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Situation and Outlook

Breakout Session 4, Saturday, January 15th, 1994, 8:00 am
Moderated by Hal Harris, Clemson University

Major papers:

Emerging Issues: Public Situation and Outlook
Fred Surls, Economic Research Service, U.S. Department of Agriculture

Emerging Issues: Public Situation and Outlook Programs
Wayne Purcell, Virginia Polytechnic Institute and State University

Theoretical Underpinnings of Publicly Funded Situation and Outlook
Scott Irwin, University of Illinois

Situation and Outlook Programs in the Future
John Lee, Mississippi State University

Discussants:

Bill Lapp, ConAgra, Inc.

James R. Donald, World Outlook Board, U.S. Department of Agriculture

Richard D. Allen, National Agriculture Statistics Service

Richard Brock, Brock & Associates

Outlook Work in USDA and ERS: Where do We Go From Here?

Frederic M. Surls

The roots of situation and outlook (S&O) analysis run deep in the U.S. Department of Agriculture (USDA). Last year marked the 71st anniversary of the founding of the Bureau of Agricultural Economics and the 70th anniversary of USDA's first Outlook Conference. And the statistical work on which outlook analysis is based goes back more than 130 years.

Not surprisingly, outlook work has changed over time as American agriculture and its place in the economy and rural America have evolved. USDA's S&O program is at a turning point and will be changing markedly in coming years.

History of the Outlook Program

The founding of the Bureau of Agricultural Economics in 1922 marked the formal beginning of USDA's S&O program, but the statistical series on which outlook work is based go back to the founding of the Statistics Division and the issuing of the first monthly crop report in July 1863, about one year after USDA was established.

Rapid growth of productivity, growing commercialization, urbanization, the westward expansion, and the emergence of a national market increased the demand for information. At the same time, periodic crises in agriculture strengthened the belief that more information for producers would reduce speculation and price fluctuations, limit monopoly power, and lead to more stable production.

The latter half of the 1800s saw the rapid expansion of data collection by USDA and through the national censuses conducted every 10 years. By the end of the century, a wide range of data, mainly on the production side, was being drawn from the combination of the decennial census and monthly and annual reports to USDA from county correspondents throughout the country.

The early 20th century saw continued improvement in production statistics. The Crop Reporting Board was established in 1905, the USDA moved to a lockup format for preparing forecasts, and by 1912 the Crop Reporting Board had begun to issue national production estimates based on forecasts of production and yield.

Of more importance to the subject of this paper, the ongoing growth and commercialization of agriculture, the growing strength of urban interests, together with periodic farm depressions also began to shift attention toward a broader range of market information. New market regulations such as the Meat Inspection Act of 1906, the Cotton Futures and Grain Standards Acts of 1916, and the Packers and Stockyards Act of 1921 accelerated demand for market information. For example, 1911 saw the first survey of price spreads, and market news reporting began in 1915.

World War I, and the price collapse and farm depression that followed, brought the emerging discipline of agricultural economics to the fore. The seeds of doubt about the conventional wisdom of better information as the cure for depressed market prices were sown but did not begin to fully take root until 1929, when the Federal Farm Board was established and market stabilization became part of USDA operations. From that time on, government itself became a major client of outlook information and analysis in order to administer agricultural programs.

The 1920s saw the emergence of S&O work as we know it today. The Bureau of Agricultural Economics (BAE) was founded in 1922, consolidating all work on marketing and crop estimates in one agency. This provided a critical mass for the development of economic analysis in the

Department. In 1923, the BAE convened the first outlook conference, drawing on the results of the first survey of prospective plantings. The information from this conference was then taken by extension specialists to more than 2,500 meetings with farmers throughout the country. Outlook conferences, together with BAE's monthly publication, *The Agricultural Situation*, became primary vehicles for disseminating S&O information. By the 1930s, the BAE was issuing the commodity situation reports that continue to the present.

Over its 70 year history, the program has become increasingly complex, reflecting the growing complexity of the agricultural sector. Macroeconomic performance, input markets, and much more detailed analysis of foreign markets have become key parts of the program of analysis. The forecast horizon has also been pushed out to 10-15 years rather than the one- to two-year horizon of the past.

