Feed Grain Programs
AND THE PACIFIC NORTHWEST
Livestock and Poultry Industries

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FEED GRAIN PROGRAMS AND THE PACIFIC NORTHWEST LIVESTOCK AND POULTRY INDUSTRIES

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Contents

This statement deals with government grain programs as they relate to the livestock and poultry feeding industries of the Pacific Northwest now, and in the period immediately ahead.

I. Highlights

1. The federal government has established support prices which reflect generally acceptable relationships among grains and grain-producing areas within the United States.

2. Feed grain production has increased in the Pacific Northwest in the past few years enough to meet all the feed grain requirements of an expanding livestock industry, and all but a small amount of corn and milo used by the poultry industry.

3. National stocks of grains are very large and one way to reduce them is by export.

4. Pacific Northwest ports are logical ones from which to export barley--in demand for food, as well as for feed, in many countries.

5. Exports of barley from the Pacific Northwest, facilitated in recent years by government programs, have prevented build-up of regional stocks (including those held by C.C.C.). As a result market prices have been above support prices in this region.

6. In the Midwest large volumes of government-held stocks of feed grains, together with a policy of selling some of the available stocks below support prices, have resulted in market prices of feed grains being below government support prices in this major livestock and poultry feeding region of the nation.

7. These government actions distort grain price relationships to the disadvantage of the Pacific Northwest livestock and poultry feeding industries.

8. Adjustments can be achieved for the 1962-63 marketing season under existing legislation.

NOTE: "Action Alternatives" are presented in Section IV, page 5.

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II. Situation

1. Wheat was the principal grain used for feed in the Pacific Northwest until priced out of the feed market during World War II. Barley has been the principal locally-grown grain used for feed since 1954, when barley was first harvested from diverted wheat acreage.

2. The spread between feed grain prices in the Midwest and Pacific Northwest has varied widely over the years. (Figures 1, 2 and 3) Recently the spread has been greater than in most earlier years.

3. Effects of price spreads now are not entirely comparable with effects of price spreads in the past because of changes in such factors as: (1) government action, (2) population trends, (3) value of money, (4) technology in agriculture, (5) transportation rates and facilities, and (6) livestock and poultry prices.

4. Livestock and poultry feeders of the Pacific Northwest are much concerned about their competitive position. Successful livestock feeding operations depend on many factors. Prominent among them are grain prices, both absolute and relative to prices paid by competing feeders, as well as prices received for livestock.

   For some time grain livestock price ratios have worked to the disadvantage of Pacific Northwest feeders compared with Midwest feeders. Livestock are selling for higher prices, in relation to feed grain prices, in the Midwest than they are in the Pacific Northwest.

   For example, in May, 1962, a choice, 1,000 pound steer at Kansas City would exchange for 15,488 pounds of milo at farm prices in Kansas. 1/ A comparable steer at Portland would exchange for 11,508 pounds of barley (or 11,090 pounds of corn) in Oregon. 2/ Similar situations existed for hogs and turkeys. (Table 1)

   Also, cattle, hogs, and turkeys would exchange for more grain at farm prices than at support prices in the Midwest, because farm prices there were below support prices. (Table 1) But the opposite was the case in the Pacific Northwest, where farm and market prices were above support prices.

5. Present problems of farmers feeding livestock and poultry in the Pacific Northwest involve consideration of: (1) effects of government grain programs on feed prices, and (2) actions which can and should be taken about these programs in the period immediately ahead.

1/ Kansas is chosen to represent the Midwest because of its location in relation to grain and livestock production and marketing areas, and because Kansas was used recently as the basing point for C.C.C. milo selling prices.

2/ Differences in feeding values were not considered in these comparisons. Barley has been regarded as having slightly less feed value than corn or milo, especially for some poultry, but recent tests at OSU indicate that barley is a very good feed grain.

III. Observations

1. Feed grain producers (like all sellers) are interested in high prices for their products--but should consider short-time and long-time consequences to insure stable and continuing markets for their feed grains.

2. Livestock and poultry feeders desire feed prices low enough in relation to prices received for their products to get into and to stay in the feeding business on a profitable basis. They do not want competing feeders to enjoy advantageously lower feed prices, especially if they result from government action.

3. Economic forces, if left to themselves, will determine location, size, kind, length of life and success of a feeding industry.

