be lowest at harvest and strengthen throughout the year as the temporary imbalance between supply and demand is reduced. Some commodities follow well-established seasonal price patterns, while others are less predictable and vary significantly from year-to-year and throughout the year. Even for a commodity with a well-established seasonal pattern, the overall price level can vary dramatically even though the pattern may remain unchanged. Trying to represent an entire marketing year with a single price, even a price based on historical data, can be very difficult and potentially misleading. Often, however, a single price is needed for planning purposes.

Because one price will not fit all purposes, we provide both long range and short range planning prices. The long range planning prices are based on historical (time-series) data. There are two price columns for the crop planning prices, one showing the 10-year seasonal Olympic average price and the second showing the lowest average monthly price over the past ten years. Crop prices are marketing year based, while livestock prices are on a calendar year. The marketing year varies by commodity and matches those established by USDA, generally from harvest to harvest.

The short run planning prices for crops are projected prices for the 1998/99 marketing year, based upon current market fundamentals: supply, demand, stocks and expected utilization. The short run crop prices are an estimate of what we expect the price to average over the current marketing year. The lowest expected monthly average price for crops is also listed as a means of addressing downside price risk. Short run livestock planning prices are forecast on a quarterly bases for the last two quarters of 1998 and all four quarters of 1999.

Olympic Averages

An Olympic average is calculated by removing the high and the low price from the specified time frame and averaging the remaining values. This is the same procedure used in scoring many events during the Olympics, hence the name. An Olympic average will tend to show less variability over time than a simple average for the same period because the impact of one year's extremely high or low price is reduced.

Short Vs. Long Run

Whether to use the long run or the short run price depends on the type of analysis. A feasibility study looking at alternatives should use the long range planning prices, while a cash flow estimate for the current year would rely on the short-run planning price.

What price should be used on 1999 crops that will be marketed in the 1999/2000 marketing year? An average of the long and short run planning prices is one recommended alternative. Since prices tend to move toward the historical average, the price received for the 1999 crop will likely be between the short run (current price) and long run price, assuming the short run price is accurate and that no structural changes in the market have occurred that would disrupt the normal price pattern. A more conservative approach to planning is to use the long run planning price for any year but the current one. This second method is preferred particularly when the short range planning price varies significantly from the long range planning price.

Data Sources and Data Problems

The information used to calculate these planning prices comes from a variety of different sources, although the Idaho Agricultural Statistics Service, USDA is the primary source for crop prices. Unfortunately, USDA does not acquire price data on all crops grown in the state. Obtaining price information for crops grown predominately or exclusively under

contract can be a particularly difficult problem. Another problem occurs when the USDA commodity data is not market class specific. For example, the wheat price published by the Idaho Agricultural Statistics Service is differentiated as winter and spring. But, there are significant differences between the price of hard red spring wheat and soft white spring wheat, and between hard red winter and soft white winter wheat.

Long range grain prices in this publication are based on the Idaho Farm Bureau prices at Pocatello for feed barley, hard red spring wheat (14%), hard red winter wheat (11%) and soft white wheat. The price in other areas of Idaho are adjusted to account for differences in the transportation cost from Pocatello to the terminal market, normally Portland, based on the historical price difference measured from Pocatello. While this price difference has increased over time, it tends to remain fairly stable within a given year. The market location for Southcentral Idaho is the Burley/Twin Falls area, the market location for Southwestern Idaho is the Nampa/Caldwell area, and the market location for Northern Idaho is Lewiston.

The prices for corn are based on USDA data. Contract malt barley is based on the prevailing base price from the most recent contracts. Historically, malting barley contracts with two of the three major malting companies operating in Idaho were a fixed base-price contract for barley meeting grade and quality specifications, and with quality incentives paid above the minimums. Contracts in recent years have increased in complexity and may give the grower several different pricing alternatives, ranging from a fixed price, with or without storage compensation, to a prevailing company posted price or the average of these posted prices over a specified period of time. There is typically a minimum price specified with this pricing alternative. One company prices malt barley on a specified premium over a three-month average feed barley price. The premium varies by variety.

In this publication, the long range open malt barley is priced $1.00 above the feed barley price. While the malt barley premium varies year-to-year, the $1.00 per cwt represents a long term price difference. Up until six years ago, USDA reported only one barley price in Idaho. This was a composite of the monthly average of feed barley, open malt barley and contract malt barley purchases. While USDA still maintains the all barley price, it also has a feed barley price series and a malt barley price series. Currently, the new barley price series don't contain an adequate historical base needed to look at long term trends. The USDA malt barley price is not an open-market price since it includes both open market and contract purchases made during a given month.

The price for dry beans, dry peas and lentils use monthly price data from Agricultural Market News, USDA. Prices reported by USDA are also used on sugarbeets, sweet corn and the fresh and processing potatoes. The contract potato price uses the current or most recent base contract price adjusted for the five year quality average.

Hay, straw and corn silage prices come from a variety of different sources, including hay brokers, county agents and livestock producers. A separate AUM rate is given for land managed by Federal agencies (BLM and Forest Service), the Idaho State Land Board and private land owners. Because of low cattle prices, the 1999 short-range Federal AUM price will likely be $1.35, the floor price using the PRIA fee formula. The long range government AUM price is based upon expected increases brought about through the on-going political process. A 10-year Olympic average of historical PRIA-based fees is $1.72. Private pasture rates are expected to maintain traditional levels in the short run. Long-term pasture rents are expected to drop below current levels, reflecting poor cattle prices and decreased demand.

Livestock Price Estimates

The short range planning prices are conservative, quarterly price estimates based on the present market fundamentals. Quarterly prices are given for 1998 and 1999. Long range price estimates are based on 10-year averages. While livestock prices are statewide estimates they are most reflective of Southern Idaho.

For Additional Information

The commodity price outlook is presented as a guideline to assist farmers, ranchers, lenders and agri-businesses in planning. Local circumstances may alter the actual prices in your area.

Your planning efforts will be enhanced if you monitor the current outlook situation. Use new information to modify your plans as necessary. Some sources for current outlook are:

- The *Livestock Roundup* published in the Farmer-Stockman and other industry related publications.
- USDA's World Agricultural Supply and Demand Estimates (WASDE) and Livestock, Dairy and Poultry Outlook (LDP) are published monthly. WASDE includes U.S. and world situation/outlook commentary and information on meats, dairy, grains and other major crops. The monthly LDP covers all meat animal production. Call 1-800-999-6779 for more information.

For those with access to the Internet, reports published by the Economic Research Service, the World Agriculture Outlook Board, and the National Agricultural Statistics Service, all part of USDA, are available at the following URL:

http://usda/mannlib.cornell.eud/usda/usda.html

An electronic version of the *Livestock Roundup* and other industry related information is available from the Livestock marketing Information Center web site:

http://lmic1.co.nrcs.usda.gov

Other information of interest and many agricultural links can be found at:

http://www.uidaho.edu/ag/agecon

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Table 1. 1998/99 Long range crop planning prices for Idaho based on marketing year averages.

