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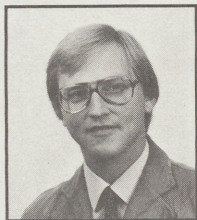
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## CROP & LIVESTOCK REPORTS

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# USDA Reports Punish The Unsuspecting

by Alan Guebert

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**B**ombshells hit Chicago again in January and February. USDA bombshells, that is.

Late this past winter, Chicago commodity futures markets reacted violently--and bearishly--following the release of key USDA reports. In January, a report pegged U.S. 1988 corn and soybean production higher than expected. A month later, the February Cattle-on-Feed Report found 2 million more head of cattle in the U.S. than most commodity traders thought possible.

The startling news confused traders, a bad condition for futures markets. Confused traders become nervous traders and nervous traders sell. And that's just what happened. Prices for corn, soybeans, cattle, wheat and hogs fell rapidly following the issuance of both reports.

The two stunning reports pointed up the ages-old problem between farmers and USDA: Can you believe the government's reports?



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## TRUTH OR FICTION?

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### *The Best Numbers or the Only Number?*

To William Mullins, a vice president of agricultural hedging for Merrill Lynch in Chicago, the answer is simple. "It doesn't make any difference whether you believe the reports or not. The market trades the numbers because USDA is the only crop counter in town."

Mullins says no company or country can duplicate USDA's ag reporting and forecasting efforts. In fact, the huge government agency has the largest gathering of economic and financial experts in the world--more than 700.

Still, loud groans are heard whenever it releases one of its hundreds of reports each year. Why?

"It's not USDA so much," says Steven DeCook, a commodity trader in Ankeny, Iowa. "It's farmers. Sometimes farmers

aren't completely truthful with USDA when asked to estimate their production. This is particularly true in the livestock reports more than crop reports."

DeCook knows from example. As a graduate student at Iowa State, he worked a summer for USDA to gather survey data for livestock and crop reports. What he found astonished even this college kid. "If hogs are \$25, they do just the opposite: under-report by 25%."

DeCook reckons farmers do this with little malicious intent. "It's just human nature to try to fool yourself into owning more hogs if prices are higher and fewer when prices are lower," he believes.

The experience made DeCook a skeptic. "I give livestock reports some windage: I don't take them literally. The reports are usually good in giving overall direction, but they generally fall short of being completely accurate," he says.

### *Key 1989 Reports to Look for:*

USDA releases hundreds of useful agricultural reports each year. While all the reports may come from USDA, different agencies within the department are responsible for release. This sometimes makes for uneven reporting. Yet, says commodity traders, USDA reports should never be ignored.

A free 1989 Calendar of Reports can be obtained by writing to:

USDA  
Information Division  
Room 228  
1901 New York Ave.  
Washington, D.C. 20005



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DeCook has less worry about crop reports; however, "there simply isn't another scientific organization with the size or expertise of USDA when it comes to crop reporting. I think they honestly do their best," he offers.

He has developed some tricks of his own, though, to try to verify USDA's numbers--particularly in livestock. "My brokerage business is all agricultural speculators. Some clients are breeding animal producers, some commercial producers, some cash grain farmers, and others as professionals.

"When they call, I ask them, 'How's gilt sales doing?' or 'Are you expanding your cow herd?' I can pick up trends early that way," he says. "Anyone can do the same, I believe, just by calling a few livestock producers you know to be on top of their game."

## *Other Private Forecasters*

There are other ways to anticipate USDA figures. Conrad Leslie is one. Leslie owns and operates the one-man research and trading firm called the Leslie Analytical Organization in Chicago. Since 1960, he has compiled his own crop production reports without USDA's help. His methods are less than scientific, but quite accurate, say his colleagues.

"I poll about 3,000 grain elevator managers in key, crop-producing counties around the country," Leslie explains. "Each fills out a postcard that asks them to estimate their storage requirements for the coming crop--be it wheat, soybeans or corn."

Leslie believes the elevator managers are very precise in their storage predictions because "their jobs depend on it." That precision forces managers to monitor the local crops very carefully. "They must know

the crop size before they estimate storage," says Leslie, highlighting the simplicity of his survey.