4. Over the years the United States Department of Agriculture, taking into consideration many factors affecting grain production and marketing, has established support prices which reflect generally acceptable relationships among grains and grain producing areas.

5. The livestock feeding industry has operated with relatively little government aid, such as purchase of animal products by government; whereas, grain producers (willingly or otherwise) have had government price support programs, export programs, and other assistance. These have tended to make feeders pay more for feed than they would have paid without such programs.

6. Over-all feed grain stocks in the United States are very large. One way to reduce them is to export. Government programs, notably PL-480, provide mechanisms for facilitating such exports.

7. Production of barley and corn in the Pacific Northwest has increased from about 700,000 tons in 1953 to about 1½ million tons in each of the years since 1953. Approximately 1 million tons of all grains are used annually for feed in the area. Thus, without including wheat, production of grains in the area is more than adequate to meet all the feed grain requirements of an expanding livestock feeding industry in the Pacific Northwest.

8. Location makes the Pacific Northwest a reasonable and economical area from which to export barley and wheat. Location also makes the region an economical area in which to produce livestock and poultry for the growing population of the meat-deficit West Coast.

9. Barley is preferred to corn or milo in many importing countries, especially where barley is used for food.

10. The inevitable results of the federally subsidized export program for barley and wheat are: (1) reduction in quantities available for feed in the Pacific Northwest, and (2) higher grain prices.

11. To make the feed grain program operate in the nation's major feed producing areas, farmers who participate should fare better than non-participants. Sales by the Commodity Credit Corporation of corn, milo and barley from its stocks in producing areas at prices below supports are being used to encourage farmers to participate in the programs.

12. In the Midwest, government stocks of feed grains are large enough to facilitate government sales to keep market price below support levels. (Table 2)

13. Barley in the Pacific Northwest sells above support levels because with government assistance, enough of the crop has been exported to reduce supplies drastically. The government does not have adequate stocks of barley, corn, or milo in the Region to keep market prices below supports. (Table 2)

14. When these types of government action operate, they seriously distort grain price relationships to the disadvantage of the Pacific Northwest livestock feeding industry. (Table 1)

    For example, the market price of milo at Kansas City in May, 1962 averaged $7.80 a ton below the support price, whereas, the market price of barley at Portland was $3.75 per ton above the support price there. (Table 2) Thus the total spread in market prices was the $7.80, plus the $3.75, plus $3.15 (the difference in support prices of barley at Portland and milo at Kansas City). This makes a total difference of $14.70 -- by far the greatest price spread in any May since 1954 when feed grains were first planted on diverted wheat acreage under federal grain programs. (Table 3)

15. This state of affairs threatens the existence of the feeding industry and makes it impossible for men to decide wisely about future use of their resources -- because of the vital significance and uncertainty of government action.

16. Resources to produce grain and forage, as well as location, make the Pacific Northwest a reasonable and economical area in which to produce meat.

17. Storage facilities in the Pacific Northwest are adequate. All barley, wheat, and oats growers can comply with government programs if they desire to benefit from support prices. In addition storage space is available for substantial amounts of grain produced in other parts of the nation.

18. Although the feeding industry of the Pacific Northwest is only a small segment of the national industry, no justification exists for administering government grain programs in a manner to penalize especially (although unintentionally) some groups of feeders, i.e., the livestock and poultry feeders of the Pacific Northwest. 1/

1/ "Analysis of Grain Export Programs," Miscellaneous Publication No. 905, United States Department of Agriculture, May, 1962.

IV. Action Alternatives

1. Assuming that (1) government support prices for grains in different areas of the nation are set on equitable and acceptable bases, and that (2) the government is trying to preserve as economically free and sound agricultural operations as possible--<u>THEN MARKET PRICES OF FEED GRAINS SHOULD HAVE ESSENTIALLY THE SAME RELATION TO SUPPORT PRICES IN ALL PARTS OF THE UNITED STATES</u>.

   For example such a goal would mean that if market prices of corn and milo are 10 percent below support prices in the Midwest, market prices of feed grain should be about 10 percent below barley support prices throughout the Pacific Northwest.