		Southwestern		Southcentral		Southeastern		Northern	
Crop	Units	10-yr Olympic Average	10-yr Mo Avg Low	10-yr Olympic Average	10-yr Mo Avg Low	10-yr Olympic Average	10-yr Mo Avg Low	10-yr Olympic Average	10-yr Mo Avg Low
Barley, Feed	cwt	$ 5.05	$ 4.70	$ 5.00	$ 4.65	$ 4.80	$ 4.45	$ 5.00	$ 4.65
Barley, Malt:									
Open	cwt	---	---	$ 6.00	$ 4.90	$ 5.80	$ 4.70	$ 6.00	$ 4.90
Contract	cwt	---	---	$ 6.40	---	$ 6.40	---	---	---
Corn	bu	$ 2.95	$ 2.20	$ 2.95	$ 2.20	---	---	---	---
Wheat:									
Hard Red Spring	bu	$ 4.15	$ 3.00	$ 4.05	$ 2.90	$ 4.10	$ 2.95	---	---
Hard Red Winter	bu	$ 3.65	$ 2.70	$ 3.55	$ 2.60	$ 3.60	$ 2.65	---	---
Soft White	bu	$ 3.50	$ 2.55	$ 3.40	$ 2.45	$ 3.45	$ 2.50	$ 3.95	$ 3.00
Alfalfa Seed :									
Proprietary	lb	$ 1.10	na	$ 1.10	na	---	---	---	---
Public	lb	$ 1.00	na	$ 1.00	na	---	---	---	---
Dry Beans	cwt	$21.30	$12.80	$21.30	$12.80	---	---	---	---
Dry Peas:									
Austrn .Winter**	cwt	---	---	---	---	---	---	$11.75	$ 8.70
Green**	cwt	---	---	---	---	---	---	$ 9.30	$ 6.95
Seed (contract)	cwt	---	---	$15.00	$13.00	$15.00	$13.00	---	---
Lentils**	cwt	---	---	---	---	---	---	$ 16.10	$10.80
Potatoes:									
Proc. Contract	cwt	$ 4.95	$ 4.25	$ 4.95	$ 4.25	$ 4.95	$ 4.25	---	---
Fresh - open	cwt	$ 4.90	$ 1.30	$ 4.90	$ 1.30	$ 4.90	$ 1.30	---	---
Process. - open	cwt	$ 5.00	$ 3.30	$ 5.00	$ 3.30	$ 5.00	$ 3.30	---	---
Seed - G2 *	cwt	---	---	---	---	$ 8.00	$ 4.00	---	---
Seed - G3 *	cwt	---	---	---	---	$ 6.00	$ 2.80	---	---
Sugarbeets									
Contract	ton	$40.00	$38.00	$41.00	$38.00	$42.00	$38.00	---	---
Sweet Corn									
Contract	ton	$70	$62	$70.00	$62	---	---	---	---
Alfalfa Hay:									
Feeder	ton	$75	na	$75	na	$75	na	$75	na
Dairy	ton	$95	na	$95	na	$95	na	na	na
Grass Hay	ton	$60	na	$60	na	$60	na	$60	na
Corn Silage	ton	$27.50	na	$27.50	na	$25	na	---	---
Straw	ton	$30	na	$30	na	$30	na	---	---
Pasture (irrigated)	AUM	$13	na	$13	na	$13	na	---	---
Range (state) *	AUM	$ 4.70	na	$ 4.70	na	$ 4.70	na	$ 4.70	na
Range (Federal) ***	AUM	$2.00	na	$2.00	na	$2.00	na	$ 2.00	na

Prices are for crops sold on the open market, unless otherwise specified; i.e. contract. Contract crop prices typically represent contract prices over the past 3-5 years, not a 10-year Olympic average.

*** 5-year average and lowest average price **9-year average ***Projected.**

September 1998 estimates.

Table 2. 1998/99 Short range planning prices for Idaho based on expected marketing year averages.

		Southwestern		Southcentral		Southeastern		Northern	
Crop	Units	Expected Market Average	Expected Market Low	Expected Market Average	Expected Market Low	Expected Market Average	Expected Market Low	Expected Market Average	Expected Market Low
Barley, Feed	cwt	$ 3.75	$ 3.25	$ 3.70	$ 3.10	$ 3.50	$ 3.00	$ 3.80	$ 3.10
Barley, Malt:									
Open	cwt	---	---	$ 4.75	$ 3.50	$ 4.75	$ 3.40	$ 4.70	$ 3.50
Contract (99)	cwt	---	---	$ 6.50	---	$ 6.50	---	---	---
Corn	bu	$ 2.35	$ 2.05	$ 2.35	$ 2.05	---	---	---	---
Wheat:									
Hard Red Spring	bu	$ 3.60	$ 3.05	$ 3.50	$ 2.90	$ 3.50	$ 2.95	---	---
Hard Red Winter	bu	$ 2.80	$ 2.05	$ 2.70	$ 1.90	$ 2.70	$ 1.95	---	---
Soft White	bu	$ 2.30	$ 1.85	$ 2.20	$ 1.70	$ 2.25	$ 1.75	$ 2.80	$ 2.25
Alfalfa Seed:									
Proprietary	lb	$ 1.45	na	$ 1.45	na	---	---	---	---
Public	lb	$ 1.45	na	$ 1.45	na	---	---	---	---
Dry Beans	cwt	$19.00	$16.00	$19.00	$16.00	---	---	---	---
Dry Peas:									
Austrian Winter	cwt	---	---	---	---	---	---	$ 9.00	$ 7.50
Green	cwt	---	---	---	---	---	---	$7.00	$ 6.00
Seed (contract)	cwt	---	---	$14.00	---	$14.00	---	---	---
Lentils	cwt	---	---	---	---	---	---	$11.00	$10.00
Potatoes:									
Contract (99)	cwt	$ 4.75	---	$ 4.75	---	$ 4.75	---	---	---
Fresh – open	cwt	---	---	$ 4.80	$ 3.00	$ 4.80	$ 3.00	---	---
Process. – open	cwt	$ 5.00	$ 3.75	$ 5.00	$ 3.75	$ 5.00	$ 3.75	---	---
R.B. Seed – G2	cwt	---	---	---	---	$ 7.75	---	---	---
R.B. Seed – G3	cwt	---	---	---	---	$ 5.75	---	---	---
Sugarbeets									
Contract	ton	$41.00	---	$42.00	---	$43.00	---	---	---
Alfalfa Hay: *									
Feeder	ton	$65	---	$65	---	$60	---	$65	---
Dairy	ton	$90	---	$90	---	$85	---	---	na
Grass Hay	ton	$50	---	$50	---	$50	---	$50	na
Corn Silage	ton	$22	---	$22	---	$22	---	---	---
Straw	ton	$30	---	$30	---	$30	---	---	---
Pasture (irrigated)	AUM	$14.00	na	$14.00	na	$14.00	na	---	---
Range (state)	AUM	$ 4.72	na	$ 4.72	na	$ 4.72	na	$ 4.72	na
Range (Federal)	AUM	$ 1.35	na	$ 1.35	na	$ 1.35	na	$ 1.35	na

Prices are for crops sold on the open market, unless otherwise specified; i.e. contract.

*** Prices for rain damaged hay would be discounted from these prices, while covered hay would sell at a premium.**

Table 3. Historic, one year and long range planning prices for PNW livestock based on calendar year averages.

		Annual Average				1999 Quarterly Forecast				
	Unit	1997	1998-p q3	1998-p q4	1998-p	I-f	II-f	III-f	IV-f	Long Term Ave.
Choice Steers 11 - 1300# *	cwt	65.91	59	62	61	61-65	63-69	62-67	64-72	69
Steers 8-900# *	cwt				65	62-67	65-70	65-71	65-73	70
Steers 7-800# *	cwt	76.14	67	70	72	65-73	69-76	69-77	71-79	70
Steers 6-700# *	cwt		71	74	74	71-77	73-80	78-86	79-86	72
Steers 5-600# *	cwt	84.96	75	78	83	75-81	77-84	81-90	80-92	74
Steers 4-500# *	cwt		76	80	85	78-83	82-92	80-90	84-96	75
Utility Cows **	cwt	34.27	37	37	38	41-45	43-47	40-44	39-44	38
Market Hogs 240# average	cwt	51.4	31	29	34	28-32	30-35	32-37	30-35	44
Slaughter Lambs (100-125#)	cwt	92.76	81	79	78	81-84	81-86	80-85	76-82	73
Feeder Lambs (70-90#)	cwt	99.84	84	76	74	77-82	78-84	80-85	77-83	78
Sheep	Head	33.10	34	35	34	30-35	32-36	30-37	33-39	28
Wool (Grease basis -farm)	lb.	.85	.70	.70	.70	.65	.55	.55	.60	.65
Milk, Basic Formula Price	cwt	11.88	14.90	13.10	13.15	11.70-12.70	10.45-11.50	11.45-12.50	12.50-13.50	12.10

p = preliminary; f = forecast; * heifers will be 4 to 10 cents under steers in the same wt. class; ** bulls will be 4 to 6 cents over utility cows.
Forecast estimates are by LMIC and UI Agricultural Economics Extension. Historic data from USDA-IASS.

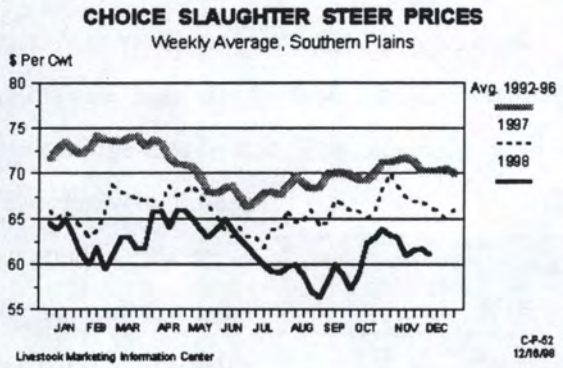
September 1998 estimates.

Idaho Cattle Outlook - January 1999

By C. Wilson Gray

Prices may be on the rebound

Fed cattle prices dropped nearly 14% from $65 per hundredweight (cwt.) last spring into the mid- to upper fifty dollar range from late July to mid October. Prices traded in the $62 - $64range until mid-November. Then they dipped slightly to $60-$61 area. Fed prices will likely trade in the lower $60's until the new year. Prices are then expected to rise seasonally through March or April to the $64-$69 trading range. Longer term, prices are expected to continue to strengthen.



