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Situation and Outlook in the Future—or— The Outlook for Situation and Outlook

John E. Lee

The assigned topic provides me the opportunity to bring some order and discipline to my random thoughts about situation and outlook work in the context of planning for the future. I assume that the focus of this program is on commodity situation and outlook since this is an agricultural and food marketing conference and since most other situation and outlook analysis, such as that for farm income and for resource use, is derived from what happens and is expected to happen in commodity markets. I further assume that the primary interest here is in the situation and outlook activities of publicly employed economists.

I begin with the disclaimer that should accompany all outlook work; that is, I am not clairvoyant. Rather, my look at the future is an extrapolation of historical relationships and presently observable economic, political and social forces and trends.

As an aside, those economists, agricultural and general, who claim to possess unique insights to the future and who issue unequivocal "predictions" do a great disservice to the profession. Economic forecasting is a science, not an art. The only skills economists, as economists, bring to forecasting are those of their science: theoretical constructs, historical relationships such as elasticities, observable trends and data, and analytic algorithms for projecting scenarios into the future. The only thing we have a right to say is that we have projected a conditional scenario, and the conditions underlying that scenario are... Following that rule, economists can only be judged to have been wrong in their forecasts if all their assumptions and conditions held true. When there is no "conditions" disclaimer with a forecast and if the forecast does not come to pass, as is

most often the case, then the economic forecaster loses credibility, even if the basic forecasting model was correct.

Brock: There are many "quack" firms out there—small operations attempting to do forecasting. If you forecast a drought every year, or a \$12 soybean price, eventually you'll be right. And there are a lot of econometric firms that go out of business because their model isn't "right." I don't agree with John Lee, that it's all science. There's a lot of art in what we do, not just science.

I justify this tangent by noting the frequency of articles in the popular press over the last decade proclaiming the failure of classical and neo-classical theory because economists failed to forecast many of the economic developments of the period.

In the statement of expectations for this symposium, the planners wrote, "The foundations for public policy in agricultural and food markets may be either *facilitating* or *monitoring* in nature." I perceive that situation and outlook analysis is facilitating with some monitoring aspects. To be more specific, the situation part of situation and outlook has some monitoring as well as explanatory characteristics, and the outlook part is primarily facilitating in nature. Of course, monitoring information can also be facilitating when the monitoring information is used as input to public or private decisions.

In a nutshell, my views are that publicly produced and provided commodity situation and outlook (S&O) analyses have been and continue to be vital to the effective and efficient operation of the agricultural industry and the larger industry to which it connects. The form and delivery mechanisms for S&O will be forced to

change radically over the intermediate term—probably over the remainder of this decade. For the longer term (2000 and beyond), technology and structural changes will render public provisions of S&O analyses to the private sector obsolete and insupportable while a premium will be put on improved quality, frequency and comprehensiveness of data from both public and private sources.

The Uses and Users of Situation and Outlook

At the risk of being either pedantic or pedestrian, or both, and to provide a basis for some educated guesses about the future, I will review briefly the uses and users of situation and outlook analyses. Situation and outlook, and market intelligence generally, are used for public policy and private decision-making.

Some examples of public policy uses and users include:

- Program management decisions by agencies such as the Agricultural Stabilization and Conservation Service that manage traditional subsidy and conservation programs (set asides, stocks management, ...);
- Analyses of policy and program alternatives (the basic understanding of supply, demand and price behavior that is the core of situation and outlook analysis is also the appropriate knowledge base for much traditional policy analysis);
- Annual forecasts by the Administration and the Congress of budget costs of federal commodity programs, federal (including military) food acquisition, food stamp and school feeding programs, ...);
- Forecasts of food and fiber components of cost of living changes; hence changes in poverty income levels and other official indices;
- Provision of a base for a broader program of situation and outlook in farm income,

resource use, quality of environment, trade and other areas; and

- Multiple year baseline and scenario projections for use in longer term policy and program evaluation and design, budget estimates, management of FmHA farmer lending programs, and federal capital investment expenditures such as those by Bureau of Land Management and Corps of Engineers.

Private decision-making users and uses of situation and outlook include:

- Producers' production and resource allocation decisions, marketing decisions and strategy, credit use decisions and capital investment decisions (with longer-term outlook);
- Input suppliers' production decisions based on expected demand for seed, fertilizer, pesticides, machinery and other inputs;
- Agricultural lenders for estimating demand for loans and ability to repay;
- Downstream marketers to determine supplies and costs to processors, volume to be handled by elevators, warehouses and transportation systems, and supplies and costs to wholesalers, retailers and exporters;
- Futures markets for price implications; and
- General business for such uses as COLA adjustments for salaries and estimates of general inflation.