The S&O program also faces information requirements from an increasingly wide clientele. From its beginnings serving the needs of the Extension Service, media, and producers, the program's clientele has expanded to include private forecasters and analysts, state and local governments, foreign governments, agribusiness, and public interest groups. Each of these is looking for different types of information. And as far as farmers and the general public are concerned, the S&O program is now a wholesaler rather than retailer of information and analysis. Most of the program's information gets to the public through the media, the Extension Service, and private information services.

Finally, USDA itself has become the leading client of the S&O program. Its ongoing responsibilities for administering programs, together with evaluation of policy alternatives, draws heavily on program staff and analysis.

What Has Been Accomplished in the First 70 years of the Outlook Program?

USDA can point to a wide range of accomplishments for the program over the past 60 years:

1. The program has provided much of the information base for private sector and government decision making. This flow of information has meant that markets operate more efficiently, with gains for both producers and consumers.
2. These information benefits have been worldwide, as data and information generated in the Department form an important part of the world information base on agricultural trade.
3. The program, particularly in its early years, was an important vehicle for economic education of the farm sector.
4. The agencies involved in the program, particularly the Economic Research Service and its predecessor agencies, have provided much of the intellectual capital for U.S. outlook analysis. Moreover, ERS has trained many of the public and private sector outlook economists.
5. The program has given the Department capacity for rapid staff and policy analysis and response to public concerns.

The Current Status of Outlook in USDA

The current outlook program involves seven different USDA agencies.

Basic data are collected both by the National Agricultural Statistics Service (NASS) and by the Market News Service of the Agricultural Marketing Service.

Economic analysis is carried out in a number of agencies. The analysis functions of all of these agencies were initially incorporated in the BAE but split off as programs and activities within USDA grew in importance and complexity.

The *Agricultural Stabilization and Conservation Service* (ASCS) and the *Agricultural Marketing Service* (AMS) provide analysis for commodities with

important program administration issues.

The *Economic Research Service* provides sector-wide analysis with both commodity detail and sector aggregates such as farm income and food prices, as well as analysis of international markets and demand and U.S. exports.

The *Foreign Agricultural Service* (FAS) provides extensive international data and commodity analysis, as well as U.S. export analysis.

Finally, the *World Agricultural Outlook Board* (WAOB) coordinates the activities of the various agencies, provides clearance for estimates and reports, and ensures that the USDA speaks to the public with one voice on commodity analysis and issues. The WAOB was a part of the ERS until it was split off as a separate agency in 1978.

Allen: Fred Surls emphasizes the distinction between NASS as a basic data agency and other USDA agencies as analysis and economic forecasting units. This distinction is very important to USDA. NASS can be completely unbiased in surveying and estimating phenomena such as end-of-marketing-year grain stocks since it is not the agency which earlier projected what those stocks might be. That separation of responsibilities serves well and hopefully will remain after any USDA reorganizations.

Donald: To give some insight on the World Agricultural Outlook Board, I'll give an overview since the 1950s when I became directly involved:

The 1950s were a time of discovering and explaining how commodity markets work, including the publication of a number of technical bulletins on demand and price structure. This provided the analytical underpinnings for outlook work.

The 1960s were a time of change. Interagency commodity estimates committees were established. Thousands of program alternatives were analyzed for policy makers, leaving very little time for research. Out of necessity, relationships of earlier years were used, so the analytical base for outlook declined in quality.

The 1970s shaped outlook for years to come, for the USDA's economic intelligence system nearly collapsed. It had failed to alert policy makers about either the crop disaster in the Soviet Union or the heavy Soviet buying of U.S. grain. The 1970s were the real beginning of the interdependence of U.S. and international markets. The USDA began placing greater emphasis on round-the-world monitoring of weather and of economic and policy developments. Although the monitoring of developments and reporting information about international markets improved, the relationships of the 1950s were still being used for analysis. And the main focus was still on the domestic side but with little in-depth analysis of changed relationships. So, the analytical base for outlook work continued to deteriorate through the 1970s.The publication of the World Agricultural Supply and Demand Estimates (WASDE) report in 1973 had far-reaching implications for the dissemination of situation and outlook work. Forecasts were developed and disseminated on the same day. Immediate interpretation of the forecasts was broadcast on radio and TV.