He admits to a bit of showmanship with the "Leslie Report," but feels even he can give USDA a little kick in the pants every now and then. "The only reason I started is because I felt USDA estimates were far too conservative. I think I helped change that. And now I think USDA uses my numbers as a benchmark, because we are never very far apart."

Indeed, Leslie's reputation as a crop forecaster is enhanced during periods like last summer's drought. His widespread postcard system was quickly called into extra-duty. That allowed Leslie to compile special reports faster than the clanking USDA bureaucracy.

State commodity groups conduct crop and livestock surveys which can preempt USDA also. For example, groups of wheat, soybean and corn growers hit the road each season to assess acreage and yields before USDA makes official estimates.

While the reports are not as thorough as

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## **Though not as thorough as USDA surveys, producer surveys offer valuable on-farm information.**

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USDA's, producer surveys do offer some valuable, on-farm information. For instance, this year's wheat tour will give the commodity markets some indication of winter wheat kill weeks before USDA even begins its survey of growers.

News gathering organizations conduct



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# TRUTH OR FICTION?

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unofficial, pre-USDA report surveys, too. The best known is done by Commodity News Service, or CNS, of Leawood, Kansas.

Prior to release of each crucial USDA crop or livestock report, CNS contacts many commodity traders to get their gut guesses of what the upcoming report should show.

What do the traders know that USDA doesn't? Nothing, except, if you know what the traders' consensus belief was prior to the report, you will be able to predict the traders' collective reaction after the report is released.

For example, a CNS poll discovers the trade's average corn production guess is 7.3 billion bushels two days prior to USDA's important August crop report. Awaiting the "official" government word, the market usually languishes despite the traders' guesses.

Then USDA releases its numbers: 7.9 billion bushels. Knowing the trade expected a considerably smaller crop, the shocking amount turns price forecasting into a no-brainer. Prices are headed down hard when

## *Some Key Remaining 1989 Report Dates are:*

### *--World as supply and demand:*

These reports include important production estimates for the Soviet Union, China, Brazil, etc... as well as U.S. export estimates. Usually released monthly. In 1989 release dates are April 11, May 11, June 12, July 12, August 10, September 12, October 12, November 9, and December 12.

### *--U.S. crop production:*

Pivotal statistics on U.S. grains. For wheat the most important dates are May 11 and June 23. The Aug. 10 report is the first glimpse of corn and soybeans production. A crop production report is issued each subsequent month on usually the 9th through the 12th.

### *--Hogs and pigs report:*

Issued only four times a year, the H & P is usually the most controversial USDA report. Prices can be counted on to be very volatile before and after each report. Look for them on June 30, September 29, and late next January.

### *--Cattle-on-feed:*

Another explosive report, usually issued monthly. In some months, USDA surveys only the top seven cattle-producing states. In other months, the top 13 states, and still other months, all states are polled. Dates to watch are April 21, May 17, June 16, July 21, August 17, September 18, and October 20.



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the markets open the next day.

Yet even the venerable USDA can be wrong. However, should that occur, the government rarely changes its estimates. Instead, oftentimes USDA will cleanse the error by rearranging crop usage estimates in later released Supply and Demand reports. All traders watch these reports carefully, ready to change their market strategies should USDA tip its hand and semi-recognize past mistakes.

Merrill Lynch's Mullins offers further advice. "This is their (USDA) ballpark and they own the ball. Don't fight their facts: learn to anticipate them. Develop your own sources," he suggests. Commodity groups are a good place to start, as are news services.

"Subscribe to commodity newsletters,

especially the as-based ones," he urges.

As economist Wayne Purcell of VPI strongly endorses the latter. "If your bank customer isn't going to watch the market, and he's using your money, then you better be watching the markets. And if you don't want to do it, hire an expert to do it for you. The markets are too volatile not to be staying in touch with them," he says.

Failure to anticipate just one pivotal report each year may cause you to miss the best marketing opportunities of the season, he adds.

Mullins concurs. "Farmers must learn to use futures and options: they are just that critical to the future success of any farming operation.