2. This goal can be approached in the 1962-63 marketing season under existing legislation. One or more of several courses of action could be employed to help alleviate regional disparity in grain prices. Many factors would have to be considered in making the choice, since no approach will satisfy everyone. Among action alternatives are the following:

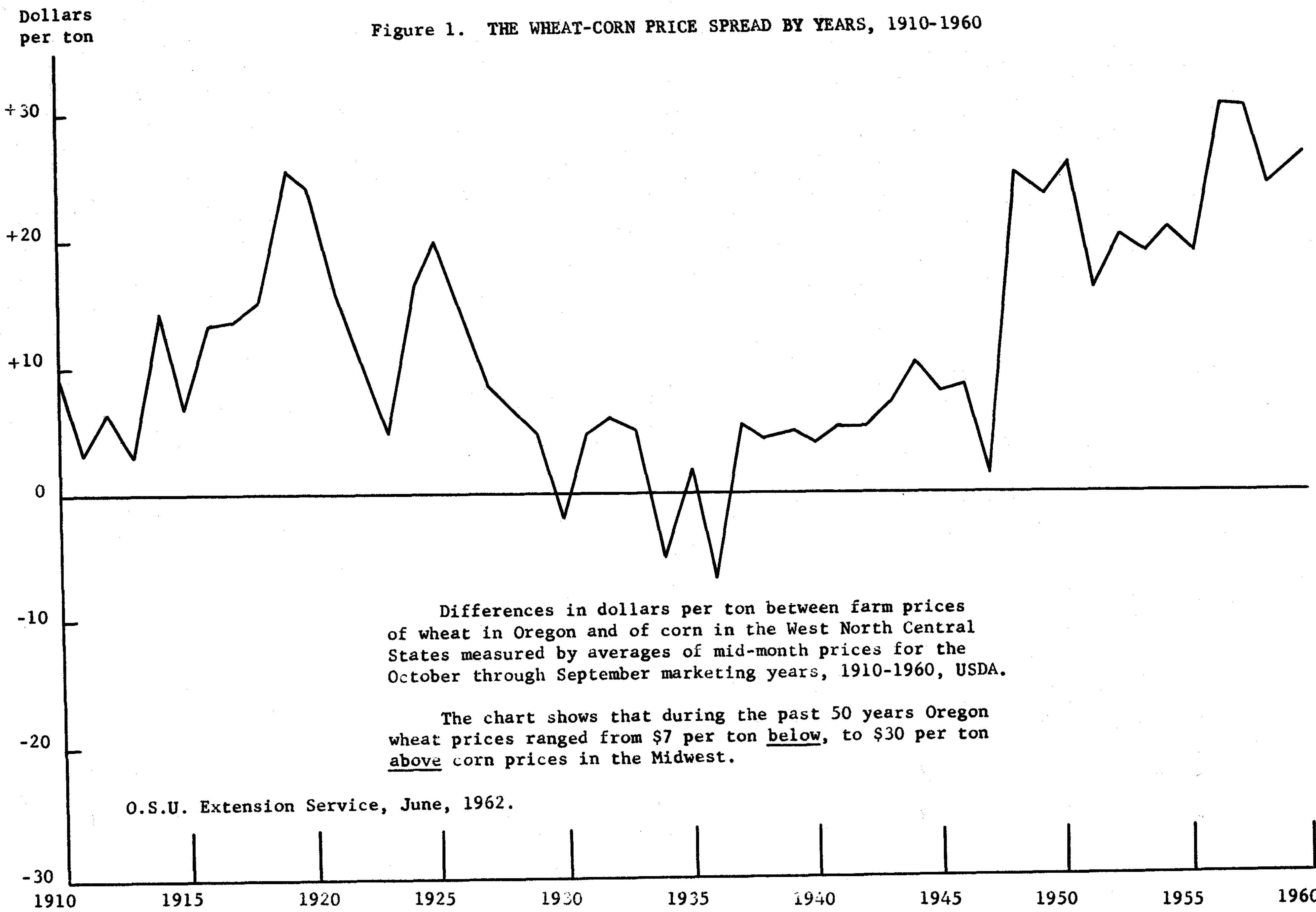
   (1) Avoid exporting barley in such large quantities as to raise prices above the support level in the Pacific Northwest.

   (2) Ship C.C.C.-owned milo, corn, or both to the Pacific Northwest and sell as substitutes for exported local grains at the same percentage below barley support levels that milo and corn are sold below their respective support levels in Midwest markets.

   (3) Eliminate feed grain "sell back" and rely on diversion payments as incentives for participation in the government feed grain program.

   (4) Increase government assistance in exporting corn and sorghums, or take other steps to raise feed grain prices in the Midwest.

