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Organic Price Premiums for Grains and Beans Remain High; Grain Outlook, Spring 1999

Thomas L. Dobbs
South Dakota State University, thomas.dobbs@sdstate.edu

Jamie L. Pourier
South Dakota State University

Alan May
South Dakota State University

SDSU

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ORGANIC PRICE PREMIUMS FOR GRAINS AND BEANS REMAIN HIGH

by

Thomas L. Dobbs, Professor
with assistance from
Jamie L. Pourier, Student Asst.

Dobbs first reported organic price premiums for major grain and bean crops of the Northern Plains two years ago, in Economics Commentator No. 374. Ratios of certified organic crop prices to South Dakota prices of the same crops grown conventionally in 1995 and 1996 were: (a) 1.45:1 for corn; (b) over 2:1 in 1995 and slightly under 2:1 in 1996 for soybeans; (c) approx-imately 1.5:1 for spring wheat; and (d) 1.35:1 in 1995 and nearly 1.6:1 in 1996 for oats. Since then, we have compiled two more years of data. The data reported in this article indicate that organic price premiums for these crops were even higher in 1997 and 1998.

Data sources

Our data on organic prices come from the **Organic Food Business News** *Commodity Fax Service*, through Hotline Printing and Publishing. Weekly lows and highs for a wide variety of organic crop products are reported. For each of the grain commodities, prices are reported simply for the U.S. as a whole, and not by State. We have these data for the third week of each month since 1995. For each commodity, the midpoints between the highs and lows in those third weeks were calculated and used for our monthly observations. In this Commentator issue, we compare farm-level organic prices to both South Dakota (S.D.) and U.S. cash prices for the products of conventionally grown crops. Monthly cash prices are those reported by the USDA's National Agricultural Statistics Service.

Price comparisons

Yearly average organic and conventional prices for corn, soybeans, spring wheat, and oats—and

(Continued on page 2)

GRAIN OUTLOOK, SPRING 1999

by

Alan May
Grain Marketing Specialist
Extension Economics

U. S. grain production for 1999 has the potential of record or near record production with large, or potentially increasing, carryover stocks in the major commodities grown by the nation's grain producers. The acreage figures in the Prospective Plantings Report, issued by the U.S. Department of Agriculture on March 31, 1999, show that farmers intend to plant fewer acres of corn, winter wheat, and spring wheat. However, acres planted to oilseed crops, such as soybeans and sunflower, are expected to increase. Even with fewer acres planted to corn and wheat, there are expectations that a large crop of corn, oilseeds and wheat could be produced. The large carryover stocks of corn, soybeans and wheat from the 1998-99 crop along with the possibility of a large 1999 crop will likely continue to pressure prices for the coming year.

The prospective plantings in the United States are as follows:

PLANTING INTENTIONS - United States
(in million acres)

	1999	1998	% change
Soybeans	73.1	72.4	+1.0
Sunflower	3.9	3.5	+10.2
Corn	78.2	80.2	-2.5
All wheat	63.0	65.9	-4.6
Winter wheat	43.4	46.4	-6.9
Spring wheat	15.3	15.6	-2.0
Durum wheat	4.3	3.8	+11.6

(Continued on page 3)

Table 1. Comparison of Organic and Conventional Prices

Crop Commodity and Year	Prices ($/bu)			Price Ratios**	
	Organic Farm*	Conv SD Cash	Conv US Cash	Organic Farm/ SD Cash	Organic Farm/ US Cash
Corn 1995	3.48	2.38	2.56	1.45	1.35
Corn 1996	5.06	3.49	3.55	1.45	1.43
Corn 1997	4.50	2.32	2.60	1.96	1.73
Corn 1998	4.18	1.90	2.21	2.19	1.88
Soybeans 1995	12.52	5.53	5.85	2.26	2.14
Soybeans 1996	13.41	6.89	7.23	1.95	1.85
Soybeans 1997	17.80	7.10	7.40	2.51	2.41
Soybeans 1998	17.89	5.94	5.92	3.23	3.02
Spring Wheat 1995	8.09	4.13	3.95	1.46	1.54
Spring Wheat 1996	7.87	4.92	4.82	1.56	1.58
Spring Wheat 1997	8.49	3.74	3.75	1.74	1.73
Spring Wheat 1998	5.69	3.28	3.18	1.73	1.78
Oats 1995	1.97	1.54	1.46	1.28	1.35
Oats 1996	3.17	1.95	2.00	1.63	1.58
Oats 1997	2.96	1.68	1.71	1.78	1.73
Oats 1998	2.43	1.25	1.33	1.94	1.83

