

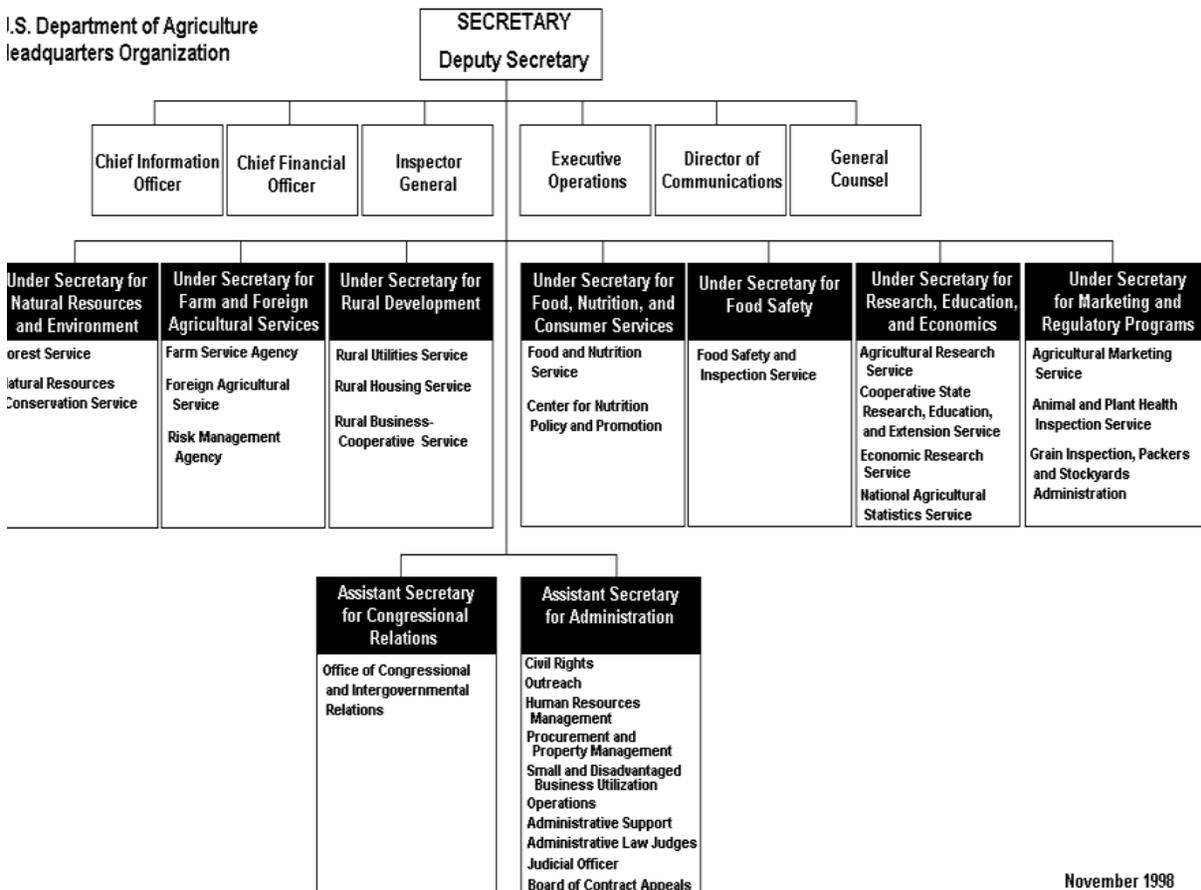
# Market Analysis and Outlook at USDA

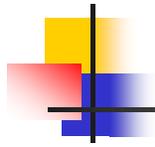


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 April 20, 2010



U.S. Department of Agriculture  
 Headquarters Organization

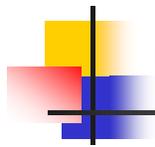




## USDA Speaks With One Voice

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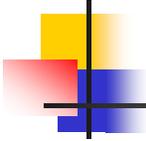
- Interagency process develops official data and forecasts
- Published data has clear inflexible deadlines
- Everyone has access to the information
- Policy analysis has common basis