This list of uses, and others I may have overlooked, illustrates how fundamental the market information contained in traditional commodity situation and outlook reports is to the workings of agricultural and related industries. The uses and impacts are pervasive, almost to the point of being taken for granted. I have little doubt that if in the near term the combined budgets of the Economic Research Service (ERS) and the National Agricultural Statistics Service (NASS) had to be cut in half, most of NASS would stay and most of ERS would go.

However, what small part of ERS remained would be doing situation and outlook work and its extension, policy analysis.

Near Term Situation and Outlook for Situation and Outlook

Recent years have brought both pressures and opportunities for change in situation and outlook work, especially S&O products, in USDA and in the universities. Let me share my assumptions about the likely institutional and market setting within which the demand for and supply of S&O analyses and products will be shaped in the short period between now and the new century.

There will be some kind of "farm bill" activity in 1995, and that activity will require a large amount of more or less traditional policy analysis—expanded to include more attention to environmental, resource, consumer safety and trade implications. There will still be annual program decisions to be made in USDA—decisions that will require S&O and related analyses. At the federal level, there will continue to be vestiges of traditional commodity and farm trade programs, continuing needs for analyses of options and costs, more scrutiny on the quality and timeliness of one- to five-year budget projections, continued interest in better forecasting of food program costs, and more stress on the quality of longer-term "baseline" projections. Importantly, there will continue to be strong budget pressures to do more with less and to invent new ways to do old functions.

In the farming sector, the trend toward fewer and larger farms and greater concentration of production will continue but at a slower pace than in earlier decades. Farmers will continue getting acquainted with and making more use of access to data and information from a greater variety of sources, but especially more electronic access through computerized on-line

services, bulletin boards and data products such as diskettes, tapes and CD-ROMs. The agricultural economy will be relatively flat with slow growth in production, exports and industrial crop uses. Real farm income will be flat to slightly declining, with mainstream midwestern producers and some specialty producers doing OK financially but with many broadacre producers in the marginal regions (Great Plains, Southeast, ...) in a continuing competitive bind and a tight cost-price squeeze. Farmers will continue to be somewhat conservative in their use of credit and cautious in making major capital investments.

Changes in agribusiness will be gradual but persistent in response to global and domestic competitive pressures, growing technological sophistication and the rapid pace of change in information technology. Behavior in the food system, even including farm production and marketing behavior, will be driven increasingly by needs and demands at the consumer end of the chain.

In this setting, there will be a continued strong demand for analysis of current and expected market conditions. There will be greater demand for situation and outlook products that are more concise, more timely, and with more emphasis on the key data and the "bottom line," and that are increasingly accessible by fax, bulletin boards, electronic products, and directly from computers via Internet and other on-line networks. It is the direct computer access through on-line networks that in my view will ultimately make the provision of traditional outlook analysis to farmers and others by USDA and the universities obsolete. But that's my story for the next section.

As in any rapid transition period, the old and the new S&O products now co-exist. Many university Extension specialists with situation and outlook responsibilities have already moved to brief (sometimes one

page) and frequent (often monthly, sometimes more frequent) situation and outlook updates, often distributed both electronically and in hard copy forms. Some feed these short updates directly onto electronic and on-line data services. Typically, these very brief updates consist of a short text that updates the outlook—justified sometimes not at all, but most often by quoting a few new pieces of information—and by table(s) of key *new* data.

USDA has been experimenting cautiously with new S&O formats, including monthly "updates" (usually four pages) and with new methods of dissemination. The newer methods of dissemination include putting the text of traditional S&O reports on USDA's cumbersome Computerized Information Delivery Service (not easily accessible by common folks) and making summaries available by autofax and electronic bulletin boards.

In my state, Mississippi, situation and outlook work involves an array of product packages including monthly commodity newsletters, weekly one- to two-page summaries of market conditions, weekly radio and television appearances by outlook economists, and some dissemination of outlook information to county agent offices via electronic mail. Much of what goes into the outlook products is a synthesis of analysis done by others, including USDA and private services. There is little real analysis of underlying supply and demand structure and behavior. There is heavy dependence on public data on all aspects of supply and demand and on the futures markets.

