

# NCCC-134

APPLIED COMMODITY PRICE ANALYSIS, FORECASTING AND MARKET RISK MANAGEMENT

## **A Delivery System for Price Outlook**

by

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Suggested citation format:

Good, D., T. Hieronymus, and H. Everett. 1981. "A Delivery System for Price Outlook." Proceedings of the NCR-134 Conference on Applied Commodity Price Analysis, Forecasting, and Market Risk Management. Ames, IA. [<http://www.farmdoc.uiuc.edu/nccc134>].

# A DELIVERY SYSTEM FOR PRICE OUTLOOK

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The management of grain and livestock sales by producers is a full-time, continuous process. The most important decision the producer has to make is the timing of his sales. The decisions relative to the timing and method of pricing are a function of a number of factors, including price expectations, cash flow needs, equity position, and storage availability. Perhaps the most important factor is price expectation. Farmers, by necessity, must be price forecasters. They need to know the factors which influence price and the methodology of price forecasting. In addition, they need to be able to gather and analyze new information as it becomes available. The Price Forecasting and Sales Management Task Force in the Department of Agricultural Economics at the University of Illinois has been organized to help producers accomplish these objectives.

Specific objectives of the Task Force are:

- (1) To develop and present an in-depth educational program in the methodology of agricultural price forecasting;

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- (2) To provide clientele with a continuous flow of educational material on improvements in price forecasting methodology;
- (3) To provide clientele with timely and continuous analysis of new market information;
- (4) To provide clientele with current agricultural price projections; and
- (5) To help clientele incorporate price projections into sales management decisions.

The emphasis of the program is on commodities produced in the Midwest--corn, soybeans, cattle, and hogs.

The price forecasting methodology and the system for delivery to Extension clientele has been developed over the past five years. The focus of this paper is on the delivery system rather than the methodology of forecasting prices.

The delivery system includes eight distinct segments. These segments have developed over time and are designed to make an integrated whole. The segments include (1) a short course in price forecasting and sales management, (2) a series of Outlook Update publications, (3) a Weekly Outlook letter, (4) weekly radio and televisions tapes, (5) county meetings, (6) a series of meetings and an annual publication for the state's grain dealers, (7) periodic programs via a wide-area telephone system, and (8) mass media.

Short course in price forecasting and sales management

The central feature of the delivery system is a course for producers and agribusiness people on the methodology of forecasting prices and the development of sales management strategies. The course was first conceived and presented during the winter of 1976-1977. The subject matter and format have evolved to the current structure. The course is taught at the county or multi-county level. Each course consists of four one-half day sessions presented a week apart. The course has been presented in 12 to 18 locations in each of the past four years. Attendance per meeting is restricted to a maximum of forty.

A textbook has been developed as a teaching aid in the short course. It is comprehensive enough to serve as a useful reference outside of the framework of the short course. The book is divided into sections which coincide with the topics presented in the short course. The topics covered include:

- a) money, inflation, and consumer demand
- b) forecasting hog prices
- c) forecasting cattle prices
- d) forecasting corn prices
- e) forecasting soybean prices
- f) pricing alternatives for grain and livestock
- g) developing sales management programs

Over the past five years, clientele from 65 of the 102 counties in

Illinois have participated in the short course. Attendance has totaled nearly 2,100. Participants have included farmers, land owners, grain merchants, elevator managers, lenders, farm managers, and commodity brokers.

#### Outlook Update newsletter

It was recognized early in the development of the Price Forecasting and Sales Management short course, that a procedure for maintaining participants' understanding and skills at satisfactory levels during the year was needed. The Outlook Update newsletter was developed as such a tool. The publication was designed to keep short course participants abreast of new price forecasting methods and to provide the latest market information, price analysis and price outlook. The format follows that presented in the short course. The newsletter is issued 16 times per year. Four issues are devoted to each of four commodities: cattle, hogs, corn, and soybeans. The dates of the newsletters are keyed to the release of significant USDA commodity reports--Hogs and Pigs, Cattle Inventory, Cattle on Feed, Grain Stocks, Prospective Plantings, and Crop Production. Beginning in January 1980, the newsletter was offered on a subscription basis. Subscriptions total nearly 2,000.

