By Daryll E. Ray

"Just in time inventory" and crop prices

Have you noticed that "just in time inventory" is all the rage among businesses of all sizes. If there is a strike at an automobile component manufacturing plant, the downstream assembly plants are shut down within days because they don't keep an inventory of that component. They are saving stocking costs by having components arrive just as they are needed.

The same is true with my local hardware store. When I was a kid and dad sent me to town to get three of something, if there were only two of them on the shelf I'd ask the clerk for help. Most of the time the clerk would go back into the storeroom and come out with a boxful, giving me the extra one I needed and placing the rest on the shelf. Not so today. If I need three and there are only two on the shelf, I have to wait until the next shipment arrives.

There is a lesson in all this if you want to understand today's crop markets. For most of the fifty years prior to 1996, there were stocks in the national storeroom. The CCC inventories varied from time to time, but there was usually a reserve supply there. Over time we began to blame the storeroom for low prices and in 1996 we shut down the CCC storeroom. Besides that, we reasoned, times have changed and if the government gets out of the business of storing grain, the commercial sector will do it.

Guess what? Everything is up to date in Kansas City and the grain and oilseed consumers have heard about "just in time inventory" from those Harvard Business School folks. We thought the crop demanders would fill their larder when commodity prices dropped, sopping up the excess supply and giving prices a much needed boost.

But it didn't happen that way. It seems they figured if prices were low today, they might be low next month as well. Besides that, with no stock management program, there was no threat of reduced acreage next year. So they used the "just in time inventory" process and saved the interest and storage charges.

Today's year ending stock-to-use ratios are low by historic standards. By that measure one would expect consumers to worry a little and begin to increase their stocks, driving prices upward so that they were more in line with past prices. But, it hasn't happened. It looks like our customers have gotten used to "just in time ordering."

In the last five crop years, demanders have become complacent, depending upon a stable flow of product. Tight U.S. stocks no longer appear to panic them. They know that in a little more than a month the South American crop will be coming online and should arrive "just in time." For those crops, like corn where the U.S. is the major supplier, the demanders are betting on a bumper crop next year or at least that we do not have a short crop two years in a row.

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