Again, in a period of transition the demand for situation and outlook will be mixed. Some agricultural producers and some marketing firms are using leading edge information technology and want a more sophisticated S&O product than do others who still rely on traditional sources

of market information. But the trends are clear; the occasional in-depth analyses of market fundamentals with forecasts of seasonal price patterns for the season ahead promulgated at an annual outlook conference, with occasional in-depth re-evaluations sent out in 30–40 page hard copy publications that take a month or longer to produce and distribute by mail, will increasingly give way to shorter, more frequent reports available in either hard copy or electronic form. Furthermore, there simply won't be enough resources in USDA and in the universities for the more labor intensive analyses and publications.

This trend poses an interesting question: Is the real value of situation and outlook analysis the outlook *per se* or the education that comes from explanation of economic forces that drive supply, demand and price? S&O work was initiated in the early 1920s because individual farmers had no way of knowing about the aggregate supply and demand of individual commodities and, hence, what the price prospects were for the upcoming season. It was assumed that with better price forecasts, farmers would adjust their production plans to avoid overproduction and depressed prices or respond to the opportunities presented by shortage situations. However, subsequent evaluations suggested that the track record of USDA forecasts was not overly impressive and that the availability of the forecasts did not lead to farmer behavior that avoided surpluses and depressed prices. (Kunze 1990). It was suggested, however, that the greatest value of S&O reports was pedagogical or as windows of opportunity for educating readers on the economic workings of supply, demand and price.

I have some sympathy with the conclusions of such evaluations. It has been my personal view that the S&O programs of USDA and state Extension specialists should inform and educate and that both

are more important than the forecasts *per se*. In fact, it has been my view that a forecast that does not include a clear explanation of how that forecast was derived should be ignored because there is no way for the user to judge its credibility (except possibly by the track record of the forecaster). If an objective of Extension and USDA programs is to teach constituent groups how to make their own informed decisions, then education must be a key component of situation and outlook.

It could be argued that in the near-term future both the information and education aspects of public S&O will become less important to producers and other market participants since there is now such a flood of market news and data from many public and private sources. Also, more farmers are now knowledgeable about how markets work, are computer literate, and know how to utilize all the information available to them to make production and marketing decisions. However, we still have a mix of more and less sophisticated producers, and many who are being bombarded with more facts and news still lack the ability to convert the additional data into information they can understand and use to make decisions. Thus, there is still need for widespread access to situation and outlook analyses that put all the bits and pieces of data into useful perspective.

Brock: Despite the technological revolution, people haven't really changed that much. Very few people make good use of the electronic and other services that are available. We have great technology available for a low price, but I would estimate that only about 20 percent who have access really take advantage of it in their business decisions. Educating farmers is a continual process. A lot of them don't even have the basic understanding about a balance sheet or have the analytic ability to use fundamental economic forecasting tools.

Is there a dilemma suggested by the finding that, historically, the educational value of S&O may have been its greatest contribution, while, for the future, both supply (budget) and demand forces call for more concise and frequent reports with emphasis on key new data and the "bottom line"? Not necessarily, in my view. There is, of course, the danger that USDA could downplay analysis and education, thereby foregoing its unique contribution and becoming just one more of many providers of forecasts. The greater danger is that, in the states, Extension outlook specialists could become entrepreneurial forecasters to large producers and producer groups who need more individualized outlook and marketing advice. Such a development would again raise the issue of whether the role of Extension is to consult or to educate. The challenge is to avoid these temptations by meeting the format, timing and delivery needs of S&O users with much more efficient and effective packaging of market analyses. More of such well-packaged analyses are likely to be read and used than is the case for the longer, more elaborate, and often repetitive outlook publications with which we are all familiar.

To summarize the near-term outlook for situation and outlook, users are demanding more timely—increasingly electronic—access to more concise S&O reports that emphasize new information and developments and how and why those developments change the outlook. Increases in vertical coordination and year-round marketing by producers of some commodities mean increasing demand for more frequent updates. Tight budgets and limited personnel resources in public institutions will force some "re-inventing" of S&O products and processes for producing, clearing and disseminating them.

This last point is especially true for USDA. In universities, outlook tends to be

associated with the person doing the outlook. Thus, at Mississippi State University, cotton outlook is O.A. Cleveland. Cotton producers in Mississippi don't ask, "What is the MSU outlook?" or "What is the Mississippi Cooperative Extension Service outlook?", but rather, "What does O.A. Cleveland say the price is going to be?" This is a plus if the O.A. Clevelands, Glenn Grimes, Bob Wisners, and Bill Uhrigs of the world use their visibility and acceptance to promote and exploit windows of opportunity for education. On the other hand, the personalization of outlook by Extension economists can pose a conflict of interest if they use their popularity to promote entrepreneurial consulting objectives.

