

Agricultural Statistics for Private Sector and Global Marketing

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ABSTRACT: In the fourth century B.C., Aristotle said that educated people are as superior to the uneducated as are the living to the dead. Statistics is a science vitally important to agriculture, and the need for reliable statistical information worldwide will grow. Accurate, objective statistical information is needed for merchandising, investing, financing and risk management decisions. New ways of packaging and distributing information must be devised to serve the expanding range of specialized users of statistical information, but while computers and software will speed the process of analysis, fundamental analysis will never be replaced by technical analysis. As government intervention in agriculture worldwide continues to decrease, the need for reliable statistical information will grow. Partnerships between government and the private sector can provide the agricultural statistical services needed by the world.

Way back in the days of the fourth century B.C., it was said that there was an occasion when Aristotle was asked how much educated people were superior to those uneducated. “As much,” said Aristotle, “as the living are to the dead.” To Aristotle, knowledge was everything.

Over the years, many have made similar pronouncements about knowledge and education. Science is a body of knowledge, and statistics is a science. Statistics is one of those elements of knowledge that is vitally important to the business of agriculture. And as government intervention in agriculture worldwide continues to decrease, the need for the knowledge of statistical information by all those involved in the business of agriculture will grow and become ever more important. To paraphrase Aristotle, without this know-how, we are dead.

Fifteen years ago, as Under Secretary of Agriculture, when I was engaged in U.S.-USSR trade negotiations and long-term wheat agreements, the U.S. delegation met with our counterparts from the Soviet Union several times a year. At these meetings, we would ask questions about the condition and size of their crops, of stocks (whether on farms or at processing plants or at storage facilities), and the distribution of various qualities of a particular grain such as wheat. Invariably, our counterparts would respond by saying, “What do you hear from the Economic Research Service of the USDA?” And we would all smile and chuckle.

They never bothered to ask us similar questions about the U.S. because they already knew the answers. They had checked with the ERS and were subscribers to its various publications. At the time, some in our delegation would note how crafty the Russians were — they never told us anything. It fit with an old maxim of the grain trade that says, “When dealing with a trading partner, *always* show them the *clock* but *never* tell them the *time*.”

But as I reflect on those days, I have concluded that a certain amount of the Soviets’ reluctance to provide us with statistical information was perhaps that they had little confidence in the quality of their own information. Among other things, I suspect they did not want to debate the reliability of their figures with ours. It is a matter of record that many times during the years in the 70s and 80s, when the Soviet Union was a major importer, they would re-enter the market soon after they had “completed” a purchase program or not return to the market contrary to what they had previously announced they would do. Were those signals that empirical data the purchasing authorities were receiving frequently contradicted (or corrected) data on which they had been relying?

I hope it is clear that my reason for mentioning this anecdotal memory is *not* to be disparaging of the depth of the Soviets' statistical information base years ago. Rather, it is to point out the importance of statistical information in which one has a high degree of confidence when making buy/sell decisions.

I began my career in the grain business forty-four years ago. During those years I had major responsibilities for merchandising grains such as corn and wheat, covering all world markets. I was primarily an exporter from the U.S. and Canada, but I was also an exporter from Russia and North Africa in the 1950s, and South Africa and other countries in the 1950s and 1960s. I was responsible for the bid levels my company, Cargill, put out every day, and the offers we made every night to buyers all over the world. I had responsibility for managing our risk exposure in determining when and where and whether to hedge. I had to provide input as to where we should build grain elevators, what transportation we should own and at what costs, and I was always judged by what was left on the bottom line after all the accounting took place.

I could never have even begun to perform any of those tasks if I did not have the benefit of good, objective statistical information. Cargill always had its own economic analysis capability, but I would never have dreamed of trading or investing without having benefit of up-to-date information from the Economic Research Service of the USDA, from the International Wheat Council, and from other reliable sources of information.

During my time as a trader, the era of technical versus fundamental analysis began. With the burgeoning of personal computers around the world and the proliferation of gimmicky software, all kinds of program trading have begun. There are those that dream this quick and easy software methodology is the way to great wealth, but as the gambler says, "easy come, easy go." I noticed the other day in *The Wall Street Journal* that a major bank in Ohio, my home state, recently lost \$170 million trading in derivatives. Shocking! Over the recent past, there have been many similar stories. In most cases, their rewards (or lack of rewards) are exactly what they deserve. It is the price one pays for poor management control and for simplistically believing that mechanical programs will always be correct. I perhaps show my age when I contend that fundamental analysis will never be replaced by technical analysis. Of course, computers speed the process and greatly expand the scope of analyses, but mail order software programs will never replace the important nitty-gritty of digging out data.

To avoid any misunderstanding and to document the complementary role of technical and fundamental analysis, let me share with you the five rules of price forecasting that I clipped from a *New York Times* article many years ago and have never forgotten.

Rule No. 2 The law of supply and demand *always* prevails. Government or governments may affect its timing, but in the end the S & D ratio always determines value. (This is the fundamental rule.)

Rule No. 3 Momentum is real. Once it begins and is underway, it will continue (the technical rule) until ...

Rule No. 4 A countervailing force will *always* come along that ends momentum and sends prices back to the fundamental path.

Rule No. 5 Prices never rise as high as the most optimistic bull envisages nor sink as low as the most pessimistic bear imagines.

I have not mentioned Rule No. 1. This one says: Never rely on the accuracy of government forecasts. They are frequently biased. Of course, the words “forecast” and “statistics” are very different. The rule is *not* saying: don’t rely on the accuracy of government statistics.

I have talked of the need for good statistical information for merchandising decisions, for investing decisions, for financing decisions, and for risk management decisions. If you think about it, those are the core decisions in the agriculture industry. And, as I mentioned earlier, as government intervention in agriculture worldwide continues to decrease, the need for reliable statistical information by all those involved in the business of agriculture will grow.

You who provide this information are in a growth industry. You will have to devise new ways to package your products and distribute them to an expanding range of specialized users of your information, and you will have to fight the tendency of governments to lower their expenditures for agricultural statistical services. It is vexing to see this happening when these expenditures (or should I call them investments) should really be accelerating in the face of rising demand; but it is happening.

The answer to the funding dilemma may come from government/private sector cooperation. A good example is the plan in the U.S. for the National Center for Cereals and Oilseeds to be funded initially with government grants from the Fund for Rural America provided by the Farm Bill of 1996 (the so-called FAIR Act). But as the years pass, particularly after the first four, an ever-increasing percentage of the Center’s funding requirements will come from gifts and grants from the private sector, consulting fees, and investment income.

The principal business of the Center will not be agricultural statistics, but obviously statistical services will play a key role in the Center’s functions:

- Research that accelerates technology development, marketing, and logistics,
- Outreach including extension education, technology transfer and distance learning, and
- Technical assistance to new and existing cereal and oilseed processors.

These objectives certainly relate to those core decisions I have spoken of.

This concept of government/private sector partnership can be replicated in a number of situations to provide the agricultural statistical input the world so clearly will need and must have. There is plenty of incentive to find the ways to provide necessary funding. Unless we do, to paraphrase Aristotle one more time, “we are dead.”