## Commodity Market Analysis at USDA

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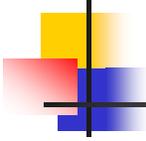
- Purpose: Timely, reliable, and objective information is essential if a market economy is to operate efficiently
- Analyze and explain
  - Current market situation
  - Short term forecast of supply, demand and prices



## The Building Blocks of the USDA Market Information System

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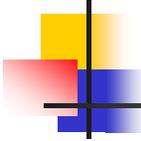
- NASS--collection of basic statistics
  - Area, yield, production of crops
  - Stocks surveys
  - Livestock data--cattle on feed,
  - Average farm prices
- AMS--collection of market prices
  - Daily reports on cotton, dairy, feedstuffs, fruit, vegetables, grains, hay, livestock, meat, and poultry markets.



## The Building Blocks of the USDA Market Information System, cont.

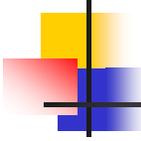
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- Foreign Agricultural Service
  - Supply and utilization estimates of major commodities in foreign countries
- Economic Research Service
  - Analysis and forecasting
  - Commodity situation and outlook reports
  - Research
  - Databases



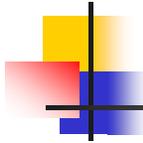
## The Building Blocks of the USDA Market Information System, cont.

- Farm Service Agency
  - Running the Farm Programs (paying subsidies and program compliance)
- World Agricultural Outlook Board
  - Chair Committees on commodity forecasting
  - Clear reports
  - Databases



## Market analysis covers a wide range of commodities, countries, and topics

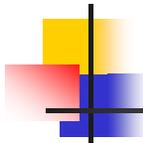
- Wheat
- Rice
- Corn and other feed crops
- Oil crops
- Cotton and wool
- Fruit and tree nuts
- Aquaculture
- Sugar and sweeteners
- Livestock, dairy & poultry
- Vegetables & specialties
- Agricultural Trade Reports—Europe, China, Brazil, India, Transition economies, etc.
- Food Security Assessment
- Agricultural income and finance



## Dissemination

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- World Agricultural Supply and Demand and NASS Production in Lockup
  - Monthly “e-outlook” newsletters and Circulars
  - Annual year-in-review reports
  - Databases, tables, indicators
  - E-outlook reports on special topics



## Why do commodity market reporting?

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- Basic investment by society in information.
  - To project future market conditions in a timely manner
  - To ensure that information is equally available to all, so that no one person or group has an unfair market advantage
  - To provide basic data that is not developed by the private sector, but which can be tailored to the specific needs of various users.

# Who uses market analysis:

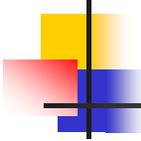
## Public sector

- Policymakers use market analysis to make policy decisions.
  - Operation of commodity programs
  - Drafting of farm legislation
  - Anticipating and reacting to important market developments
- Farm advisory services use market information and analysis to help farmers.
  - To make planting decisions
  - To identify potential markets
  - To develop business plans.