The process is quite different in USDA where considerable effort is put into depersonalizing outlook and making all forecasts reflect a consensus of views. The process is intended to bring all the best information and analysis in the department together to assure the highest quality outlook *and* to assure that USDA speaks with one voice. For example, the situation and outlook reports produced in ERS reflect not only the combined judgment of the analysts involved but also those of peers and supervisors who review them. The analysis going into producing the reports will reflect the debate and opinions of the other members of the commodity committees made up of commodity analysts from the several agencies doing market analysis on the commodity in question. The ERS draft report then goes through a departmental review process coordinated by the World Agricultural Outlook Board (WAOB), which ultimately convenes a final "Board" meeting for detailed review and approval of the S&O manuscript. The authors of the report then take it back to ERS and spend anywhere from a few hours to a few days making all the changes required by the WAOB. Then the report goes to the editors for final editing,

production, printing, and preparation of press releases. Once printed, the reports are mailed out. From the time the original analysis was done to the time a subscriber receives a copy of the report in the mail is typically six weeks to two months. Contrast this with some Extension and private outlook services whose subscribers have an updated analysis and any new data on their fax machine or in their electronic mailbox within hours or even minutes after the release of important new market information.

The implications for USDA are obvious. If it is to continue its unique and major role in situation and outlook, it must streamline its processes. This will be a special challenge for the WAOB, which will need to find a way to review and approve quick turn-around S&O analyses that will be sent out by fax and electronic mail within hours of the actual analysis.

The need to streamline both product and process is not news to ERS outlook analysts nor to some in other agencies who contribute under the auspices of the WAOB. Self-evaluation and openness to external critique have characterized ERS's Situation and Outlook program under the leadership of people like Pat O'Brien, Fred Surls, and others. But in the past two years, that critique has become more intensive. An internal "ERS Outlook Program Evaluation" dated October 1991 identified the key issues facing the S&O program and the options for addressing them. The recent budget shocks to ERS have given added validity and new urgency to the recommendations of that review.

Changes are already evident. In the fall of 1993, ERS announced changes in the form and frequency of livestock reports. Beginning in January 1994, the old livestock, dairy, and poultry S&O reports will be replaced by two new series. One will be a monthly 12-page report covering livestock, dairy, and poultry information, focusing on current production, price, and trade

statistics for each of the sectors and, I presume, a brief analysis of how those statistics change the outlook. These fast turnaround reports, tied to data release dates of various agencies, will be accompanied by quarterly in-depth S&O reports for each commodity, plus a statistical yearbook. All reports will be available in paper and electronic form.

My view is that ERS is clearly on the right track. Over time, the 12-page reports may have to be shortened, and the quarterly in-depth reports may have to be reduced to semi-annual (one of them at the time of the USDA Outlook Conference), plus the very valuable annual yearbook.

The Longer-term Outlook for Outlook

For the longer term, that is, beyond the year 2000, the prospects for situation and outlook are, I believe, quite different from what I have suggested for the near-term. This will be so for two reasons:

First, the setting within which market analysis is used will be quite different from today's. From a policy perspective, markets rather than various distortions of policy will drive most production, resource allocation and marketing decisions. There will likely be some safety-net and stocks policies and perhaps some cost-shared insurance schemes. But overall the role of traditional farm programs will be diminished. Food programs will be important, but welfare reform will ultimately include food programs so the major forecast interest will be in the CPI or some successor measure used to adjust indexed minimum levels of guaranteed annual incomes or negative income taxes.

The farming sector will be increasingly concentrated and commercially sophisticated. Most of the farm production will come from two to three hundred thousand business units that will be closely linked into the marketing system, such that more of the production and marketing decisions will be made at levels close to the

final consumers. The farm sector will be viewed by most as just another business sector and not as a disadvantaged sector deserving to be a ward of the government. Government involvement in agriculture will be heavy, but the involvement will be of a regulatory nature, designed to insure that agriculture performs in the interest of the larger society.