Cattle on Feed numbers show progress

The latest Cattle on Feed report (released December 18) indicated that placements continued to moderate and marketing's were above a year ago. The number on feed December 1 was down 4 percent from a year ago. The report over all was slightly bullish for cattle prices.

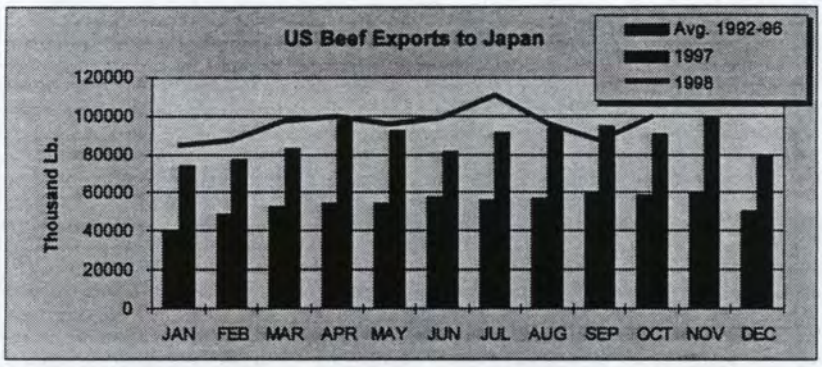
Pork still weighs down the market

The phenomenal pork slaughter situation continues to hold back progress for other meat sectors including cattle. Hog prices dipped below $10/cwt for some markets in early December. Price in the low to mid teens is the "norm" at present. A lack of adequate slaughter capacity to handle the pork onslaught has contributed mightily to these low prices. Since late September the number ready for slaughter has exceeded capacity. New weekly hog slaughter records have been set four times so far this fall. This problem is likely to continue until late January.

Retail pork prices have declined only slightly by comparison. The November average of $2.269 per pound was only 4.4 cents under a year ago. This made the farm-retail price spread for November a record $1.988 per pound, breaking the old record set in October. The huge number of hogs has been absorbed by a strong demand at the consumer level. Per capita consumption of pork will increase about 8 percent this year for only a1 percent decline in retail prices. It appears that everyone in the system except the pork producer is making money at the present.
This excess pork will weigh on the beef market until weekly slaughter rates slacken.

Exports to Japan falter, finally

Monthly exports of beef to Japan had been above year ago levels until September. Exports had dipped in August so the trend had been set. Annual exports for the year are likely to average near those for 1997. This will still be above thefive year average. Beef exports have been struggling all year, primarily due to Asian economic woes. S. Korean exports,below year ago levels all season, may improve. September imports were the largest of the year. Beef exports to Mexico have been improving and are up nearly 25 percent over a year ago. The "Other countries" category was down 49 percent pulling total exports down also. The four largest beef export markets are Japan, Mexico, Canada and S. Korea. When exports are deducted from imports the net US import situation will be about 1 percent of total production. On a value basis, the US exports more value in beef products than are imported, and has for years.



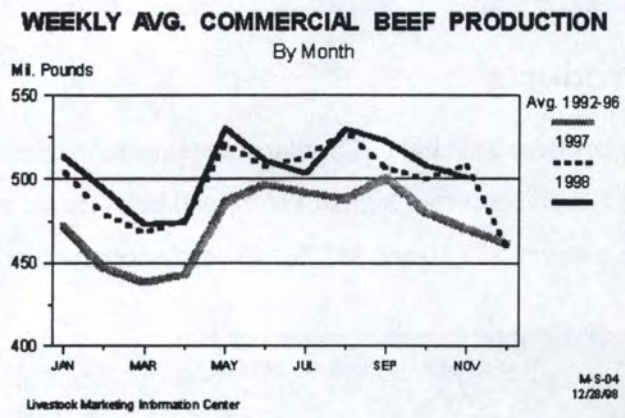
Fed cattle situation improvement ahead

Two things need to happen to raise beef prices in the near term. Beef dressed weights need to continue to moderate, and slaughter levels continue to stay at or below average levels. Hog slaughter levels need to show some decline from the flood that has inundated the market this fall. With beef carcass weights appearing to trend lower and a typical seasonal decline in hog slaughter hopefully occurring soon, fed cattle prices should gain some strength during the first quarter. A

first quarter price range of $64 to $68 per cwt. is not unlikely. Strongest prices are likely to occur late in the quarter. Price strength could continue into spring beforeDeclining seasonally late in the second quarter. Fed prices in the second quarter could trade in the range of $66 to $70 per cwt.

Feeder cattle potential tied to fed cattle

Prices for lighter steers (500-600 lb.) have been trading in the upper $70 area. Heavier feeders (700-800 lb.) have been trading in the $68 to $72 area. Given that feed costs will remain favorable, it will take stronger fed prices to pull up feeder calf prices. If fed cattle price strength materializes as outlined above, feeder calf prices should improve by late in the first quarter. Feeder prices should continue to improve into the second quarter as well.



Present slaughter levels of fed cattle are being maintained by higher heifer numbers on feed made available by the deferral of heifers to feeding instead of being retained by ranchers to build herds. When ranchers do decide to begin retaining heifers for herd building, supplies of feeders available for feedlots will be decreased dramatically. This will place a lot of upward pressure on feeder calf prices. By this fall light calf (500-600 lb.) prices could trade in the range of $80 to $90. That would put heavier feeders (700 to 800 lb.) trading in the $74 to $79 range.

Idaho Dairy Outlook – January 1999

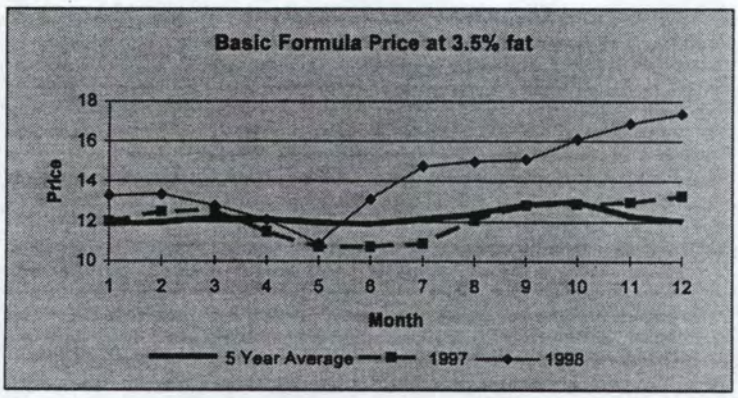
By C. Wilson Gray

Milk Production

Milk production is a product of milk per cow and number of cows. In Idaho both have been trending up. National trends have also been up. The stage has been set for a larger than normal increase in milk supplies. Although dairy product stocks are lower than normal, these could be rebuilt this spring.

Dairy Products

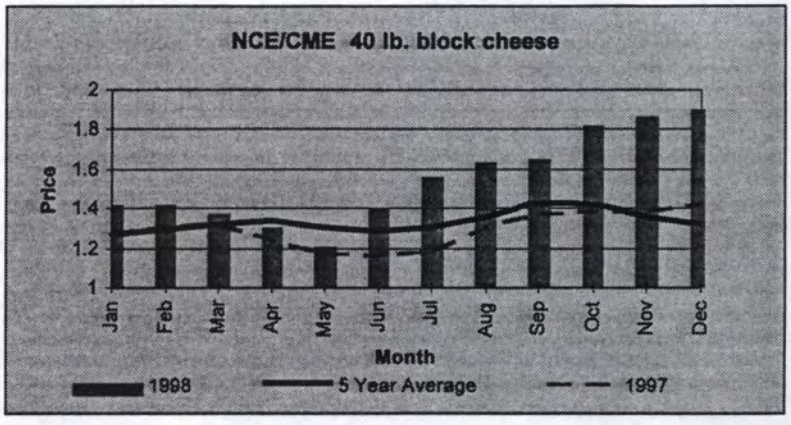
Butter supplies have been tight. Cheddar cheese stocks even more so. This has led the BFP to new highs. The November record high of $16.84 will be exceeded by the December BFP[1]. That is likely to be between $17.10 and $17.30. Cheese prices for both blocks and barrels have held firm all fall. The "typical" spread of about 5 cents has widened to nearly 10 cents in December as stocks of blocks remain tight. Processors have been reluctant to increase production at high milk costs with the prospect of demand slackening as the holiday season ends. Milk production will increase more than normal this spring, barring unusual weather or other problems. Stocks may build significantly by late spring or early summer.



[1] NOTE: The December BFP announced on January 5, 1999 was $17.34.