* The organic soybeans refer to Clear Hilum cleaned

** Price ratios have 1 as the base of comparison. For example, 1.45 can be interpreted as 1.45:1.

comparisons in the form of ratios—are shown in Table 1. For cases in which organic price quotes were not available every month, the ratio calculations include only the comparable months for the prices of conventionally grown crops. The annual average prices also are compared in Figures 1 though 4.

Both conventional and organic corn prices have fallen since 1996, but the relative decline has been greater for conventional corn (Table 1 and Figure 1). The ratio of organic to S.D. cash prices rose from 1.45:1 in 1995 and 1996 to 1.96:1 in 1997 and 2.19:1 in 1998. The ratio of organic to conventional U.S. prices rose in a similar fashion since 1996.

Figure 1. CORN PRICES

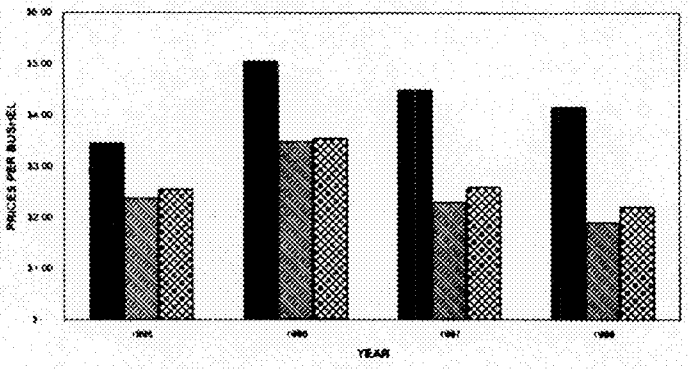
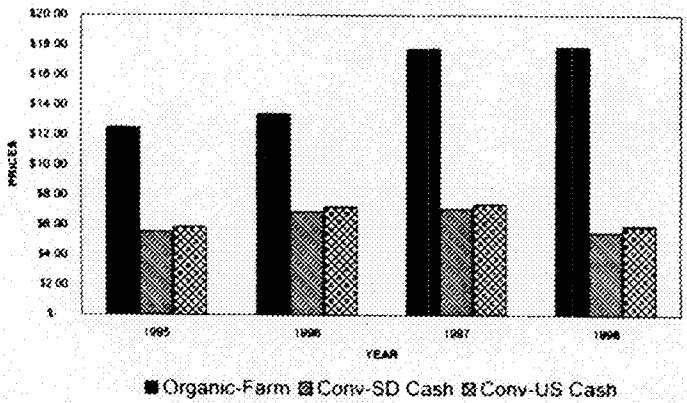


Figure 2. SOYBEAN PRICES



Organic price premiums for soybeans were higher tha for corn, wheat, and oats in 1995 and 1996, and they remainec higher in 1997 and 1998. In fact, the ratios of organic to conventional soybean prices rose from a little below 2:1 in 19 to around 2.5:1 in 1997 and over 3:1 in 1998 (Table 1 and Fig 2). Conventional soybean prices rose slightly in 1997 (for the year as a whole), before falling in 1998. However, organic soybean prices jumped substantially in 1997—to over $17/bushel, and they remained at that general level in 1998. T strong demand for organic soybeans in Japan has contributed greatly to continued high price premiums.

Ratios of organic to conventional prices for wheat anc oats have been fairly similar for the past three years (Table 1 a Figures 3 and 4). Both organic and conventional prices of the two crops fell the past two years. However, conventional crop prices fell proportionally more in most cases. Consequently, ratios of organic to conventional wheat and oats prices rose fr around 1.6:1 in 1996 to approximately 1.75:1 in 1997. The ratios stayed about the same for spring wheat in 1998, but they continued to rise for oats. The ratio of organic to conventiona S.D. oats prices was over 1.9:1 in 1998.