The 1980s were almost as chaotic as the 1970s, but for different reasons. The world plunged into a recession, and USDA's forecasts and projections were badly off mark. USDA experienced several credibility crises, Congress held hearings, while GAO said the budget estimates were further away from the truth than those of the Pentagon! But for the first time, USDA delegated responsibilities and established a framework for agencies to work together to build a stronger analytical base for

five-year budget projections and for the evaluation of alternative farm and trade programs. The benefits from that effort are beginning to pay off.

The 1990s may well be the toughest decade of all. In a period of budget cuts and resource constraints, outlook work has taken the deepest cuts. Agencies fund programs where they are most accountable, rather than supporting interagency work, such as doing outlook. The Office of Management and Budget (OMB) keeps raising a rather basic issue: *Who* are the clients for outlook work? OMB has taken the position that USDA's work should be internally focused; it should be for the use of government policy makers. OMB believes that economic research should be done by the universities; outlook, by the private sector.

Surls continued

Interagency Commodity Estimates Committees chaired by the WAOB put together USDA's supply, demand, and price estimates for major commodities. When available, NASS estimates are always incorporated. The committees estimate the remaining components of supply and use, for example exports and domestic use, and then estimate season-average prices or, in the case of livestock, quarterly prices. All interested agencies participate in the committee meetings, arriving at a consensus which all agencies then use until the next committee meeting. Major estimates are published in the *World Agricultural Supply and Demand Estimates* report issued monthly as a joint product by the WAOB, ERS, and FAS. International details are published in FAS circulars, while ERS publishes most of the analysis behind the departmental estimates.

(For a rundown on which agencies handle which type of analysis, see the table at the top of the next page.)

In the past, there was a significant amount of duplication between agencies in commodity and trade work, but overlap is less than it seems. In foreign market analysis, for example, FAS takes the lead in market intelligence and short-run analysis, while ERS focuses on country/regional analysis and longer-term market issues. Overlap has also diminished in recent years as agencies have reduced activity in outlook work.

The Program of the Economic Research Service

Much of the remainder of this paper will deal with the ERS, the only agency with a comprehensive program, publishing much of the USDA's analysis. (It's also the agency I'm most familiar with.)

S&O has traditionally been one of the four major activities of the ERS program of work—situation and outlook, research, staff analysis, and value-added data. However, this is an artificial breakdown because all of these activities are closely linked.

A core part of the outlook program has been disseminating analysis, the research underpinning this analysis, and data through an extensive situation and outlook publication program. During 1993, ERS published a total of 103 S&O reports in about 20 different series—one of USDA's larger publication programs. (The FAS publishes a similar number of series on international commodities.)

The number of ERS publications has risen, and the coverage has widened over time as the sector has become more complex and the audience more diverse. But one of the results of this change is that the agency no longer has a clearly defined clientele outside USDA. We have tried to meet the needs of a broad range of users and may be, in the final analysis, satisfying very few of them.

Pressures for Change

In terms of staffing, the high water mark of the program occurred some years ago when

The economic analysis agencies handle the following functions:

Macroeconomy:	Domestic	ERS
	International	ERS
Input Markets and Issues	ERS	
Foreign Market Demand	ERS, FAS	
U.S. Trade		ERS, FAS
Commodity Supply, Use, and Price		ERS, ASCS, AMS, WAOB
Farm Income		ERS
Farm Finances		ERS
Food Prices		ERS

ERS staff totaled over 1,000, compared to the current level of about 700. Resources devoted to the program peaked in 1988 when an agency reorganization increased the share of agency resources going to domestic S&O work. Since then, however, resources in the program have been reduced as the number of agency staff has declined.

Substitution of capital for labor has offset some of the impacts of fewer resources, but the ERS program is under severe stress and faces a substantial downsizing and readjustment of program and focus in coming years. Many of the same pressures will also be affecting programs of other agencies, so major changes are in store for the entire departmental program.

Factors driving these changes are both internal to USDA and external. The most obvious internal factors relate to the ERS budget that was cut in FY 1994, with a further cut likely in 1995. With ERS absorbing costs of pay increases and other increases in costs, a nominal 5 percent budget cut can easily translate into an 8-9 percent real program cut. Extend small cuts over a number of years, and real resources are down sharply.