National Trends

Cow numbers have increased over 16,000 head since January 1. In 1997 cow numbers declined by 50,000 head so 1998 is counter to what typically happens. Early in the year various problems arose to limit gains in milk production. This fall conditions improved and in November all of the top ten milk states showed year over year gains. With normal weather and feed conditions this winter milk output should be up substantially. By mid December there were some early reports of processors discounting milk as they were reluctant to take on excessive supplies with the holiday season nearly over. Butter prices have firmed recently after sliding earlier this fall.

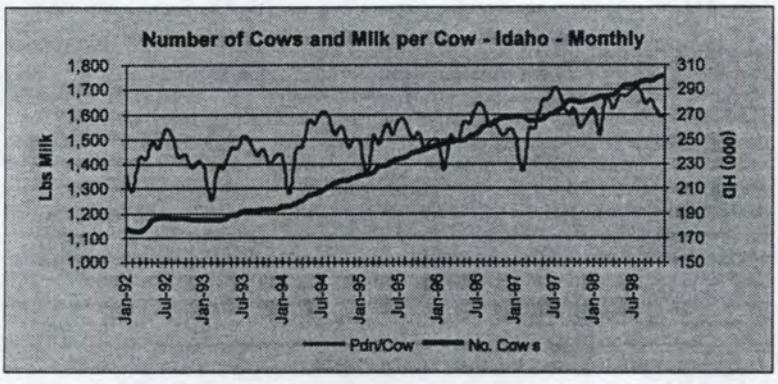


Idaho/Western Trends

The west has continued to increase in importance for processed product. Especially in California and Idaho. For November California production was up 2.3 percent and Idaho up 10.6 percent. January 1, 1999 will likely show Idaho with about 302 thousand dairy cows, up 7 percent from a year ago. Although strong growth, this is slightly less than previous years when cows increased about 10 percent. Total milk production for the year will be near 5.74 billion pounds, an 11 percent increase from 1997's 5.17 bil lb. The increase was a combination of more cows and higher production per cow as milk output went up 3.5 percent from 19,000 to nearly 19,670 lb. per cow. This is the strongest increase in per cow output since 1994's 5.6 percent increase.

Market Outlook

Consensus opinion at present is that although milk prices will decline seasonally the BFP may not go under $12.00. With the thought that it has been at least 50 years since hog prices averaged under $10, and only two years since the milk price crash of 96-97, with the increase in dairy cows and the potential for significant per cow increases in production, prices could be much lower by late spring. The May BFP futures contract had been over $12.00 until mid December, when it dipped to $11.95. As milk production builds this winter pressure on prices will increase. This may be a window of opportunity to secure nearly $12 for a time when prices could wind up closer to $11 by May/June.



For some time there has been speculation on whether additional processing capacity might be added in Idaho. It appears that as much as 2.5 million pounds/day of capacity will be added in 1999. At current production levels it would take another 44,000 cows to meet that capacity. This will likely set the stage for an increase in cow numbers at a higher rate than in 1998. Idaho will likely have about 302,000 head on January 1, 1999. A 10 percent increase in numbers would end the year at 332,000 head or about 2,500/month. In 1998 the average was 1,500 head/month but previous years have seen growth at 2,000 head/month.

Milk prices will average below 1998 for most of the forthcoming year. However, most months will still be profitable for most Idaho and western dairymen. First quarter prices will range from $17 to $14. Second quarter prices will slip further to the $11 to $14 range.

Idaho Edible Dry Bean Outlook, January 1999

Prepared by Paul E. Patterson
Extension Agricultural Economist
University of Idaho

USDA December Crop Production report showed 1998 U.S. dry edible bean production up 6.5 percent over 1997, a slight reduction from earlier USDA forecasts. Fortunately, the production increase did not match the 11.7 percent increase in harvested acreage or prices would be even lower than the current depressed levels. North Dakota, the nation largest dry bean producer, planted 150,000 additional acres (+25 percent). Colorado, fourth in dry bean production, planted 45,000 more acres than in 1998 (+33.3 percent). The increased acreage in just these two states exceeded the 171,300 acre net increase in U.S. planted acres. Several states reduced dry bean acreage, including California, Kansas, Michigan and New Mexico. North Dakota share of dry bean production is similar to Idaho share of potato production, and they have a similar influence on the market price. The USDA December estimate of 31.04 million cwt puts total production 3.4 million cwt above the five-year average, but still below the 33.7 million cwt record crop of 1991. The U.S. harvested 1,921,900 acres, up 11.7 percent over the previous year and 8.8 percent or 156,100 acres above the 5-year average. Average yield of 16.2 cwt per acre was down 4.7 percent from 1997. Without the moderating effect of the yield reduction, total production would have exceeded 32 million cwt and prices would be lower by $1-2.

Weather was the primary factor in reducing yields in Michigan, Nebraska, Minnesota and Idaho, all major dry bean states. North Dakota benefited from good spring weather, allowing for earlier planting, and hot, dry weather at harvest. Dry conditions at planting and throughout the growing season reduced yields in Michigan, but also produced fewer disease problems for dry bean producers. Growers in Colorado, Minnesota and Nebraska had mostly favorable growing conditions. Cool, wet weather delayed planting and emergence in Idaho. This was followed by hot, dry weather conditions later in the growing season that reduced pod numbers as well as beans per pod. Crop quality was also affected by the weather, producing more shrunken, cracked and bleached beans. Some fields were also subjected to some brief, but heavy rains early in the harvest season.

In the Pacific Northwest, 1998 production was down 4.1 percent with Idaho down 4.7 percent, Oregon down 32.1 percent, and Washington up 4.7 percent. Idaho production in USDA December Crop Production report was

unchanged from earlier estimates. But Oregon's production was lowered by 10,000 cwt and Washington's production was increased by 50,000 cwt. Idaho harvested 20.5 cwt per acre on 103,000 acres compared with 21.5 cwt on 103,000 acres in 1997. Oregon's yield of 17.7 cwt was down 2.9 cwt from 1997 and the 8,600 acres harvested was down 2,300 acres from 1997. Washington's 1998 yield of 22.3 cwt per acre was down only 0.1 cwt and the 40,000 harvested acres was up by 2,000.

Review of 1997-98 Marketing Year

Dry bean prices in Idaho followed a fairly traditional seasonal pattern during the 1997-98 marketing year (September - August). In general, prices were low at harvest and strengthened during the late fall and early winter. Prices discussed here are grower prices reported by the Agricultural Marketing Service, USDA, in the Weekly National Bean Report. Pinto prices showed the greatest improvement, moving from $17 to $18 at harvest to $24 by February. Prices then trended down by $2 to $3 over the second half of the marketing year. Great Northerns moved from an $18 harvest price-time price to $20 by late March and stayed at this level for the remainder of the marketing year. The price for Small Whites and Small Reds showed little variation over the year, trading in the $20 to $21 dollar range. Pinks started the marketing year in the $20 to $21 price range and had moved up only to $22 by February, where the price remained for the season. Seasonally, Pinto prices averaged $21.30, Great Northerns averaged $19.15, Small Whites averaged $20.50, Pinks averaged $21.70 and Small Reds averaged $21.00. The markets inability to maintain the price gains on Pintos during the second half of the marketing year and the inability to improve prices of other classes stemmed from disappointing export sales. Exports in 1997 were below USDA forecast.

Looking At the 1998-99 Marketing Year

Prices on all classes of dry beans in Idaho weakened as the 1997-98 marketing year ended and the 1998-99 marketing year began on the expectation of a large crop. Pintos and Great Northerns have traded mostly in the $17 to $18 range since harvest. Small Whites have been slightly higher at $18 to $21. Pinks have traded at $18 to $19 and Small Reds at $18 to $20. Bean prices will likely continue in the same narrow trading range during the remainder of the 1998-99 marketing year. The potential for price increases is limited and won likely exceed $1-3. The potential for improved prices is not the same across all bean classes. The potential for improved prices is lower for Pintos and higher for Great Northern and Small Reds. Exports exceeding projections early in the New Year would be necessary to move prices more to the top of the range. The downside risk for lower prices is also

limited. Lower than expected exports could move aggregate prices lower by $1-2. The aggregate market-year average price reported by the Idaho Agricultural Statistics Service that includes all bean classes should average around $19 for the 1998-99 marketing year. Lower than expected exports would keep the market-year average price closer to $18.

Exports for the 1998 calendar year are forecast at 10.1 million cwt, up 2.3 million cwt over 1997. The U.S. typically ranks second, behind China, or third, behind China and Burma, in dry bean exports. Major U.S. export markets include the United Kingdom, Japan, Algeria and Mexico. The strong U.S. dollar has made it more difficult for the U.S. to compete in some markets. Economic problems in some importing countries is also lowering demand.