# Who uses market analysis:

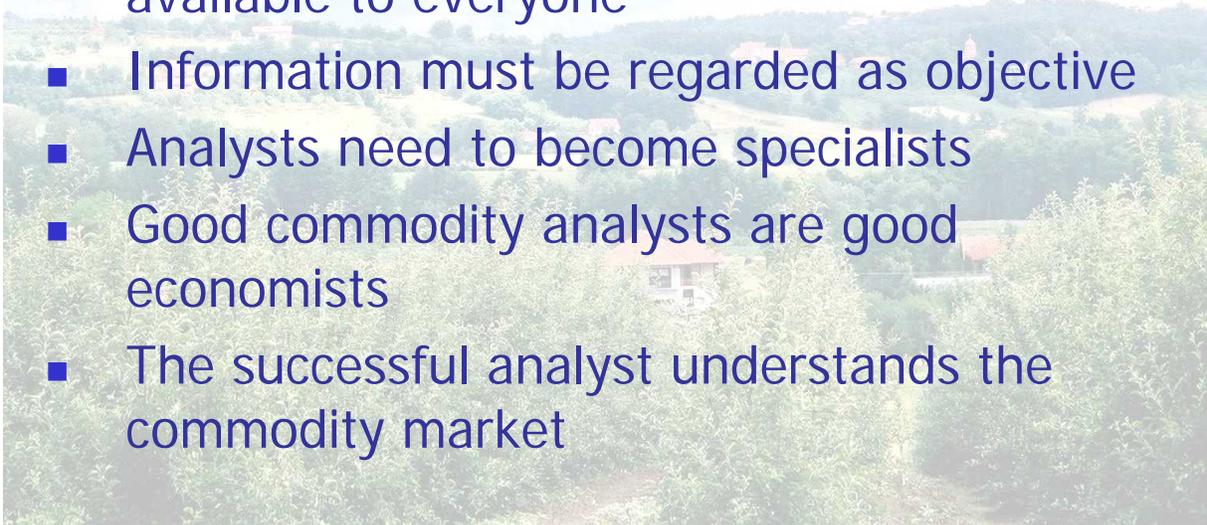
## Private sector

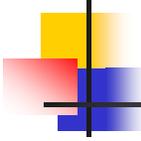
- Farmers-to make planting and marketing decisions;
- Food processors--to time purchases of raw materials and devise marketing strategies
- Exporters--to time purchases and devise marketing strategies
- Input suppliers--to forecast sales
- News media



## What makes a commodity market reporting program effective?

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- Information needs to be timely and available to everyone
  - Information must be regarded as objective
  - Analysts need to become specialists
  - Good commodity analysts are good economists
  - The successful analyst understands the commodity market

