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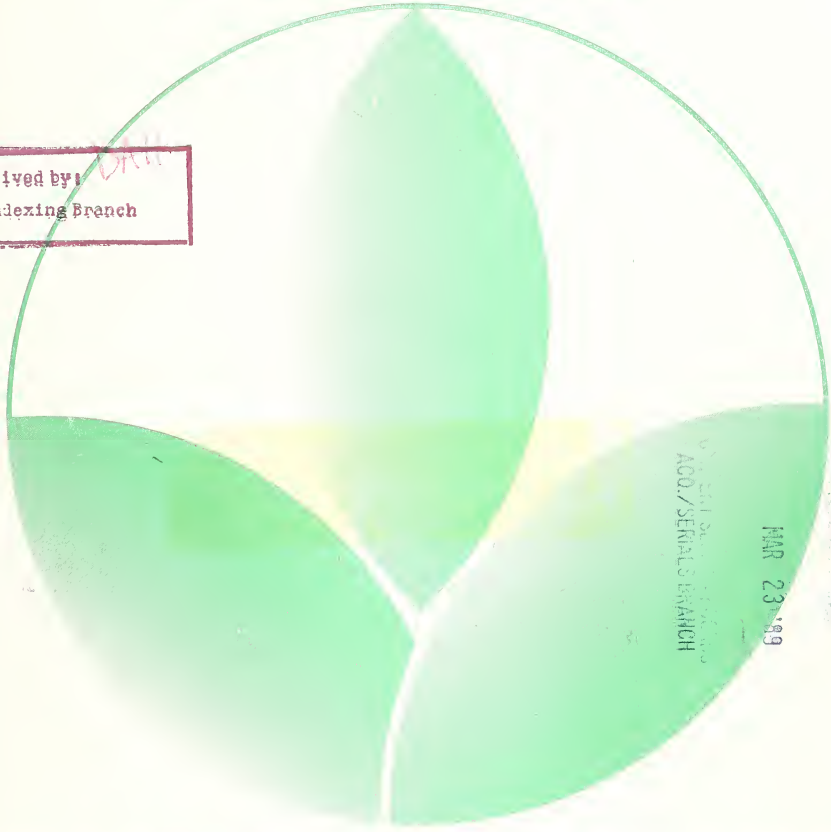
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# Proceedings

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# OUTLOOK '89

65th Agricultural Outlook Conference  
U.S. Department of Agriculture  
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November 29 - December 1, 1988

# ANNUAL AGRICULTURAL OUTLOOK CONFERENCE

United States Department of Agriculture  
Washington, D.C.



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## A VIEW OF THE FEEDGRAIN OUTLOOK FOR 1989

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I appreciate the opportunity to discuss the outlook for feedgrains. Today some limited remarks will be addressed to the 1988/89 feedgrain outlook and prospects for 1989/90. Most of my remarks will be focus on oats, and to a lesser extent on white corn since those two feedgrains were not discussed by USDA. I also will briefly discuss the upcoming 1990 Farm Bill debate that is so important for the commodity sector.

### 1988/89 SITUATION AND OUTLOOK

Throughout much of the 1988 growing season, our estimates of production were considerably lower than official USDA estimates. Even though we are using their latest assessment in our supply/demand balances, we still believe there could be some fairly significant weather related downside adjustments occur in the final estimates for 1988 corn production. We will keep close track of the quarterly stocks estimates to determine if significant adjustments in 1988 production will occur in the final crop estimate that will be released in January 1990.

We basically agree with USDA production estimates for oats and barley. Again the quarterly stocks estimates for barley, corn, and sorghum will help in the evaluation of the accuracy of the final production estimates. This will not be true for oats in that USDA no longer collects and publishes quarterly estimates of stocks for oats. Unfortunately, this lack of interest and effort on the part of USDA is typical of the Government's attention to oats. Oats is still a small crop relative to corn, soybeans, and wheat in terms of value. However, it is still a very important crop, not just to oats processors but also to oats producers nationwide and it's importance is going to grow.

In a review of the oats supply/demand balance sheet we believe imports into the United States would approach 100 million bushels during 1988/89 if world-wide availabilities were sufficient.

Shortfalls in Argentina due to weather related problems early in the season and below normal production in Canada and Scandinavia limit amounts available for export.

Our estimate of U.S. food use of oats totals 76 million bushels, well above the implied USDA estimate of about 53 million bushels. Food use of oats has been rising rapidly as consumers have become aware of the nutritional benefits of oats products, particularly oats bran and oatmeal, in contributing to the reduction of serum cholesterol when part of a low fat diet.

Another commodity area that I would also reference for 1988/89 is white corn. White corn is very much of a specialty crop, primarily used for food, with total production in 1988 of about 25 million bushels, less than 0.5% of total corn production. This is a reduction of 33% from estimated production in 1987 and reflects the impact of the drought on yields since area planted was about 415 thousand acres, virtually unchanged from the previous year. The shortfall in 1988 production has resulted in prices in the \$4.50-5.00 per bushel range, almost double the current prices for yellow corn. We anticipate further price gains for white corn during the remainder of the crop year. This crop appears to offer producers significant income potential in 1989, especially for those in areas where white corn is normally processed. The export market is at times also fairly active for white corn. Major markets for white corn are Mexico and Japan with a number of additional countries making purchases on an irregular basis. USDA no longer collects production data on white corn and they have never collected information on stocks.