Domestic demand is expected to remain at current levels. USDA forecasts per capita consumption at 7.8 lbs for 1998, the same as in 1997. A reasonable estimate for 1999 would be in the range of 7.6 lbs to 7.9 lbs. The longer-term potential for increased domestic utilization appears bright, however. The proportion of Hispanics in the U.S. population, traditionally high consumers of dry beans, is expected to reach 15 percent by 2020. Currently, 10 percent of the U.S. population is Hispanic. Continuing popularity of Mexican and Southwest food will help sustain recent gains and could boost consumption.

Projections For 1999-00

If grain prices for the 1998-99 marketing year remain weak as expected, some additional acreage may shift to dry beans in 1999, even if dry bean prices for 1998-99 are only mediocre. An acreage increase as large as occurred in 1998 is highly unlikely, however. U.S. dry bean planted acres will likely increase around 1-2 percent with a comparable increase in harvested acres. Weather is always the unknown factor that can significantly influence production with reduced yields, as seen in 1998, or with more unharvested acres as we saw in 1997. Production increases because of increased yields will be a bigger factor than production increases related to increased plantings.

Unless constrained by weather, U.S. dry bean production in 1999 should fall between 31and 32 million cwt. Production at these levels will keep the average Idaho price for the 1999/00 marketing year in the mid to high teens. While U.S. production over 32 million cwt is unlikely, prices would fall to the mid teens if it did occur. U.S. production between 27 and 29 million cwt, means an average Idaho dry bean price in the low $20' The price

estimate for the 1998 crop, shown in Table 1, and the 1999-00 predictions discussed above, assume exports of at least 9 million cwt and steady domestic utilization.

Table 1. Dry edible bean production, price and exports.

Marketing Year	U.S. Production (million cwt)	U.S. Exports[1/] (million cwt)	Idaho Production (1,000 cwt)	Average Idaho Price[2/] (per cwt)
1993-94	21.91	6.8	2,091	$23.75
1994-95	29.03	7.8	2,691	$18.90
1995-96	30.80	8.1	2,160	$20.90
1996-97	27.96	9.0	1,907	$23.60
1997-98	29.16	7.8	2,215	$20.50
5-yr Average	27.63	7.9	2,213	$21.55
1998-99[3/]	31.04	10.1	2,112	$19.50
1999-00[4/]	30-32	9.0	2,250	$17-19

Source: USDA. [1/]Exports are for the calendar year. [2/]Prices are for crop marketing year Sept. 1 –Aug. 31.

[3/] US production and exports and Idaho production are December USDA estimates. Idaho price is the author forecast.

[4/]1999 values are the author forecasts.

IDAHO FORAGE OUTLOOK For 1998-99

Prepared by Neil Rimbey
Extension Range Economist
University of Idaho

Note: This same article was released in October. There has been no new data released by USDA since it was written that would change the analysis or the conclusions.

The 1998-99 Idaho hay and forage market is full of plusses and minuses. Some of the plusses have the potential of hitting hay price with some big-time minuses this marketing season. Idaho's hay acreage increased by about 110,000 acres during 1998, to 1.4 million acres. Based upon USDA/National Agricultural Statistics Service (NASS) figures, all of the increase appears to have come in the area of alfalfa hay, which rose from 1.02 million acres in 1997 to 1.13 million acres this year. What impact does this acreage increase have on hay supplies? Based on the 4.2 tons/acre average production reported by NASS, there should be another 462,000 tons of alfalfa hay on the market this year. That is a big plus, that may also be a minus in terms of price!

Before delving too deeply into the price situation, let look at what the NASS figures show us about hay production and supply. Then, turn our attention to the components of different hay qualities. A brief look at hay demand from the context of changes in cattle numbers will be presented. An understanding of this background information will then set the stage for the discussion on price projections for the 1998 hay crop. Projections on pasture and range lease rates will conclude this article.

Hay, Carryover, Production and Supplies— Whats the Story?

Each year, total hay supply is composed of carryover stocks from prior years, alfalfa and other hay production. USDA/NASS reports 2 hay stock figures during the year. December hay stocks are collected during the December survey and reported in early January each year. This figure gives a picture of how hay is being marketed and fed during the first part of the winter. Recall the mild winter of 1997-98 and the fact that nearly 3 million tons of hay was still on hand in December of 1997 (Table 1). This contributed to the weakening of hay demand and prices and resulted in a carryover from the 1997 crop of 566,000 tons (May 1 Hay Stocks, Table 1). This was about double what it had been the previous year. As was noted earlier, alfalfa acreage increased substantially in 1998. This resulted in a NASS projection of total alfalfa hay production estimated at 4.7 million tons during the 1998 crop

year. This is about a 10 percent increase in production over 1997 levels. It is also the maximum production for alfalfa that we have seen over the past 24 years. Other hay (non-alfalfa hays such as grass hay are included in this NASS category) production is projected to be 690,000 tons during 1998. No big acreage or production increases occurred in the area of other hays this past year. Total crop production (alfalfa plus other hay) is projected to be 5.4 million tons, again a record over the past 24 years. Total hay supply (production plus May 1 carryover) is projected at 6 million tons (another record level).

Hay Quality Issues

Growing conditions during 1998 were a bit different than we have seen in recent years. A cool, wet spring and early summer impacted hay quality in most areas of southern Idaho. Quite a bit of first cutting was either rained on or, harvest was delayed enough to move hay quality down due to lower protein and higher fiber content. There were also scattered reports of rain during second cutting and some rain damage on third cutting in southwestern Idaho. Because of this, there appears to be a shortage of higher quality alfalfa hay to service the booming dairy sector in southern Idaho (see Hay Demand section below). As this is being written (late September), there has still not been a killing frost in southwestern Idaho, which translates into the potential for another cutting of quality hay.

Hay Demand

Primary demand for Idaho hay comes from cattle (dairy and beef). Secondary demand sources are the sheep industry and horses. The dairy industry has been through a period of growth over the past 3 years that bodes well for the producers of dairy quality forages. Idaho dairy cows currently number about 280,000 head. Although the growth rate has not been as rapid as it was during 1996 and 1997, milk cows are still increasing at about 1,500 head per month. Idaho currently ranks 6th in the nation in terms of dairy production. Although it is uncertain whether this trend will continue, it does provide a ready market for Idaho hay producers. The milk fat shortages earlier this year and resulting strength in milk price may in fact fuel further expansion of dairies into Idaho. Dairy quality hay (high protein, low fiber) usually sets the top of the hay market, primarily due to consistent monthly demand from the dairy industry. This year will be no different, particularly in light of the apparent lack of top quality hays due to the rain damage and harvest delays early in the season. However, relatively cheap concentrate prices may induce dairy producers to revamp rations with substitutions of concentrates (grain) for some roughages (hay).

The beef cattle market has gone through a period of low market prices. Beef cattle numbers declined a bit during 1997 and it is thought that they remained relatively consistent at about 500,000 head of beef cows during 1998. However, the financial situation and low market prices may cause further liquidation of the Idaho beef herd. Sheep numbers are currently in the 200,000 head range and horses numbered slightly over 150,000 head the last time they were sampled.

Price Implications

The supply of hay is at record levels in the state. However, quality issues arise in relation to the record hay crop. Demand from the dairy sector continues to grow at more moderate rates than we have seen in past few years. Because of these 2 issues, dairy quality hay price will likely average in the range of $90-100/ton during the 1998-99 marketing period. Feeder quality hay has usually been traded at a $15-25/ton discount to dairy hay. Because of the supply situation being dominated by lower quality hays this year, it appears that this discount will widen, with most feeder hay trading at $60-70/ton. Grass hay will be another $10-15/ton back from the feeder quality alfalfa, except for the high quality horse hay, which will trade in the range of dairy quality.

As usual, these projections must be tempered somewhat with a weather forecast. A long, cold winter will alter these projections, particularly if the winter feeding period for cattle, sheep and horses starts a month earlier than usual. This will result in a reduction in the record supplies and could offer strength for the hay markets later in the winter and early spring. By the same token, a mild winter with a shorter feeding period (like that of 1997-98) will not reduce supplies enough to maintain prices at the levels projected above.

The economic situation in Asia does not provide too much in terms of rays of hope for reducing the supply. Washington State has been exporting about 20 percent of their hay crop to Asia. A small percentage of the Idaho hay crop usually goes into the export market. However, with the gloom and doom facing the Asian economies, do not expect much help this year from that vein.

Range and Pasture Grazing Lease Rates

Fees for Bureau of Land Management and Forest Service grazing will again be at the minimum rate allowed under a federal executive order, $1.35/Animal Unit Month (AUM). The fee formula used to estimate these rates are tied to cattle prices, prices paid and private lease rates. The doldrums of the cattle market will again keep the fee at the minimum. Lease rates for Idaho State Lands will be $4.72/AUM for 1999. Private lease rates vary substantially

across the state and by season of use (spring rates are usually higher) and forage type. However, the bulk of them will settle in the $10-15/AUM range during 1999.