Figure 1. THE WHEAT-CORN PRICE SPREAD BY YEARS, 1910-1960

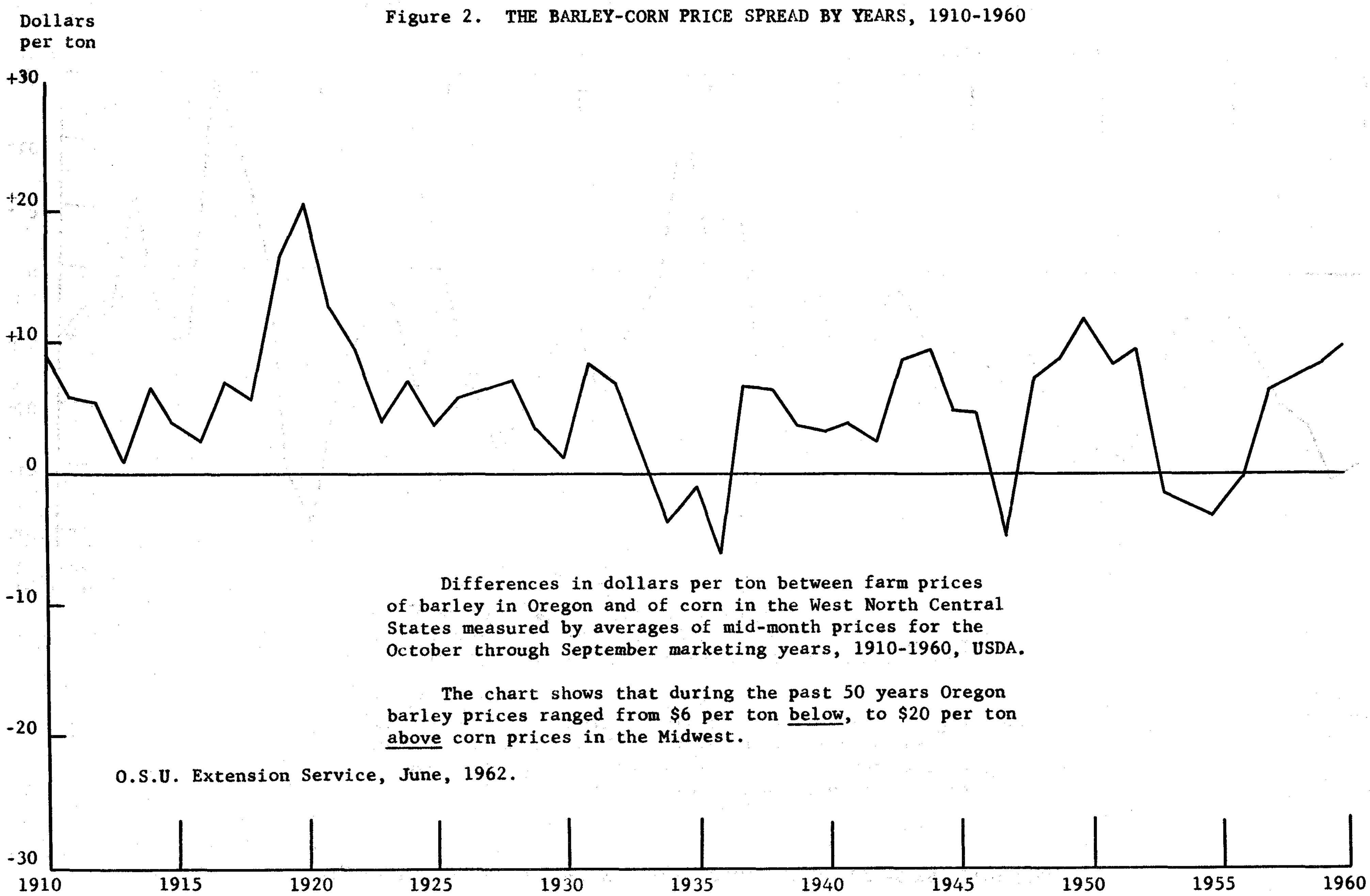


Differences in dollars per ton between farm prices of wheat in Oregon and of corn in the West North Central States measured by averages of mid-month prices for the October through September marketing years, 1910-1960, USDA.

The chart shows that during the past 50 years Oregon wheat prices ranged from $7 per ton <u>below</u>, to $30 per ton <u>above</u> corn prices in the Midwest.

O.S.U. Extension Service, June, 1962.