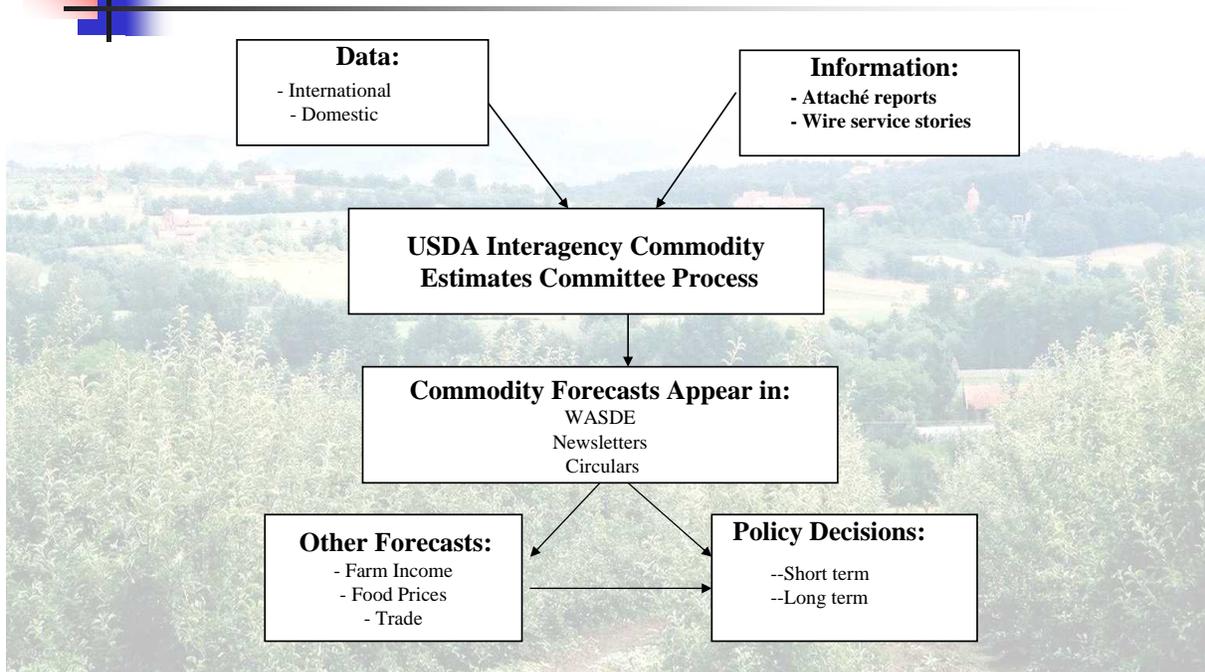


## Quality assurance

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- Quality assurance is an essential part of an effective outlook program.
  - Forecasts must be free from political bias
  - The Department speaks with one voice
  - Interagency committees are involved in all estimates and review of all market outlook publications released by USDA.
  - World Agricultural Outlook Board approves all forecasts
  - Political appointees do not dictate forecasts or conclusions.

# How the short-term forecasting process works...



## The supply and use table: the basic tool for analysis

- The supply and use table has three main components:
  - *SUPPLY*
  - *USE*
  - *PRICE*
- Describes the marketing year outcome for a single commodity
- Summarizes market behavior of all buyers and sellers
- Organizes information about a crop
- Provides framework for analysis

# An example of supply and use table with a short-term forecast

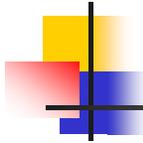
## U.S. Wheat Supply, Use, and Price

Item	2001/02 Est.	2002/03 Projections	
		August	September
Million bushels			
Beginning stocks	876	772	772
Production	1,958	1,686	1,686
Imports	108	105	85
Supply, total	2,941	2,563	2,543
Food	928	940	930
Seed	81	81	81
Feed and residual	199	175	175
Exports	961	900	950
Use, total	2,169	2,096	2,136
Ending stocks	772	467	407
Avg. farm price (\$/bu) 2/	2.78	3.20- 3.80	3.45- 4.05

Note: Totals may not add due to rounding. 1/ Marketing year beginning June 1.  
2/ Marketing-year weighted average price received by farmers. 3/ Includes imports.

## Why use a marketing year?

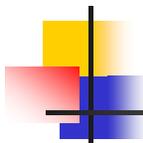
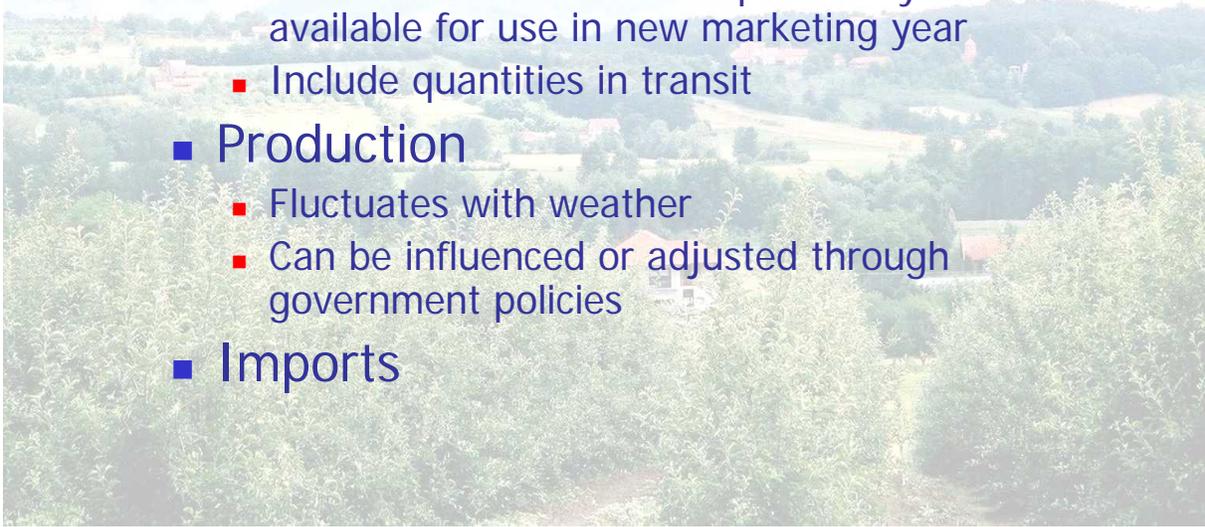
- It spans the crop harvest and marketing through the subsequent year
- It allows data users and analysts to track one crop from harvest to harvest
- Supply and use data are consistent
- Examples:
  - Wheat -- June to May
  - Corn -- September to August