Table 1. Idaho Hay Production and Inventories, 1975-1998 (1,000 tons).

Year	Hay Stocks Jan 1/Dec 1[1]	Hay Stocks May 1	Alfalfa Production	Other Hay Production	Total Crop Production	Total Supply
1975	2878	576	3811	630	4441	5017
1976	2576	533	3621	580	4201	4734
1977	2899	798	3852	607	4459	5257
1978	3344	1026	4050	658	4708	5734
1979	3531	1083	3631	495	4126	5209
1980	2682	619	3815	580	4395	5014
1981	3120	835	3960	493	4453	5288
1982	3073	757	3774	672	4446	5203
1983	2712	489	4017	897	4914	5403
1984	2850	393	3938	805	4743	5136
1985	3036	522	3570	510	4080	4602
1986	3304	245	4180	540	4720	4965
1987	4008	1086	3978	525	4503	5589
1988	3648	901	3496	385	3881	4782
1989	2183	310	3720	380	4100	4410
1990	2287	485	3744	340	4084	4569
1991	3221	408	4120	380	4500	4908
1992	2193	644	3367	288	3655	4299
1993	2955	292	4200	644	4844	5136
1994	2263	660	3978	460	4438	5098
1995	2794	222	4510	570	5080	5302
1996	2285	660	4000	448	4448	5108
1997	2986	286	4488	660	5148	5434
1998		566	4746	690	5436	6002
Avg	2906.82	595.57	3950.10	543.81	4493.90	5089.48
Max	4008	1086	4746	897	5436	6002
Min	2183	222	3367	288	3655	4299

[1] Since December 1986, hay stocks on farms in the winter have been reported as December 1 figures. Prior to that date, it was collected in January of each year. The 1998 December 1 Hay Stock estimates will be released in January 1999.

IDAHO POTATO OUTLOOK – January 1999

Written by Joseph F. Guenthner
Extension Agricultural Economist
University of Idaho

SUPPLY

According to USDA, the 1998 US fall potato crop is 434 million cwt, up 3% from last year. Potato growers in the Pacific Northwest, who produce 60% of the US fall crop, cut production one percent. Idaho potato production is 140 million cwt, unchanged from last year. Growers in the Central states increased production more than 11%.

In spite of low prices for the 1997 crop, PNW growers increased potato acreage 5% in 1998. Idaho potato growers harvested 413,000 acres, up 15,000 acres and 4% from a year ago. Potato growers across the US harvested 42,000 more acres than in the previous year.

Weather and pest problems reduced PNW potato yields 4%. Washington growers, who produce the highest yields in the world, produced a yield of 565 cwt/a, compared to 580 a year ago. Idaho yields dropped from 353 to 338 cwt/a and Oregon's from 508 to 452 cwt/a. US fall crop yields are down 1%.

In addition to lower yields, many growers harvested a lower quality crop. USDA reports rougher shape and lower solids in most of the Western potato areas. Processing recovery rates will decline, requiring more raw product and reducing the quantity of potatoes that would normally go into the fresh market. The lower quality, however, means poor pack-outs and reduced grower prices in both fresh and processed markets. Potato storage quality is generally good, but soft rot problems are limiting returns and flexibility for some growers.

Due to global markets and the North American Free Trade Agreement (NAFTA), Canadian potato production increasingly influences US potato markets. Canadian production is up 3% from 91.0 to 93.4 million cwt, setting its fifth consecutive record. The Prairie Provinces posted the biggest increase, much of which will go into the international french fry trade.

The potato crop harvested in northern Europe is much smaller. Excessive rain followed by hard frost caused a large part of Hollands crop to be lost in the field. Amsterdams April potato futures exceeded $21/cwt (US equivalent) because of the losses.

The US does not normally export many potato products to Europe but reduced European competition allows US processors to gain market share in other parts of the world. Some Canadian frozen potato products may go to European countries that have labeling requirements for genetically modified foods. That could mean fewer Canadian fries coming into the US.

DEMAND

Frozen potato processing, mainly fries for fast food restaurants, provides a large market for Idaho potatoes. Market analyst Bruce Huffaker expects US frozen potato processors to use 10% more potatoes from the 1998-99 crop. His reasons include reduced recovery rates and increased exports. In spite of the financial crisis in the important Asian market, frozen potato exports continue to increase. A small crop in Europe will open more global marketing opportunities for US processors.

Demand for dehydrated potatoes will also play a key role in the 1998-99 PNW potato market. Dehydrators use potatoes that do not meet grade standards for the fresh market. Potato shippers'sales of off-grade potatoes to dehy processors influence the price they pay growers. Idaho fresh-market growers

typically send one-fourth to one-half of their crop to dehydrators. Some growers will have more than half their crop go to dehy this year, which will push down the prices they receive.

Dehydrated potato flakes are used to make some popular potato snacks. US demand for Frito-Lay's Baked Lays and Proctor & Gamble's Fat Free Pringles has fallen behind company projections, reducing demand for Idaho dehydrated potatoes. Positive dehy-market factors are increased exports of potato snack foods and the small crop in Europe.

Fresh potato prices are quite sensitive to changes in supply. Many Idaho potato growers can sell their potatoes to either fresh shippers or frozen potato processors. Although processors contract for much of their raw product needs, they also purchase some potatoes in the open market. If demand for frozen potato products increases more than expected, processors will buy more open market potatoes that would have otherwise gone into the fresh market. Reduced supplies going to the fresh market boosts prices.

PRICES

With Idaho production unchanged, we can expect little change in average prices for Idaho growers. Open-market prices for the 1997-98 crop were $3.25 to $4.00 per cwt for most of the season, with early sales a bit higher and late sales lower. Fall prices for the 1998-99 crop are down from last year, leading some to expect another year of prices below production costs. According to University of Idaho research, the cost of producing potatoes in Eastern Idaho and storing them for five months is nearly $5.00 per cwt.

The range of prices is another matter. On average, open-market potato prices rise between October and July. Growers who expected that pattern in recent years have been disappointed. Harvest-time prices have been the top of the

market during the previous two marketing seasons. The 1994-95 crop is the last one that had a substantial increase in price during the marketing season, with the Idaho open market increasing from $3.50 at harvest to $8.00 - $10.00 in June and July.

Will the 1998-99 Idaho pricing pattern be like the last two crops, like the 1994-95 crop or somewhere in between? It is too early to tell in December when this article is written. The main market forces to watch are fryer open-market buying, stocks in storage and international trade.

WHEAT AND FEED GRAINS Outlook, January 1999

Prepared by Larry D. Makus
Professor of Agricultural Economics
University of Idaho

World Situation

World wheat and coarse grain markets started the 1998/99 marketing year with prices reaching some of the lowest levels of the 1990s. More than adequate supplies, and the Asian economic downturn continue to pressure world grain prices.

Wheat: The 1998/99 world wheat crop is currently forecast as the third largest world wheat crop at 585.8 million metric tons (MMT). The 1997/98 world wheat crop of 611.0 MMT (Table 1) is the largest on record. Although world use has also expanded rapidly (averaging almost 3 percent per year over the last three years), ending stocks increased as a result of record production levels. World ending stocks for wheat were 136.6 MMT for the 1997/98 marketing year, providing a stocks to use ratio of 23.3 percent (Table 1). The current marketing year (1998/99) is projected to provide a decrease in world wheat production, although still a large crop by historical standards. The projected decline in world ending stocks to 123.0 MMT puts the stocks to use ratio back down to 20.5 percent. The decline in world wheat production for 1998/99 is primarily accounted for by a smaller crop for the major importing countries (down by 8.7 MMT or 4.7 percent), and the Former Soviet Union (down 23.6 MMT or 29.3 percent). The major exporting countries and the US are projected to increase wheat production for the 1998/99 marketing year. Australia (up 8.1 percent) and the European Union (up 9.7 percent) are leading production increases for the major exporting group.

Coarse Grains: World production of coarse grains is projected to decrease slightly (4.3 MMT or 0.5 percent) in 1998/99 (Table 1). The decrease in world coarse grain production represents lower foreign coarse grain production (down 12.6 MMT or 2.0 percent). The world decrease is mostly offset by an increase in the US (up 8.25 MMT

or 3.1 percent). World coarse grain use and trade are expected to remain relatively constant in 1998/99. World coarse grains stocks for 1998/99 are projected to increase 2.4 percent (Table 1). Foreign coarse grain stocks are projected to decline, and US feed grain stocks are projected to increase to their highest levels since the 1992/93 marketing year.