A second budgetary factor is reallocation of resources within ERS away from S&O toward a growing array of other departmental concerns like rural development, the environment, food safety, and nutrition. Production agriculture, the traditional focus of the S&O program, is diminishing in relative importance in rural America, in the national economy, and in USDA. Combining budget cuts and reallocation suggests that real resources available to ERS for situation and outlook work may decline 35-50 percent over the next few years.

External factors also argue for significant program changes. An increasingly sophisticated clientele, new information distribution technologies, and the increasing number of private information providers suggest that the publication program should be significantly modified. There is much less need for elaborate description in publications, and the value of timeliness has increased sharply. The combination of budget and external factors suggests that, along with changes in the program of analysis, the current publication program should be scaled back sharply in favor of faster and more cost-effective methods of distributing information.

How Will the Outlook Program Change?

The downsizing and refocusing of the ERS and USDA program is just beginning and will be evolving over the next several years; this symposium has come at just the right time. USDA is already reexamining several of the traditional departmental components of the program; for example, the annual Outlook Conference. ERS will be looking for a great deal of input from outlook clients as we restructure our program. Since nothing has been decided, the best place to start is with a list of the major questions that should be considered and a few reactions to the questions.

• *Why does the Department need a situation and outlook program?*

An S&O program still belongs in USDA. The data and analysis generated by the

program are critical to USDA for program administration, analysis of alternative policies, evaluating and reacting to current developments such as the floods of 1993, and responding to public interests and concerns. In addition, the information generated remains an important public good. But the public good argument is weaker than it was when the program was established, and some cutback in the activity makes sense from a public policy perspective.

Donald: Besides the possible impact of information on structure, there are at least two other reasons for continued USDA analysis and forecasts made available to the public:

First, there is a real need for more accurate information on international markets with respect to program decisions, such as for wheat acreage reduction. The USDA is the best source for this international information gathering and analysis. Also, because exports hold the key to maintaining farm income and are, therefore, of special interest to policy makers, USDA work in the international arena will be critical.

Second, and related to the first, the continued strengthening of the analytical base for five-year budget projections and program analysis will be absolutely essential. Let me be specific. Last November, USDA was unable to provide OMB with a trade matrix for major crops for more than one year out. To be even more specific, we know very little about prospects for U.S. exports to major markets, particularly Russia and China. So, my view is that outlook and projections work will have to be behind and in support of program and policy decisions.

• Does the ERS program emphasize depth or breadth?

The strength of the program in ERS comes from the combination of comprehensive coverage and in-depth analysis of the entire range of factors shaping the outlook for agriculture. But it will not be possible to keep both for all aspects of the program; in fact, entire pieces of the program may have to go. For example, there will be a conflict between the need for intensive analysis of program crops and the need to provide information and analysis on the more dynamic areas of agriculture such as fruits, vegetables, and horticultural products. Much of the policy analysis work involves the former, while the latter are important for the new issues that USDA will be analyzing, such as food safety and nutrition, and for monitoring trade agreements. But we cannot continue to do what we are now doing in both areas.

The resolution of these conflicts will depend partially on what happens with farm programs over the next year or two. It will also depend on how USDA chooses to organize work between the different agencies involved in the outlook process.

• What will be the mix between applied research and short-run market analysis and forecasting?

Until now, the agency has been able to analyze markets, produce basic industry information, and carry out applied research. The choice between these activities will become increasingly difficult. Again, what ERS does in this area will partly depend on program adjustments in other areas of the department.

• What will be the mix between long-run and short-run analysis?

The departmental baseline, much of which is generated in ERS, has become an increasingly important activity of the outlook program in the past few years. This importance is likely to continue in the future, even at the cost of some of the resources now used for short-run market analysis.

• How will clientele outside USDA be affected by program changes?

As resources are cut, the relative importance of clientele outside USDA will decline.

Departmental demands for information and analysis will decline less rapidly than resources drop. This is consistent with a smaller share of resources going to publication and information dissemination. How severe the impacts of this will be on the public will depend partly on how successful we are in increasing the productivity of information dissemination; for example, through more use of electronic media.