The key element to be gleaned from the current USDA assessment of feed grain supply/demand balances is that the large surpluses that characterized U.S. supplies during the past two years will have been depleted during the 1988/89 crop year. This makes the U.S. very vulnerable if a shortfall were to occur in production during the 1989 crop year. We have never experienced back to back production declines in U.S. corn production due to reduced yields, however, that doesn't mean it can't occur. It is for this reason that many of us in the industry were pushing for lower acreage reduction programs (ARP) than the 10% ARP announced for 1989 for corn, sorghum, and barley and the 5% for oats.

The 50% reduction in the ARP requirements for corn, sorghum, and barley while the oats ARP was held unchanged at 5%, will further disadvantage oats next year even though a tighter oat supply/demand balance was already expected.

#### 1989/90 PROSPECTS

As a result of the reduction in ARP requirements for 1989 and our assumptions on program participation we expect about 34 million additional acres would be available for total crop production in

1989 compared to a year earlier. Our current assumption is that the Conservation Reserve Program (CRP) will remove about 4 million of those acres, allowing a net increase of 30 million in harvest acres.

The real question is the future of the CRP and whether USDA will achieve the 40 million acre minimum legislated by the 1985 Food Security Act. In our opinion, the CRP has been one of the major factors in the reduction of acreage devoted to oats. The fact that producer returns for oats have been lower than for other grains due to the levels at which USDA established target prices has resulted in more oats cropland being entered into the CRP. All Americans are interested in conserving the nation's farm land, but removing oats land, one of the more effective soil conserving crops, doesn't really achieve the CRP's objective of removing highly erodible row crop acreage such as corn and sorghum from production. It is interesting to note that many producers in the CRP plant oats on that acreage as a soil conserving crop.

Many in the agricultural community are realizing that this nation cannot afford to remove the acreage from production called for in the current CRP program. As a result of this program and the ARP's implemented in our Wheat and Feed Grain Programs over the past few years, we have encouraged foreign nations to expand production at US producer expense. This is definitely evident by the levels of oats imported into the United States as well as the significant expansion in soybean production in South America.

Feed grain acreage in 1989 is expected to sharply increase in 1989 with corn up 10 million acres to 77.5 million. Sorghum acreage is placed at about 13 million, barley at 12 and oats at slightly under 12 million acres. This oats level represents a decrease of 2 million acres from last year with oats the only feedgrain showing a decrease in planted acreage. The decrease in oats relates to reduced ARP requirements for the other grains, thus diminishing the need for a conservative crop to be planted on that acreage.

Harvest acreage for the feed grains should increase commensurate with the expansion in planted acreage with the exceptions of oats where harvest acreage is placed slightly over 7 million acres, up 1.7 million acres from 1988. This expansion in oats reflects our assumption that weather patterns will return to normal and that a higher proportion of oats planted will be destined for harvest for grain.

Although we assume weather patterns will return to normal, we remain very concerned about subsoil moisture which could affect 1989 yield potential. Many areas, especially the North Central States and in the wheat areas of the Great Plains, have not had a



recharging of subsoil moisture to date. At this point it is unlikely that this situation will be corrected by spring planting time next year. Thus the potential for trend yields to us is quite low. In addition, markets in general will be very susceptible to the first sign of stress during the 1989 growing season.

Initial estimates of corn supplies for the 1989/90 crop year are quite comparable with those for the current crop year. Expansion in domestic requirements, assuming little change in exports, suggest further reductions in stocks are likely.

Export demand for corn should continue strong fueled in part by restricted wheat supplies available for feeding purposes.

Oats and barley supplies, however, should improve as yields return to more normal levels, even though still below the long term trend. Both of these crops were severely affected by the drought of 1988.

There have been a few concerns voiced about seed corn quality and seed availability for the larger acreages in 1989. We assume there was sufficient carryover and/or that seed corn producers through offseason production in the Southern U.S., Argentina, and Hawaii will have sufficient quality hybrids available. Seed corn, however, is likely to be more expensive than in 1988.

At this point in time feed grain stocks are not expected to expand in 1989/90 and could be down from this year's levels, primarily due to the reduction expected in corn stocks.

#### 1990 FARM LEGISLATION

The debate on the 1990 Farm Bill has already begun. Although we are not quite sure when the legislation will be enacted, some are suggesting next year because of budget pressures, others are suggesting 1991 because of election pressures. We are starting to see its broad outline. There is already recognition as a result of potential soybean shortages and the growing oats imports that a major realignment of program benefits, and specifically target prices should be undertaken.

There is also definite recognition that producers need to be able to respond to market signals rather than being forced to continue to produce crops that may already be in surplus in order to assure future income benefits. As an example, oats prices, even though well above historic levels and frequently at prices more than double that of corn on a hundredweight basis cannot compete with returns from farm programs for corn or barley. Target prices adjustments need to occur to allow greater market efficiencies.

Oats prices for the past two years have averaged at levels high even to force virtually all oats from livestock and poultry feeding rations. Although USDA no longer collects statistics on the amount of grain sold from farms, we estimate about 60% of the oats produced in this country are sold off farm. Our estimates further indicate the food industry uses roughly 75 million bushels of the oats sold off farms with the race horse trade using about the same amount. This latter group, in many instances, pays even higher premiums for oats than does the milling industry. Given the current and expected usage of off-farm oats an argument can be made that oats should no longer be considered a feed grain, but rather a food grain with target prices set accordingly.

Whatever changes are made in the farm program, they will have a very definite impact on the feed grains sector. Given the unknowns of the legislative changes, plus the potential for significant shocks to the system as a result of large stocks drawdown, potential weather related problems etc., forecasting 1989 and 1990 is obviously difficult. But whatever occurs, the next two years promise to be an interesting time.