US Wheat and Feed Grain Situation

Historically tight supplies for US grains (especially feed grains), was a key factor in setting record high farm level prices for corn and wheat during the mid-1990s. However, recent increases in US grain production have continued to pressure prices. Both wheat and corn have experienced two successive years of relatively high production. US wheat and feed grain stocks have increased substantially over the last two marketing years.

Wheat: The 1998 US wheat crop is forecast at 2.557 billion bushels, slightly above 1997s crop of 2.527 billion bushels (Table 2). Slightly higher domestic use in 1998/99 (primarily due to higher feed use), and increased exports will not offset the higher beginning stocks and production. Thus, 1998/99 US wheat carryover is projected to increase by 14.5 percent (105 million bushels). The US projected wheat carryover of 827 million bushels is close to the largest carryover of the decade, exceeded only by 1990/91s carryover of 868.1 million bushels. Farm level wheat prices for 1998/99 are currently forecast in the $2.60 to $2.80 range, which is just above the 1990/91 level of $2.61.

US White wheat production totaled 298 million bushels in 1998, well below the previous two years (Table 2). More than adequate supplies of other wheat classes (particularly hard red winter and soft red winter) continue to pressure white wheat prices. This pressure was most acute early in the marketing year when Portland prices dropped into the $2.50-$2.60 range during September. Although Portland prices recovered substantially during October, the average Portland soft white wheat price for

July through November of 1998 was $2.87 per bushel. Portland is projected to average in the range of $3.00 to $3.20 for the 1998/99 marketing year.

Feed Grains: Harvested 1998 US corn acreage is currently estimated at 73.8 million, which is comparable to the 73.7 million acres harvested in 1997. However, a near record yield of 133.3 bushels per acre puts the estimated US corn crop at 9.836 billion bushels, the second largest US corn crop on record. After three years of over 9 billion bushel crops, US 1998/99 corn stocks are projected to reach 1.72 billion bushels, the highest level since 1992/93. Farm level corn prices for 1998/99 are currently projected in the $1.80 to $2.20 per bushel range, substantially below last years $2.45 and the five year average of $2.63.

Prices for other major feed grains are projected to follow a similar pattern. Farm level barley prices are projected at $1.95 per bushel ($81.26/ton) for 1998/99, well below last years farm level price of $2.38 per bushel ($99.17/ton). US barley production for 1998 is currently forecast at 358 million bushels, about 4 percent below 1997. In spite of lower supply levels, barley prices remain pressured from low corn prices.

Outlook for 1999

The world has demonstrated its capacity for increasing grain production when prices are strong and weather cooperates. How the worlds grain producers respond to significantly lower grain prices, and weather are key factors for 1999. The relatively large grain stocks, especially for the US, suggest production decreases will need to be substantial for a major market recovery. As spring approaches, 1999 world grain crop conditions will become the dominant market force.

Wheat: US wheat supplies are now at relatively high levels following several years of historically tight world supplies. The 1998 /99 drop in world ending stocks to 123.0 MMT (Table 1) provides some encouraging news. However, keep in mind the market will likely become terribly excited until world stocks forecasts get down into the 105 to

110 MMT range. Market fundamentals provide little encouragement for a substantial price rally for the remainder of the 1998/99 marketing year. For the next couple of months, US exports need to remain at projected levels to sustain current price levels. Current wheat export inspections for 1998/99 are at 92 percent of 1997/98, while projected exports for 1998/99 are 11 percent above last year. Stronger weekly export levels are needed if US wheat exports are to reach projected levels. Wheat market price forecasts for the remainder of the marketing year suggest average to slightly below average seasonal increases. This projection is based upon US wheat exports reaching projected levels.

The market begins to strongly focus on the 1999 crop early next spring, which provides the primary source of market optimism. Although it is early to predict the 1999 crop, three factors are relevant. First, the world wheat crop has been at record or near record levels for three consecutive years. The law of averages suggests that favorable weather patterns may not continue, and a smaller world wheat crop is the likely outcome. Second, this years price levels should discourage wheat plantings and reduce world wheat production. World wheat production for 1999/00 is currently projected by the author at 575 MMT (Table 1). Total world use is also projected to fall below the record 1998/99 level due to slightly higher prices, adequate feed grain stocks, and a continuation of income problems in some major importing countries (Table 1). The final factor involves the US wheat crop specifically. Planting conditions for winter wheat started off a little rough, but conditions have improved. The 1999 winter wheat crop is currently rated above average. However, the condition of the 1999 winter wheat crop is below crop conditions reported at this time last year for the 1998 crop. An expectation of lower acreage and some decline in last years record yield both suggest a smaller US winter wheat crop. Projected US 1999 wheat production of 2.30 billion bushels represents about a 10 percent drop from 1998 production. White wheat production is forecast at 325 million to reflect favorable planting conditions and a smaller reduction in acreage (Table 2). Slightly stronger US exports for the 1999/00 marketing year are projected based upon the reduction in world wheat production.

Given projections for US and world wheat production, world and US wheat ending stocks are projected to decline. Although some price improvement is expected, adequate world carryover and relatively high US carryover are likely to lessen the impacts of lower production. The US farm level price is expected to increase about 40 cents, to the $2.90 to $3.30 range. Portland prices should range between $3.25 and $3.65, averaging about $3.45. Obviously, these price projections for 1999/00 are based upon expected declines in both world and US wheat production. Any indication of production being higher than projected will reduce projected wheat prices. Conversely, additional reductions in world or US wheat production will increase projected prices. However, keep in mind it would take a major production loss to get price levels back to mid-1990 levels. The Winter Wheat and Rye Seedings report is due out in January, providing the first official estimate of US winter wheat acreage.

Feed Grains: US feed grain prices are in a situation similar to wheat. World production of coarse grains should decline following two big production years coupled with lower prices (Table 1). Prices for the remainder of the marketing year should follow normal seasonal price increases. Any price improvement for the 1999/00 is based upon lower production and reduced ending stocks. Corn prices for 1999/00 are predicted to be 10-15 percent higher, with comparable increases for barley.

Grain price levels for upcoming marketing year show some promise for improvement. World production levels for both wheat and feed grains are the critical variables to watch. Reductions in world production are expected, so evidence to the contrary will likely put downward pressure on prices. Although higher prices are expected, don't let record high levels of the mid-1990s be the guiding light for price projections. A couple of years were required to get market fundamental to current levels, and it will likely take a couple of years for a return to more favorable price levels. Any indication of an increase in US stocks (a reduction in grain exports or domestic use), or favorable 1999 production of wheat or feed grains changes current price projections quickly.

Table 1. World Wheat and Coarse Grain Production, Use, and Ending Stocks, Marketing Years 1996/97 to 1998/99, and Forecast for 1999/00

	Production		Use		Ending Stocks		
Year	MMT	Annual % Change	MMT	Annual % Change	MMT	Annual % Change	Stocks to Use Ratio (%)
Wheat							
1996/97	583.0	+ 8.5	577.4	+ 4.9	111.3	+ 5.6	19.3
1997/98	611.0	+ 4.8	585.7	+ 1.4	136.6	+22.7	23.3
1998/99	585.8	- 4.1	599.4	+ 2.3	123.0	-10.0	20.5
1999/00	575.0	- 1.8	585.0	- 2.4	113.0	- 8.1	19.3
Coarse Grains							
1996/97	908.0	+13.2	879.6	+ 4.4	126.7	+32.3	14.4
1997/98	886.5	- 2.4	878.0	- 0.2	135.2	+ 6.7	15.4
1998/99	882.2	- 0.5	879.0	+ 0.1	138.4	+ 2.4	15.7
1999/00	865.0	- 2.0	870.0	- 1.0	133.4	- 3.6	15.3

Notes:
MMT = Million Metric Tons
Annual % change represents the percent change (+ for an increase; - for a decrease) from the previous year.
1996/97 and 1997/98 marketing year estimates are from the USDA's December World Ag. Supply & Demand Estimates (WASDE) report.
1998/99 marketing year projections are from the USDA's December World Ag. Supply & Demand Estimates (WASDE) report.
1999/00 marketing year projections are provided by the author.
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 1998/99 and Forecast for 1999/00

	Marketing Year			
	1996/97	1997/98	1998/99	1999/00
	(billion bushels)			
Wheat				
Beginning Stocks	0.376	0.444	0.722	0.827
Production	2.285	2.527	2.557	2.300
Total Supply	2.753	3.065	3.370	3.227
Domestic Use	1.308	1.302	1.393	1.300
Export	1.001	1.040	1.150	1.200
Total Use	2.310	2.342	2.543	2.400
Ending Stocks	0.444	0.722	0.827	0.727
Avg. Farm Price ($/bu)	$4.30	$3.38	$2.60-2.80	$2.90-3.30
	(million bushels)			
White Wheat				
Beginning Stocks	55	59	90	55
Production	355	335	298	325
Total Supply	425	402	396	390
Domestic Use	129	107	126	110
Export	237	205	215	235
Total Use	366	312	342	345
Ending Stocks	59	90	55	45
Avg. Portland Price ($/bu)	$4.43	$3.67	$3.00-3.20	$3.40-3.70

Notes:
1996/97 and 1997/98 marketing year estimates are from the USDA's December World Ag. Supply & Demand Estimates (WASDE) report.
1998/99 marketing year projections are from the USDA's December World Ag. Supply & Demand Estimates (WASDE) report.
1999/00 marketing year projections are provided by the author.
Portland average price is based on weekly average prices for the marketing year (July through June) for 1996/97 and 1997/98. For the 1998/99 marketing year, the average price is estimated by the author. The average Portland price for July through November was $2.87. The 1999/00 Portland price is estimated by the author.
Total supply includes imports.