Figure 2. THE BARLEY-CORN PRICE SPREAD BY YEARS, 1910-1960



Differences in dollars per ton between farm prices of barley in Oregon and of corn in the West North Central States measured by averages of mid-month prices for the October through September marketing years, 1910-1960, USDA.

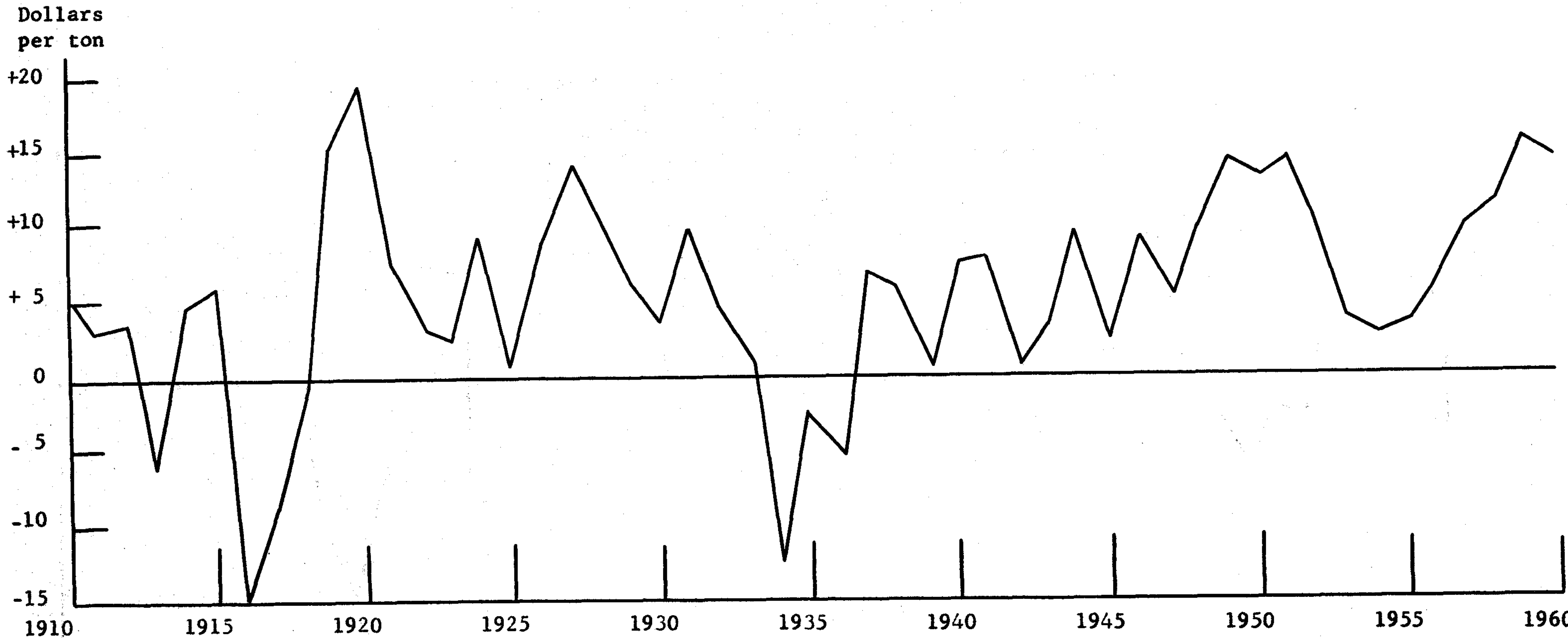
The chart shows that during the past 50 years Oregon barley prices ranged from $6 per ton below, to $20 per ton above corn prices in the Midwest.

O.S.U. Extension Service, June, 1962.

Figure 3. THE BARLEY-GRAIN SORGHUM PRICE SPREAD BY YEARS, 1910-1960

Differences in dollars per ton between farm prices of barley in Oregon and of grain sorghum in the West North Central States measured by averages of mid-month prices for the October through September marketing years, 1910-1960, USDA.

The chart shows that during the past 50 years Oregon barley prices ranged from $15 per ton <u>below</u>, to $19 per ton <u>above</u> grain-sorghum prices in the Midwest.



SOURCE: USDA data charted by O.S.U. Extension Service, June, 1962.