Figure 3. SPRING WHEAT PRICES

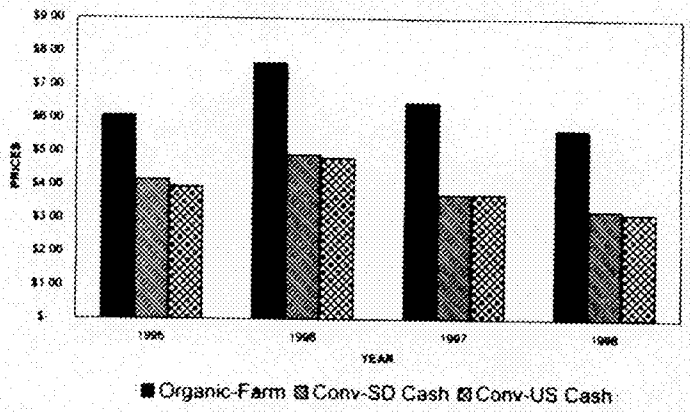
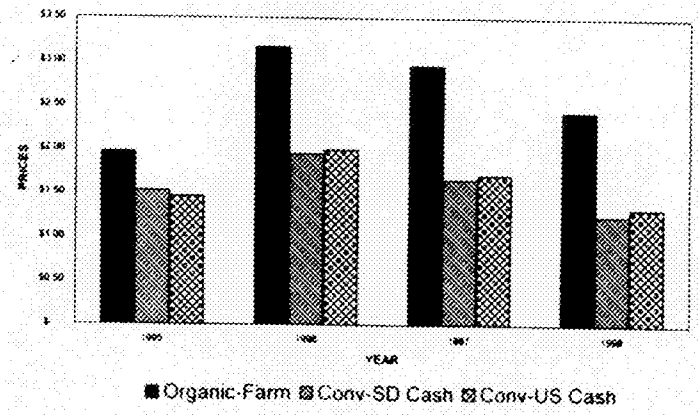


Figure 4. OATS PRICES



Qualifications

As pointed out in previous writings, there can actually be a great deal of variation in the organic prices received by different farmers within any given year. Although there also is variation in the prices received by conventional farmers, the variation is likely to be greater for organic farmers. Organic farmers are quite entrepreneurial in their marketing. They use a variety of broker, distributor, and contracting arrangements. Sometimes they are able to market nearly all of their production from a particular crop at a relatively high premium, and at times part or all of their production from the same or another organically grown crop may garner little or no premium. Thus, while some of these premiums appear very attractive, they do not come automatically or without aggressive marketing efforts. Moreover, cleaning losses and transportation costs can be higher for organic crops.

Also, as noted in previous articles, farmers generally must change their crop rotations to effectively produce organically and be certified. A simple two-crop corn/soybean rotation, for example, will not work for organic production. While organic agriculture can offer both profit and ecological advantages for some farms, operators of those farms must commit to very different kinds of production systems and practices than those employed in the "conventional" agriculture that has evolved over the last 50 years.

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(Grain Outlook --- Cont'd from page 1)

PLANTING INTENTIONS - South Dakota
(in million acres)

	1999	1998	% change
Soybeans	3.9	3.45	+13
Sunflower	1.16	.94	+23
Corn	3.9	3.9	NC
Winter wheat	1.3	1.13	-13
Spring wheat	1.9	1.95	-3
Durum wheat	80,000 ac.	25,000 ac.	+3x

According to USDA, the 78.2 million acres of corn farmers intend to plant would be the lowest planted acreage since 1995. While this does indicate that producers are adjusting acreages downward due to price pressures from production and supply, ending stocks for corn may actually increase by the end of the 1999-2000 marketing year. The key issue in alleviating the pressure of higher ending stocks will be the production side of the equation. Demand for corn will likely be in the 9.1 to 9.3 billion bushel range. The largest usage category for corn is feed use. Feed use for the 1998-99 crop year is anticipated at 5.7 billion bushels but many in the trade feel that figure is likely to be adjusted downward by approximately 100 million bushels in the April Crop Production report. Domestic use has grown slowly but steadily the last three years and is expected to stay in the 1.8 to 1.9 billion bushel range for the 1999-2000 marketing year. Exports still remain a volatile category but demand the last few months has been on pace with USDA's projections for the current marketing year. Projections are expected to show a modest increase in exports for the next marketing year.