Asian Economic Flu: Implications for the Pacific Northwest in 1999.

By Neil Meyer,
Extension Professor, University of Idaho, Moscow, ID.
Phone 208-885-6335, E-mail <nmeyer@uidaho.edu>

Introduction:

World economies are reeling from the economic collapses occurring in individual countries. The Thai baht collapsed in July 1997, followed by the Korean won and Indonesian rupiah in Asia. The collapse of the Russian economy and the current pressures on the Brazilian currency all indicate weakness and uneasiness in different economies of the world. For us in the Pacific Northwest (PNW), the economic situation in Asia is more important because we send a larger proportion of our exports there. The PNW exported 8.0% of the estimated annual US exports in 1998 but 14.7% of the exports to Asia (Table 1.). PNW exports to Asia are expected to be down 15.7% from 1998. For some items such as agricultural goods and manufactured products like airplanes, the proportion is much higher so the effect of export decline is greater on specific industries.

Asia posted major shares of growth in the world economy in the past 30 years. This growth has been based on export orientation, advancing skills, improving technology and sophisticated manufacturing. This growth was led by Japan, followed by Korea, Taiwan, Thailand, Hong Kong, Singapore and the Philippines. More recently, China and Viet Nam had joined the rapidly growing community. Factors encouraging this rapid growth and rising incomes include industrial development, urbanization, improved human skills, women entering the labor force and changing lifestyles. The changes have provided income and increased demand for new goods and services. Asia has been driving force for world consumption growth.

Current Situation

The meltdown began during the summer of 1997 with the collapse of the Thai baht. This was a surprise to many because the economies had been experiencing rapid income and job growth. The Asian financial systems appear to be the root of the crisis. These

weaknesses were caused by lack of incentives for effective risk management created by implicit or explicit government guarantees against failure (Moreno, Pasadilla and Remolona, 1998). This was the idea that if losses occurred, governmental policy would cover the losses. The weaknesses of the financial sector were further masked by rapid growth. Two factors seemed to prevail. First, financial intermediaries were not always free to use business criterion in allocating credit. Politics dictated allocation of credit. That resulted in business decisions which did not always have positive financial returns. Second, financial intermediaries were not expected to bear the full costs of failure. That reduces the incentive to effectively manage risk. Such factors encourage asset price inflation, speculation and reduce economic welfare. The net result was an increase in vulnerability of the financial system.

Why the crisis now?

It appears poor investment criteria, government risk sharing policies and the masks of rapid growth are the main culprits. The breakdown was triggered by a run on a pegged currency which forced lowering exchange rates and tested the ability of central banks to control capital flows. Rapid information flow and electronic funds transfer made protecting the currencies impossible. The exchange rates of individual currencies fell. Table 2 shows the wide range of fluctuation for selected currencies. Individual countries attempted to resolve balance of payment and debt service difficulties by exporting more to other parts of the world to secure foreign exchange. At the same time, devaluation changes in currency exchange rates discouraged imports except in the strongest economies. These factors are especially true for the Asian economies and their trade relationships with the western United States. This picture is complicated by not having a specific knowledge of what Chinese policy will be in the next year. The Chinese curse "May you live in interesting times" applies right now.

What are the next steps?

The rapid growth disguised the extent of risky lending which allowed financial policies that shielded firms incurring losses from the adverse effects of their decisions. This was

similar to the decisions made by lenders and borrowers in the US during the agricultural and Savings and Loan crises in the mid and late 1970s and early 1980s. Innovations in information and transactions technologies have linked these countries more closely to world financial markets, thus increasing their vulnerability to changes in market sentiment and capital flight. Previously individual economies were more isolated so investors could not respond as quickly to changing conditions. Solutions need to come in reforms designed to strengthen the financial system and gain support from the International Monetary Fund (IMF). Recently the Japanese passed a financial reform package, which when implemented will improve lending decision quality. The recent US budget legislation provided $18 billion to the IMF. That will be leveraged into about $70 billion IMF assistance. The Japanese government is currently working on legislation to stimulate their economy. Stimulation should improve economic activity in Japan, the largest economy in the region, as well as expand the market for exports from other Asian economies and the US..

Implications for Pacific Northwest

With Japan's economy mired in recession and the financial crisis in other parts of Asia, our PNW economy is being infected with the economic virus. The symptoms are declining demand and a flood of competing imports. Our exports to Asia from the 12th Federal Reserve District (Includes the western states, Alaska and Hawaii) are considerably higher than the US average (Figure 1). Japan receives the largest single share of exports although the four newly industrialized economies (Korea, Taiwan, Thailand and Singapore) led by Korea account for slightly more exports. The preliminary 1998 export figures show declines of 15.7% to the Asian economies. Reduced demand for our products resulted from the export slowdown. For inelastic demand products like food, this has resulted in record low prices. For manufactured products, the competition of imports has stimulated layoffs and restricted the ability to raise prices and regain profitability for US firms. Estimates by various economists indicate the economic difficulties should level out in 1999. The rapidity with which various countries resolve internal financial policy questions

and revise policies will strongly affect when recovery begins and how robust the recovery will be when it occurs. We will have to wait and see.

Another major risk to world and PNW markets would be a slowdown in China's growth rate. A slowdown could prompt China to devalue its currency, the Renmimbi. Data Resources Inc expects it to be about 20%. If that happens, another round of "Asian Flu" will likely follow.

1999 Economy

The US Federal Reserve is working to keep our economy moving. It has demonstrated this by reducing the Federal Discount Rate three times since late September. This is expected to keep domestic demand and employment growing. This will permit some countries to export to the US and other growing economies to gain foreign exchange. However, some of the Asian countries are reacting very slowly. That could drag out the reversal of economic trends in that part of the world and delay economic recovery. Unless demand increases or world supplies, particularly of agricultural products, decrease the US will continue with low commodity prices in 1999. If commodity prices remain low, there is a danger of returning to domestic policies which price US producers out of world markets and reduce producers' flexibility to respond to market forces. There are also environmental restraints such as water and air quality protection, costs for ensuring food safety, and international foreign policy factors affecting US food production. All affect the US and PNW agriculture's ability to compete in world markets.

What do you watch during 1999 when planning your survival strategy? First—know what is happening to employment and income in the US. The US is still our major and most important market. Second—watch what is happening in Japan, the next strongest economy. Income and employment growth there will strengthen Japanese demand and that of countries exporting to Japan. More income in all countries will revive US export demand.

Table 1. Estimated US Merchandise Exports for 1998.
(Millions of dollars, annual rates change from previous year)

	United States	Pacific Northwest
Total	678,687	54,216
% Δ	0.8%	0.0%
Asia	161,941	23,751
% Δ	-15.7%	-14.0%
Europe	170,803	17,540
% Δ	3.5%	10.7%
Canada	157,769	5,173
% Δ	5.4%	-1.5%
Latin America	138,542	2,352
% Δ	13.8%	41.5%

Source: US Economic Service, DRI October 1998.

Table 2. Per Dollar Exchange Rates.

	Japanese Yen	South Korean Won	Thai Baht	Indonesian Rupiah	Malaysian Ringgit
7/1/97	115	888	25	2,432	2.52
10/1/97	121	913	36	3,361	3.36
1/1/98	131	1,680	47	5,447	3.88
4/1/98	133	1,383	39	8,550	3.65
7/1/98	138	1,364	42	14,500	4.12
10/1/98	136	1,388	39	10,713	3.80
12/15/98	116	1,209	36	7,475	3.80
High	148	1,995	57	16,800	4.86
Low	112	887	24	2,425	2.49
Variation ratio	1.32	2.3	2.4	6.9	2.0

Source: http://www.OANDA.com/converter/cc_table.