Second, the management and information technology available to production and marketing decision-makers will allow them to have their own situation and outlook analysis at their fingertips at all times. This will come through the use of user-friendly analytical packages on cheap powerful computers linked into the "information highway." Just plug in the latest data (that will probably be done automatically via wireless on-line services) and get the most sophisticated forecasts with tips on what the upside and downside risks are, what new data to watch for, etc. A key consideration will not be access to someone else's outlook analysis but access to data. There will be a premium on timely, high-quality data, especially data that are geographically identified and as specific as possible to individual markets or production operations. Data will need to be more current and continuous than episodic. Heavier use will be made of real-time data such as satellite monitoring of global crop conditions and weather, continuous data on cattle on feed, new placements, commodity shipments, etc.; that is, "as-it-is-happening" data.

The analytic software programs that will be in use industry-wide (there could be numerous alternative software packages competing on the basis of forecast performance) could even be programmed to update and improve themselves, based on the internal accumulation of historical data including its own forecasts and eventual market outcomes. The employment demand will be for programmers/economists who can create competitive analytic packages.

Serious players in futures markets will also have these sophisticated analytic packages at their disposal. Thus, futures markets will increasingly reflect these best forecasts. As more and more people have access to good forecasting software that is simple to use and as more of these people participate in the futures markets, the futures markets will provide the best forecasts.

When all of this comes to pass in the next 10 to 15 years (I may be too conservative), there will no longer be a role for publicly provided situation and outlook analyses to private users. There will still be need for policy analysis for policy makers, but the routine evaluation of commodity program options (if there still are any such programs by 2005) will also be done with standard software programs. The analysts will instead be doing the more complicated analyses of regulatory, environmental and other complex and nontraditional policy issues.

In this scenario, the demand for market-related data will be greater than ever. Again, even more than for the near-term scenario, the appetite for data by the physically small, but large capacity, sophisticated computers and their equally sophisticated, but easy to use, programs will be for highly detailed, comprehensive, geographically identified and real-time data. How will these be provided? Will government budgets support provision of these data as public goods? Or will the private sector see the provision of such data as an attractive business opportunity? If private sector firms do become major data providers, how will they compensate primary providers (respondents) or obtain their cooperation? Will there be laws to insure the integrity of privately provided data?

In this vein, one of my Mississippi State University colleagues who reviewed an earlier draft of this paper made an observation worth repeating here. He

argued that two major issues will evolve with respect to the future. The first is that of private vs. public data and analyses. Will there continue to be public sector sustained data bases and analyses? Will the emergence of private sector data and analytic services and the accompanying flood of data (likely of mixed quality) on the "information highway" make it easier for federal budget cutters to reject the "public good" argument for public data and market analyses?

The second set of issues postulated by my colleague evolves around the new information highway itself. What is already beginning to happen today is almost beyond the comprehension of all but the most sophisticated among us. The potential for the future is mind-boggling and will likely change our lives and how we do business in ways we simply can't comprehend today. Some of the more obvious questions are—Who will have access to what data and analyses that will or can appear on this highway? What will be the reliability of the multitude of data and analyses that can suddenly become available?

Allen: John Lee has oriented our thinking to the future. We agree that data sources will change in the future and that reports must also. NASS is now using administrative data as widely as possible to reduce respondent burden, and we are looking at more descriptive data. For example, at the end of January, we will publish cattle on feed numbers for lots of 1,000+ capacity in the 13 major states for the first time. For the future, that might be a more significant data series than is all cattle on feed.

Lee continued

Foresight and Hindsight

All that I have learned from experience and study of situation and outlook suggests the odds of developments occurring exactly as I have forecast them are small. I'm not prepared to put an error range around my forecasts. But, as with any good situation and outlook work, there is educational value in analyzing the forces shaping the outlook for situation and outlook. In other words, the contribution of this paper and this section of the symposium may be the pedagogic value of thinking through the process of change.

If my prognosis is even in the ballpark, the near term "reinventing" of S&O to

meet the changing needs of a changing mix of users and to cope with budget pressures on public institutions will not provide a blueprint for another 70 or 50 or 25 years of situation and outlook work. Rather, it will serve as a bridge to a not-too-distant future when the routine of situation and outlook analysis will be assumed by computer programs, thereby freeing economists to turn to the more complex research and conceptualizing required by the issues confronting a more mature and demanding society. There will be plenty of challenging marketing issues to occupy economists, so my forecasts, if they have any credibility at all, should not be threatening to any of us.

That is my outlook for situation and outlook. Time will test its validity. I close with one of my dad's observations: "If our foresight was as good as our hindsight, we would all be a darn sight better off!"

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