We will have to make serious decisions about how we serve our clientele outside USDA. A major focus will have to be continuing to put out the value-added data bases on which people depend for analysis. Secondly, we will continue to put out a mix of market analysis, forecasts, and applied research. And we will try to provide sufficient information to serve as a document of record to support future research.

Lapp: Demand for S&O services is down for at least two reasons. First, it appears that more and more customers have "the model"—that is, they understand the implications of the supply and demand situation. Our job is to give them the economic model so they can read the NASS report and know what it means.

Second is the cost-efficient rapidity with which data can now move to users. (For example, weather data are no longer a monopoly of the U.S. Weather Service; I can have it cheaply by radar right in my own office.) ERS is responding to this data-moving revolution by making information available on line.

So, because users have the model and they also have access to very rapid data transmission, their demand for our analytic services has fallen. It's like the fluoride paradox—dentists prescribe fluoride and work themselves out of a job. The shrinking demand for our services is a function of our own efficiency. Since more people have the model and ready access to the data, there is less need to give them S&O prognoses of the future.

Brock: How do farmers get their information? For one thing, there is a huge difference between states on how the Extension Service operates and how it is viewed by and used by farmers. Since 1973, the role of the Extension Service has changed. The big farm price increase in the early 1970s spawned the farm market advisory business, giving farmers an alternative source of information. Then, in the last six years, with the advent of electronic services, farmer access to information has escalated. Today 80,000 of the nation's top producers are connected up. This has radically changed the flow of information. Some farmers would rather buy from a service than get it free from USDA or the Extension Service. On the other hand, there are some that still use the more traditional information sources. There is definitely demand for both.

Lapp: But the current climate of reduced risk, especially lower inflation, also reduces demand for S&O analyses for the future. When things are rather static, just give farmers the program and the information and they do their own analyses. Then, when there's a price shock or the market becomes more uncertain, then the demand for S&O will increase again.

Donald: My thought is that it will take another crisis as notable as the Russian grain shortfall of the early 1970s to shift priorities back to outlook work. As was the case in the 1970s, government policy makers, when they realize the inadequacy of the system, will then see the need for sounder analysis behind outlook. We already have some indication that this is happening. The floods of 1993 convinced the Secretary of Agriculture that better economic analysis and a chief economist are needed.

Publications Issues

Publications have long been a key part of the outlook program. The current ERS information dissemination program focuses on printed hard-copy distribution of information. While hard-copy is convenient for many uses, it is costly to produce, and delays in production and distribution seriously degrade the value of time-sensitive information. The focus in publication will increasingly shift to wholesaling information to people who provide further processing, rather than attempting to retail information directly to a broad spectrum of end users. For example, in commodity analysis we will be moving to a combination of:

1. Shorter publications focusing on key sector developments and analysis of the key reasons for and implications of developments.
2. Offering subscribers an option of obtaining reports electronically as well as in printed form.
3. Electronic-only distribution of some data and reports.

Experiments with all three of these are underway. A new livestock series of short monthly reports and commodity supplements is available to subscribers either in printed copy or electronically from an ERS bulletin board. The regular feed and oil crops reports have been cut back and electronic-only monthly reports added. The feed and oil crop updates are available via fax, from the ERS bulletin board, and over Internet. These shorter reports, based on key data releases or lockup, are being produced with very short turnaround time. We will be doing survey followups as the year progresses to determine user response. If favorable, we will continue to expand these.

Along with these changes, we will also be facing the issue of which series we will continue. Our input S&O reports have been discontinued this year in favor of very short data releases and one annual summary publication. In the future, other reports will be discontinued or combined.

Finally, we also face the question of the extent to which we will continue to publish general audience periodicals. These are very costly, and we may no longer be able to support their publication.

Conclusion

The next few years will bring substantial modification of the departmental and ERS S&O program. At this point, no major program decisions have been made, although it is clear that ERS will be doing progressively less traditional S&O analysis. ERS is also pushing to experiment with and to expand the electronic dissemination of information as both a substitute for and supplement to printed publications.

As the program is restructured and we begin to face the choices outlined above, there is increasing need for input from users. The agency will be setting up focus groups, sending out surveys, and trying to communicate in a number of ways with clients. It is a critical time for users to be communicating their needs and priorities to ERS. Priorities are particularly important, since not all client needs can be met.

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