Toward Understanding Our Economy The Supply of Farm Food Products

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Recommended Citation
http://openprairie.sdstate.edu/econ_comm/112
This is the third in a series of Newsletters dealing with "outlook" and the factors and problems that must be considered in making an analysis of future price and production trends.

A Note on Exports and Imports
Recent export demands for grains have been in large enough volumes to significantly affect our domestic prices. Large exports add the extra demand necessary to bring higher farm prices with a given production. If expectations are for continued high total demand for a commodity, a failure of export demand to appear may have serious price-depressing effects. Similarly, large imports that directly compete with domestic foods may increase total supplies with a downward pressure on prices.

Total Farm Production
Output of the farm part of the economy seems to increase despite fluctuations in the general level of agricultural prices. Some of the reasons are not hard to find. High fixed costs tend to encourage continued production. Poor weather and yields in one area may be offset by good weather and yields in another. Fewer acres used in production can be offset by increased use of fertilizer. Increased mechanization takes up much of the slack left by fewer farm workers.

Other factors that influence total production are improved methods of operation, changes in trends, producers' responses to changing situations, and the extent of participation in new farm programs.

The production of individual commodities varies much more than does total output. The problem of a low level of farm prices resolves into a question of weather to quit farming or not. But the question of whether to raise wheat or barley is mainly a problem of their relative prices, costs, and yields. If there are no restrictions and the land is adaptable, we may expect many farmers to shift from the production of the one with lower returns to the other. Too, we may expect that the changing supply will in turn cause the prices of each to change. That is, if many farmers change to the crop with the relatively higher price, that supply will increase and the price will fall. The supply of the other crop will decline and its price should increase.

Thus, we expect, and do find, that the prices of individual commodities change much more in the short run than does the general level of prices. The farmer, however, can adjust to these commodity price changes much easier than he can to the changes in the general price level.

The Individual's Production
The ability of the individual farmer to adjust to commodity price changes varies with the type of product. Crop decisions are made annually, and sometimes during the season, so that production can be adjusted accordingly. Investment in a large dairy or beef herd "freezes" the farmers' adjustments over a longer period of time. He cannot change his production from cattle to hogs or cattle to crops nearly so fast as he can from crop to crop.

Similarly, price changes will probably not be so sudden nor so severe as they are where the supply changes more rapidly. In the longer run -- several years ahead -- prices may drop drasti-
cally because many farmers, each acting on his own, made similar decisions to increase production with the result that the supply at selling time will exceed the demand at the expected price.

The individual farmer's decisions are usually made on the basis of inadequate information, uncertainty, and hopeful expectations. But most of his decisions are based on price - or expectation of price - as well as more personal factors such as habit, or satisfaction gained from seeing a field of golden wheat or a lot of choice cattle. Predicting the outcome of these individual decisions can be extremely difficult.

We must look not only at the above, but carryover stocks, probable imports and exports, and government controls and programs along with a mass of other data. Each of these factors, too, is subject to error because of the difficulties of predicting human actions and reactions.

Supply Problems

Once the commodity has been produced, the supply (including stocks) for the immediate future is determined. There is little or no possibility of adjusting the supply. Relatively large changes in price would make little difference in how much would be available for sale. Those who must sell will sell for most any price; those who don't want to sell for some reason won't sell until the price gets very high. Thus, the supply is fixed for a time and the price for which it will sell is determined largely by the demand for it at that particular time.

Highly perishable commodities are the least responsive of all in the short run to price changes, since they must either be sold or destroyed when ready for market.

Since the total demand for all farm food products remains relatively constant, it is the fluctuations in supply that causes most of the changes in price. The same is true for individual food products. It is for this reason that most of the attempts at improving and stabilizing farm prices have aimed at trying to affect the supply coming on the market. Advance notice of minimum prices, however, tends to reduce the uncertainty in those commodities and shift production away from the commodities for which the future prices are less certain. This makes it more difficult to try to maintain the minimum prices.

The evidence indicates that when the expected price is high enough, additional efforts will be made to increase production through the use of more fertilizer, higher-yielding strains and other improved technology.

Thus our statement in the first letter of the series: adjustments in the total amount of goods going to the market is made by either a change in the amount each produces, or by a change in the number of suppliers, or both.

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