# Basic elements of supply

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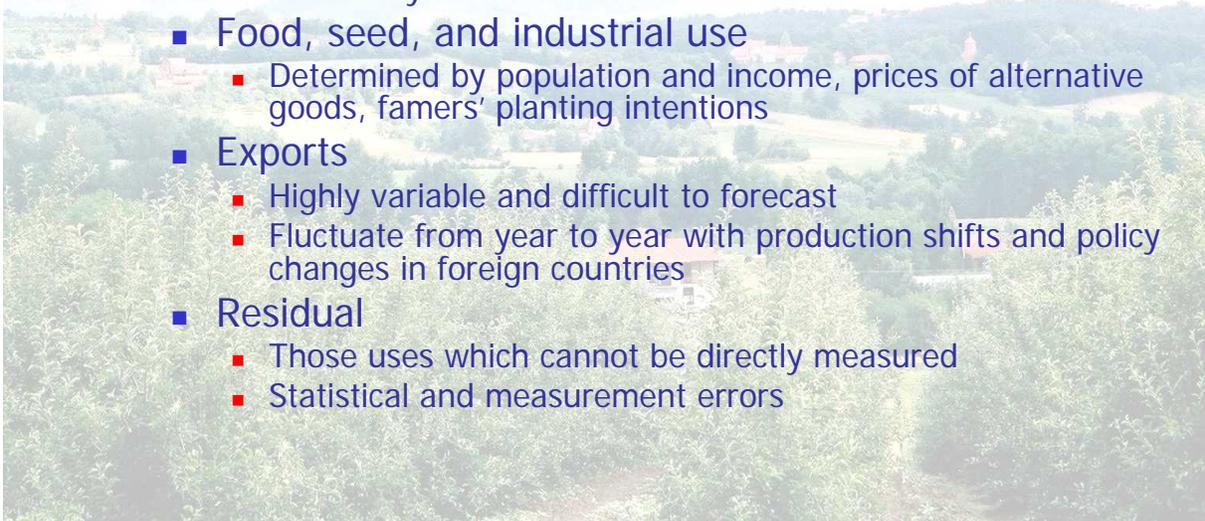
- Beginning stocks
  - What is left over from the previous year and available for use in new marketing year
  - Include quantities in transit
- Production
  - Fluctuates with weather
  - Can be influenced or adjusted through government policies
- Imports



# Use

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- Feed
  - Determined by size of livestock herds and prices and availability of alternative feeds
- Food, seed, and industrial use
  - Determined by population and income, prices of alternative goods, farmers' planting intentions
- Exports
  - Highly variable and difficult to forecast
  - Fluctuate from year to year with production shifts and policy changes in foreign countries
- Residual
  - Those uses which cannot be directly measured
  - Statistical and measurement errors



# Supply minus Use= Ending stocks

- These become the beginning stocks for the next year.
- Ending stocks help smooth out fluctuations in year to year supplies. Because stocks can be adjusted to make up for wide swings in production, they help keep total supplies stable.
- Either buyers or sellers will have incentive to hold stocks if they believe prices will rise in the coming year.
- How much a seller or buyer withholds from the market depends on the current and expected market situation and storage costs.

# USDA Also Develops 10-Year Agricultural Baseline Projections

- Prepared using similar interagency process.
- Based on:
  - Specific policy assumptions which may or may not turn out to be accurate.
  - Composite of models and judgmental analysis.
- Published in USDA annual report distributed at the February Agricultural Outlook Forum.