#### Weekly Outlook letter

A weekly newsletter has been published by the Department of Agricultural Economics since 1947. That newsletter, now called Weekly Outlook, has been integrated into the educational efforts of the Task



Force. The publication is issued 50 times per year and each newsletter covers a specific topic. Subject matter is tied to the release of statistical information from the USDA and others. The primary purpose of the newsletter is to provide subscribers with current information and analysis to supplement the information provided in Outlook Update. It is designed to fit into the context provided by the Outlook Update series. Subscription to the Weekly Outlook totals nearly 3,000. Copies are made available to farm editors of newspapers, magazines, and radio and television stations throughout the state.

#### Weekly radio and television tapes

The subject of each Weekly Outlook newsletter is incorporated into an audio tape and made available to radio stations throughout Illinois by the Agricultural Communications Department. These tapes are picked up by approximately 100 radio stations each week. In addition, the subject matter is presented weekly on a local television program, Today on the Farm.

#### County outlook meetings

The Department of Agricultural Economics has a long tradition of preparing an Annual Outlook publication and presenting outlook programs at about 60 county locations in the state. Most of these meetings continue to be offered in the fall, prior to corn and soybean harvest. These meetings offer excellent opportunities to discuss marketing strategies as well as specific price outlook.

Out of the annual County Outlook meetings are growing a number of "marketing clubs." With the help of the Task Force, county advisers in about 10 counties have now developed a program consisting of four to six outlook meetings per year. The Task Force provides a specialist for one of these meetings per year. For the remainder of the meetings, advisers draw on local resources, including grain merchants, livestock commission firms, lenders, commodity brokers, and market analysts. This combination of university and industry resources is working well and will likely expand rapidly in the future.

#### Grain dealers meetings

In an attempt to serve a broader area of clientele, the Task Force, in cooperation with the Grain and Feed Association of Illinois, presents a series of 11 special outlook meetings for grain elevator managers. These meetings are held regionally, near the beginning of harvest. A publication Prices and Outlook is prepared for distribution at these meetings. In addition to flat price considerations, this publication and the meetings also address the issue of basis and spread relationships.

Our surveys suggest that farmers depend heavily on elevator managers for price outlook and sales management advice. This program with grain dealers is an indirect outlet to a large number of farmer clientele.

### Telenet programs

Telenet is a telephone network available in about 90 percent of the counties in the state. Two-way communication is possible to all of these counties simultaneously. This system has been used to present two basic types of programs:

1) Current information and analysis update for county extension advisers. This system has been used to provide all interested advisers with same-day analysis of major USDA commodity reports.

2) General outlook programs for local audiences assembled by extension advisers. Such programs involve the distribution of printed material to the participants. When such programs involve the updating of balance sheets, etc., the adviser is provided visual aids to guide the participants.

In the future, the Telenet system will likely be used more extensively. Advisers are now interested in assembling local audiences a number of times each year for an outlook update and discussion of sales management alternatives.

### Mass media

Each October, the Task Force prepares an 8-page Agricultural Outlook section for Prairie Farmer magazine. In the spring, follow-up articles are published in various issues of the magazine. The circulation of Prairie Farmer exceeds 100,000.

Extensive contract is also maintained with other farm publications, newspapers, and radio and television stations. Numerous interviews are



provided to the media on a request basis. These serve as a quick outlet for interpreting current market news and revising previous analysis.

For the immediate future, plans are to continue to support the current delivery system as described. The degree of success of the programs depends on two major factors: (1) the extent of clientele following, and (2) the quality of the analysis.

A campaign has been started with county extension advisers to develop comprehensive marketing and outlook programs at the county level. Such programs would involve the use of all the resources described here as well as local resources. The formation of marketing clubs are specifically being encouraged. Counties developing such programs will receive first priority in Task Force support of their programs.

The basis proposition of the Task Force has been that those who deliver price outlook information should be involved in the development of those price forecasts. The methodology for making price forecasts has generally not been well developed. Many of us in Extension have mistakenly held the belief that somebody somewhere knew how to forecast prices. It is clear that this is not so. Current plans of the Task Force involve more emphasis on research in the area of methodology of price forecasting. Basically, we believe that professionals involved in the delivery of price outlook information should have a 50 percent research appointment.