Toward Understanding Our Economy Making Use of Price And "Outlook" Information

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Prices

The price that an article brings in an economy such as ours depends upon the interaction of the forces of supply and demand. Short supplies coupled with a heavy demand bring high prices; conversely, a low level of demand with heavy supplies brings about lower prices. Prices determine how much and what will be supplied and who will supply it, as well as who will be willing and able to buy it. At the same time, the amount available and the demand for it at selling time sets the price.

On the supply side of the picture, producers typically plan their production on the basis of the price they expect to get for their output, the expected costs of producing it, and the profits they may expect to make from it. Once produced, however, the supply has been determined for the immediate future and the price it will bring depends largely upon the demand for it at that time.

From the individual's viewpoint, under most conditions it is cheaper—per item—to produce more rather than less; more total profits are usually to be made by expanding production. This is because the fixed costs (those that do not change much in total with the amount of production) are spread over more items. So most producers are willing to produce more if it will not lower their selling prices too much.

Adjustments in the total amount of goods going to the market are made by either a change in the amount each produces, or by a change in the number of producers, or both.

Demand

Normally, buyers will take more of an item at a low price than they will at a high price. The higher price generally reduces individual purchases and may eliminate some of the buyers entirely. Consumers have limited incomes and must therefore choose between and among the items they want to spend their money for. Thus an increased price in one item may affect many or all of the items they buy.

Adjustments in total demand are made by changes in the number of buyers, or in the amount of purchases by each buyer. The total demand for farm food products changes only slowly, primarily as population grows. Thus the general level of all farm prices is heavily influenced by the total amount of production. The ability of the consumer to substitute one food for another, however, makes the prices of the individual products fluctuate more than the general level of farm prices.

Market Information and "Outlook"

All managers must look ahead if they are to be successful. Most of them must produce, or buy for resale, before they know for sure what the prices and costs will be. Large companies are able to hire experts to collect and analyze market information for the use of the people who make the decisions. Small companies usually have to rely on the ability of the manager to do this for himself from published data.

The farm manager in looking ahead must make plans for his production in the coming months and years. He knows what he received for his crops and livestock in the past, but he has to base
his decisions to produce for next year on what he thinks the various prices are likely to be at market time. Once he has committed himself to the production of certain items, the decision cannot usually be reversed. If he is to be successful, the decisions he makes must be right most of the time.

Outlook is a projection or forecast of the price and other factors that are likely to occur at some time in the future. This information is intended to help the farmer make the correct decisions by gathering together and analyzing available pertinent information that will help him in his planning of production, marketing and other decisions. The expected price is one of the most important factors in making these decisions. But behind the price itself are the forces of supply and demand. Thus, the supply and demand must also be forecast from the information that is available.

Today, there is a large amount of information available, particularly in the agricultural area, that can be used by the trained analyst to forecast reasonably well what future prices, production and use are likely to be, at least for the near future. The farther away the projection, the less accurate it is likely to be because of changes in plans, changes in weather, war, and so on.

Most of the information available originally comes from the farmer himself through reports he makes to various agencies. These reports are tabulated into totals and published. The information from various sources is assembled by the analyst and interpreted in the light of the knowledge he has of many and varied subjects that affect either supply or demand. This is then disseminated by various means to the farm businessman. The latter in turn tries to fit the outlook information he receives into his own operations. His success may depend on how he uses the information to plan his production.

As with other businessmen that must make decisions based on incomplete information and EXPECTED results, to be successful today requires a careful study of all of the information available to be sure the expected actually happens most of the time. Outlook information, whether for industrial businesses or the farm business, is one of the tools the successful manager uses in making his business profitable.

Outlook articles in the Economics Newsletter are directed at analyzing relevant facts and presenting a discussion of the factors affecting the current and prospective marketings and prices. The manager can then use this and other information available to him in arriving at the decision he alone must make.