## Some words about forecasting

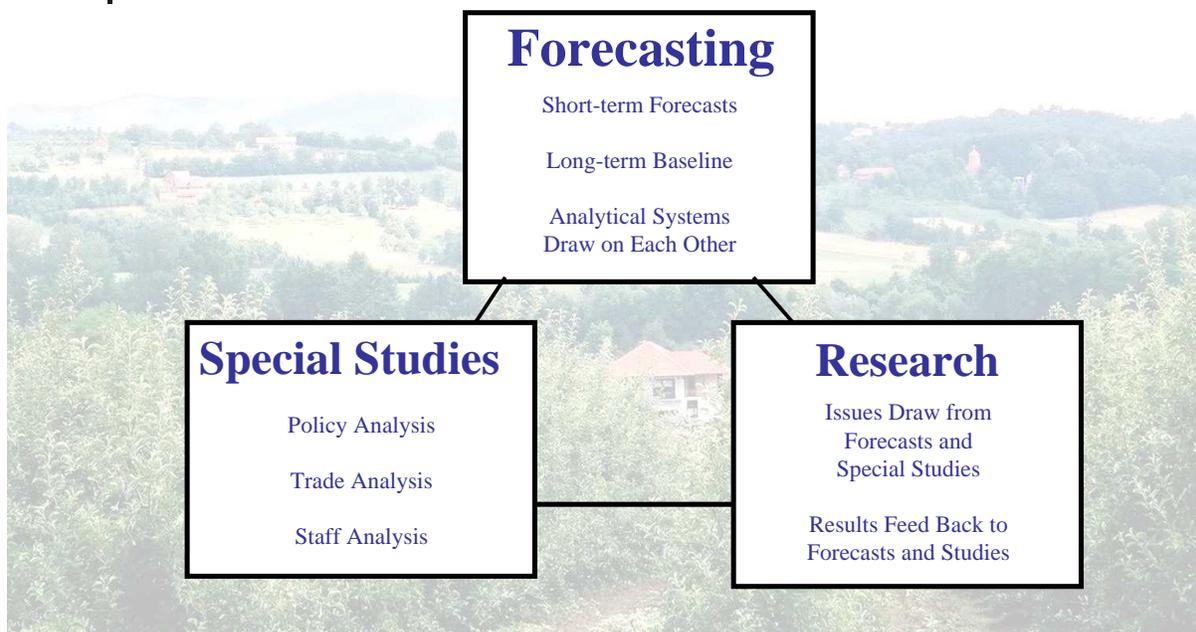
- Forecasting is an essential part of our analysis
  - But forecasts have limits
- The basic tool is a model
  - A way of organizing and elaborating the relationships
  - Based on assumptions
- Forecasts can be wrong
  - Mistaken assumptions
  - Wrong information
  - Poor model specification



## “Expert judgement” plays a critical role

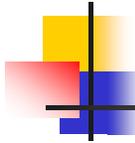
- Outlook analysts understand the markets
  - They understand the structure of the industry and how it is changing
  - They keep abreast of domestic and international market developments
- Analysts have contacts in the industry
  - Email and the telephone are essential tools

# USDA Forecasting and Research Programs Are Strongly Intertwined



## Useful websites

- NASS: <http://www.usda.gov/nass/>
- AMS Market News Reports
  - <http://www.ams.usda.gov/marketnews.htm>
- FAS: foreign attache reports
  - <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>
- FAS: World Market and Trade Reports
  - <http://www.fas.usda.gov/currwmt.html>
- FAS: Foreign supply and utilization database
  - <http://www.fas.usda.gov/psd/>



# Useful websites

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- ERS Website
- [www.ers.usda.gov](http://www.ers.usda.gov)
- Outlook pages
- [www.ers.usda.gov/publications/outlook](http://www.ers.usda.gov/publications/outlook)