The total number of bushels produced this crop year is the primary factor in the supply and demand picture for corn. A 1999 crop in the range of 9.5 to 9.8 billion bushels will likely create additional carryout from the 1.7 billion bushels leftover from the 1998 crop. Any significant reduction in ending stocks at the end of the next marketing year will likely be most impacted from a reduction in bushels produced nationwide. The estimated 1999 acreage for South Dakota is 3.9 million acres. This acreage figure remains unchanged from last year.

Soybean acreage in the U.S. is estimated to be 73.1 million acres. This is a 1% increase from last year. In South Dakota, soybean acreage is estimated at 3.9 million acres, up 13% from a year ago. This figure matches the acreage intended to be planted to corn. Sunflower acreage in the U.S. is estimated at 3.9%, an increase of 10.2% over a year ago. In South Dakota, 1.16 million acres would be planted to sunflower, a 23% increase from a year ago.

The 73.1 million acres of soybeans is approximately 1 million acres less than the trade expected from the report but still 1 % higher than a year ago. This would be the largest acreage planted to soybeans in U S. history. USDA reports that of the thirty soybean producing states, 10 states intend to plant more acres, and 14 intend to plant less. Six states are unchanged from a year ago. There are a number of factors in the anticipated increase in soybean acres. In the states reducing acreages, low prices and rotational concerns may be factors considered. In states where additional acres are expected to be planted, the market loan program may be the primary factor in the decision to raise soybean and sunflower. Market loan rates appear to be more attractive as a pricing alternative in oilseed crops compared to other crops if the use of that program becomes necessary. It is possible that acres planted to soybeans could increase over the number projected in the prospective plantings report. Should planting delays occur for earlier planted crops such as small grain or corn, there might be additional acres planted to

soybeans. As with corn, the production side will dictate the ending stocks reported at the end of the 1999-2000 crop year. The additional acres of soybeans could lead to another record setting crop of soybeans again this year. This potential record production could lead to U.S. carryouts of 550 to 600 million bushels, compared to the 470 million bushels of this marketing year. This, combined with increased acres of other oilseed crops in the U.S., along with a large South American crop being harvested this spring, will likely continue the downward price pressure on soybeans. Although demand has stayed relatively strong, particularly in the crush category, supply has exceeded expectations for demand. Again, any significant reduction in ending stocks at the end of the next marketing year will likely be most impacted from a reduction in bushels produced nationwide.

Wheat acres continue to decline in all categories except for durum. In the tables shown earlier in this article, farmers nationwide are reducing wheat acres again this year. With the exception of Nebraska and Texas, all the major winter wheat producing states have reduced acreages of winter wheat. North Dakota has reduced its acreage of spring wheat by 13% from a year ago. Its projected acreage of 5.8 million acres in 1999 is 3 million acres less than the 1997 crop year. Of the major spring wheat producing states, Minnesota and Montana expect to increase acreages of spring wheat in 1999. Wheat farmers across the U.S. have responded to lower prices by planting fewer acres each of the last two years. However, the production of 2.55 billion bushels of wheat last year and the possibility of another large crop in 1999 will continue to create large carryouts of wheat. It is likely that ending stocks from the 1999 crop will decline but the decline will be modest if a large crop materializes again this year.

In summary, corn, oilseeds, and wheat all are pressured by the existence of large carryouts, both in the U.S. and worldwide. Export demand remains a weak link in the total demand picture as foreign economies struggle to regain strength in their currencies. Total demand likely cannot improve enough to offset additional bushels if another large crop of corn, oilseeds, and wheat is produced.

ECONOMICS COMMENTATOR

ECONOMICS DEPARTMENT
South Dakota State University
Box 504A
Brookings, SD 57007-0895

Phone: (605) 688-4141
Fax: (605) 688-6386
E-mail: StoverP@mg.sdstate.edu

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Economics Department
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