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## NEWSLETTER

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### Staying Profitable

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## Looking Ahead: Planting Guidelines & Inventory Management for 2009-10

At the recent United Potato Partners meeting in March, United Potato Growers of Idaho announced its planting guidelines and inventory management for 2009-10. With an eye towards keeping supply balanced with demand, United cooperatives across the country adopted a planting guideline of a minimum 20% reduction off a grower's 2004 base acres. However, given the current economic and consumer market downturns, there is now a broad recognition that a 20% reduction will be insufficient next year and that a statewide inventory management action next year may be a necessity.

### Inventory Management

If acreage management isn't enough, United will be prepared with the option of implementing an Inventory Management Program. However, in order to implement such a program, the following guidelines must be met:

- 75% member and base acre agreement to initiate the action
- 75% member and base acre ratification to implement
- A set percentage non-member participation for members to ratify

This year, as an additional incentive to encourage growers to control acres before they are planted, United has pre-set the parameters for an Inventory Management Plan. As early as September if needed, United will set the cwt to be placed in that plan. Individual contributions will be as follows:

- Growers who reduce their 2004 base acres by 20%—25% will be “all in” at 100% of their total fresh production (e.g., if the commitment is 10% of fresh production, growers must commit the full 10%).
- Growers who reduce their 2004 base acres by 25.01%—30% will commit 70% of their total fresh production.
- Growers who reduce their 2004 base acres by 30.01%—35% will commit 50% of their total fresh production.
- Growers who reduce their 2004 base acres by more than 35.01% will be given a “bye” for the season (e.g., no contribution is required).

If you have questions related to the dehy acreage policy, the planting guidelines, or the inventory management plan, contact your United fieldman immediately.

# Potato Growers Can Keep Profitable Prices by Thinking

**Dr. Joe Guenther**

The pattern broke four years ago.

The old pattern was that fresh potato growers made healthy profits every sixth year (1989, 1995, 2001). In most other years, according to my research, growers either lost money or broke even.

After the 2001 crop was marketed, prices fell for four consecutive years. Losses mounted, forcing some out of the industry and pushing others to the brink of survival.

Then prices jumped up and stayed there. For the 25-month period from July '03 through July '05 the average monthly price for Idaho growers was above \$4 five times. During the next 43 months, there were only five months when the price was BELOW \$6 (Figure 1).

Never before, in more than a century of United States Department of Agriculture records, have potato prices remained high for four consecutive crops. With the old pattern it would have taken 24 years to get that many profitable fresh potato crops.

Prices have been on a higher plateau because growers



**Figure 1. Idaho grower-level fresh potato prices (\$/cwt)**

avoided an old problem—excess supplies. Grower decisions will determine if the problem will re-appear in 2009.

## Growers Control Plantings

The U.S. fresh potato industry faces some challenges. One is how to manage success. After four years of keeping supply at profitable levels, it may be hard to do it again.

There is a powerful urge to plant more potatoes in 2009. Wise growers may show restraint but other people could jump in. Record high prices ignited enthusiasm for planting potatoes.

Several other factors will have some impact. High production cost and price risk could restrain potato plantings. Alternative crop prices are giving mixed signals. Lower grain prices tend to increase potato plantings, but high hay prices have the opposite impact.

Several economists have developed econometric models to forecast potato plantings. I built one years ago for my doctoral research, but it is now outdated. Bruce Huffaker, who publishes *North American Potato Market News*, built a similar model. In January, he used his model to predict an 8.2% increase in U.S. 2009 potato plantings.

Expert opinion can also be a good forecasting tool. I collected some at potato industry presentations I made recently. When I asked growers for a show of hands about several planting scenarios, most raised their hands for an increase in the range of zero to 5%.

## Yields Increase Steadily

Plantings are only part of the potato supply puzzle. Yields make up another important part. In my yield trend research, I found a consistent pattern that has not been broken. Potato growers have continued to increase yields at a steady rate for the last half century. For the U.S. as a whole, yields have gone up at the rate of 4.4 hundredweight per year.

Oregon and Washington growers have been increasing yields at the rate of seven hundredweight per year. In Colorado, Idaho and Wisconsin the increase has been four to five hundredweight per year. Yields in 2008 were below the trend in

## of the Industry First

the U.S. and in most states. If 2009 yields go back to the trend, 2009 potato supplies be up 2% in Idaho, 10% in Oregon and 1% in the U.S. (Table 1).

	Actual '08	Trend '09	Change
CO	375	388	3%
ID	378	387	2%
OR	521	575	10%
WA	605	650	7%
WI	415	441	6%
US	409	412	1%

**Table 1. U.S. and selected state potato yields (cwt/acre)**

### Supply Controls Prices

Fresh potato demand is inelastic. Small changes in supply cause big changes in price. I found a 7-to-1 relationship. For each 1% change in supply, prices change 7% in the opposite direction. I used this relationship to predict price impacts in two scenarios.

- Scenario One: Plantings up 4% & yields up 1%: This combination of yield and plantings would boost supplies 5%. That would lead to a 35% decline in fresh potato prices.
- Scenario Two: Plantings up 8% & yields up 1%: An estimated 8 percent increase in plantings and a return to the U.S. yield trend would cause supplies to increase 9%. That translates to a 63% decrease in fresh potato prices.

Under either scenario money-losing prices would return to the industry. There is a way to prevent the red ink from flowing—reduce potato plantings.

An economic concept—the fallacy of composition—says that what is true for an individual is not true for a group. In the potato industry it means that growers who try to increase profits by planting more potatoes, make prices drop for all growers. This spring growers can keep prices profitable if they think about the industry rather than themselves.

*On occasion, Dr. Joseph Guenther serves as a consultant to industry organizations including United Potato Growers of America. This article was written independently and is based on academic research.*

## United Planning 2<sup>nd</sup> Annual Acreage Count

Beginning in May and lasting through June, United field teams will conduct the annual acreage count of all planted potato acres. Using the Farm Service Agency (FSA) field maps for Idaho, teams will canvas the state to physically count acres by ground and air. Last year, teams reviewed more than 122,000 fields and counted 4,216,000 acres.

To count acres, United will use a combination of GPS and mapping software to record the crops planted in each field. Fields will be recorded as either potatoes or 'other.' In order to properly verify a field's crop, a team member, at minimum, needs to be close enough to see the field using field glasses. United requires that teams visually verify a field before recording its crop. Each team will then transmit its data to the home office. For tracking purposes, each team's data is tagged to ensure that if errors arise, they could be linked back to a specific team to avoid contaminating the data pool as a whole.

Following the count, United will also conduct a random audit to verify the accuracy of its findings. Last year's audit results indicated an error rate of 0.74%. This number means that United only mislabeled 6 of the 41,161 fields audited. Of the total fields counted, United's counters achieved 99.2% accuracy. Given this low error rate, United is confident that this year's acreage count will again be a true reflection of Idaho's statewide acres.

United is also very careful with the data it collects. United will only provide and/or publish acreage data in aggregate by counties and by state. Within the system, individual fields are not identified by owner name, only by map location. Any maps published as part of a presentation or article, for example, will have all identifiable characteristics (e.g., road names, county names, etc.) removed to prevent inadvertent disclosure of specific field locations. United will take every necessary measure to ensure that this data is protected to maintain program standards and security.

United will release the results of this year's acreage count at its annual summer meeting in July.



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