Table 1. Pounds of Grains Equal in Value to Specified Animals at Indicated Locations, May, 1962

Kind of Animal and Location 1/	Kind of Grain and Location	Pounds of Grain at Farm Prices 2/	Pounds of Grain at Support Prices 3/
1,000 pound choice steer			
at K.C.	Sorghum in Kansas	15,488	13,956
at K.C.	Corn in Nebraska	14,366	12,372
at Portland	Barley in Oregon	11,508	12,736
at Portland	Corn in Oregon	11,090	11,682
at Portland	Wheat in Oregon	8,410	9,010
200 pound slaughter hog			
at K.C.	Sorghum in Kansas	1,868	1,683
at K.C.	Corn in Nebraska	1,733	1,492
at Portland	Barley in Oregon	1,517	1,679
at Portland	Corn in Oregon	1,462	1,540
at Portland	Wheat in Oregon	1,109	1,188
20 pound turkey			
at Kansas ranch	Sorghum in Kansas	195	176
at Minnesota ranch	Corn in Minnesota	231	194
at Oregon ranch	Barley in Oregon	168	186
at Oregon ranch	Corn in Oregon	162	171
at Oregon ranch	Wheat in Oregon	123	132

1/ May, 1962 prices in dollars per hundred pounds: Steers at Portland $27.33; at Kansas City $25.40; hogs at Portland $18.02; at Kansas City $15.32; turkeys in cents per pound (live) in Oregon 20.0; in Kansas 16.0; in Minnesota 19.0.

2/ Based on average farm prices at mid-May in dollars per ton: Oregon wheat $65.00; Oregon barley $47.50; Oregon corn $49.29; Kansas sorghum $32.80; Nebraska corn $35.36; Minnesota corn $32.86.

3/ Based on 1961 - crop support rates in dollars per ton in principal producing counties as follows: Wheat in Umatilla County, Oregon $60.67; barley in Umatilla County, Oregon $42.92; corn in all Oregon counties $46.79; sorghum in Reno County, Kansas $36.40; corn in York County, Nebraska $41.06; and corn in Fairibault County, Minnesota $39.27.

Source: Compiled from USDA Reports by Oregon State University Agricultural Economists.

able 2. Barley and Milo Market Prices and Support Prices, 1950-61 Crops.

rop	Feed Barley (No. 2 Western) at Portland			Grain Sorghum (No.2 Yellow Milo) at Kans. City		
	Cash Price 1/	Support Price 2/	Difference	Cash Price 1/	Support Price 2/	Difference
			-- Dollars per Ton --			
950	59.60	58.00	+ 1.60	51.00	47.00	+ 4.00
951	71.60	57.00	+ 14.60	58.60	52.80	+ 5.80
952	63.80	61.20	+ 2.60	54.00	56.80	- 2.80
953	55.00	63.40	- 8.40	55.40	58.00	- 2.60
954	55.35	59.58	- 4.23	53.60	55.00	- 1.40
955	49.15	50.00	+ .85	48.00	44.40	+ 3.60
956	44.65	52.92	- 8.27	45.00	48.40	- 3.40
957	47.30	50.42	- 3.12	41.20	45.60	- 4.40
958	48.50	50.00	- 1.50	43.20	46.20	- 3.00
959	42.75	42.92	- .17	34.80	38.00	- 3.20
960	44.58	42.92	+ 1.66	37.00	37.40	- .40
961	52.50	48.75	+ 3.75	37.80	45.60	- 7.80

/ Average for the May following the year crop was harvested.

/ Full terminal loan rate at maturity dates: April 1, sorghum; and May 1, barley.

ource: Compiled and computed by Oregon State University economists from USDA data.

able 3. Market Prices of Feed Barley at Portland and of Grain Sorghum at Kansas City, Averages for Months of May, 1950-1962.

May	Barley at Portland (No. 2 Western Feed)	Grain Sorghum at Kansas City (No. 2 Yellow Milo)	Difference (Barley-Sorghum)
		-- Dollars per Ton --	
1950	$55.40	$46.20	$9.20
1951	59.60	51.00	8.60
1952	71.60	58.60	13.00
1953	63.80	54.00	9.80
1954	55.00	55.40	- .40
1955	55.35	53.60	1.75
1956	49.15	48.00	1.15
1957	44.65	45.00	- .35
1958	47.30	41.20	6.10
1959	48.50	43.20	5.30
1960	42.75	34.80	7.95
1961	44.58	37.00	7.58
1962	52.50	37.80	14.70