

## PREDICTING PULSE ACRES FOR 2019



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Markets believe land in pulses in Canada and the United States (U.S.) will be down this year, led by a massive reduction in chickpea area.

This should see residual supplies

of all classes of pulses shrink over the coming marketing year, though this season could end with enough chickpeas to last almost two years.

What we are seeing is the proof of the old adage: The best cure for high prices is high prices and the best cure for low prices is low prices.

That is a simple explanation of what is called the cobweb theory. In simple terms, farmers decide what to grow based on what has happened in recent months, without knowing what effect it will have on future supply, demand, or prices. Moving too hard in one direction or the other can result in massive swings in prices.

A farmer I know was also in the seed business and he frequently went the opposite direction of his customers because he planted the seed he did not sell. He was an unintentional contrarian and often got better average returns than his neighbours.

It is hard to be a contrarian. All of the emotion and chatter on coffee row favours some crops over others. Sometimes that is supported by well-priced new crop production contracts, which are often supported by forward sales by processors and exporters.

More often than people want to admit, once prices start adjusting to the new reality, buyers may want to renegotiate or cancel contracts so they can buy when things get cheaper. Or they might stop filling in needs until prices stabilize. Add in trade wars, import quotas, changes in import duties, phytosanitary issues, changes in how much net importing or net exporting countries produce -- and all

the best predictions can suddenly appear wrong.

All these influences sometimes make growers feel powerless. Even so, farmers have control over two things - how much they plant and when they sell. They also have a lot of insight into acreage trends. They know how they and their neighbours feel about current and future price prospects for individual crops. From farm shows, they get an idea of what people in other parts of the province are thinking.

More importantly, any farmer who keeps track of net returns per acre for each of their crops, or uses available data to come up with projections of the gross income potential of crops, can get a fairly good idea of whether seeded area will rise or fall. One public source of useful data is Agriculture and Agri-Food Canada's regular outlooks for grains, oilseeds, pulses, and other specialty crops.

By getting the final reports for the previous few years, it is possible to calculate the gross income potential of the different crops per marketing year by multiplying the average price by the average yield. The next step is to figure out the percentage relationship. Simply divide the gross income potential for lentils, or peas, or chickpeas by the number for durum, wheat, barley, and canola.

The next step is to calculate the average relationship for the previous three marketing years. Simply add up the percentages for the previous three marketing years and divide by three. Do the same calculation for the current marketing year and see if the percentage gross income potential of each type of pulse is above or below its previous three-year average.

More often than you might expect, seeded area for lentils, or peas, or chickpeas rises when that percentage is higher than the previous three-year average. If it is lower, area tends to be little changed to lower.

It is not perfect. Farmers as a group increase or reduce land in pulses for several reasons. Crop rotation is the most

obvious, but enthusiasm about a crop's income potential can carry over from one marketing year to the next. Being able to sell when you need cash plays a role. High prices mean little if you cannot sell what you grow. Even when prices seem low, land can increase because demand is strong. At the same time, new crop bid levels affect planting choices.

A lot of these things came into play last year. Even though prospective returns from green lentils were below their previous three-year average relative to grains and oilseeds, seeded area increased because prices were still relatively good and demand was strong. As expected, red lentils dropped because of low prices and poor demand. Chickpea area soared in response to record high prices when seeding decisions were being made. The drop in pea area was moderated by relatively good demand and optimism that China would make up for India's absence.

In the end, production of all pulses dropped from 7.14 million (M) tonnes to 6.33 M, with lentils and peas both down around 500,000 tonnes and chickpeas more than doubling from 118,600 to 311,300 tonnes.

You can see the different factors at play when trying to predict where seeded area could end up in 2019.

Field pea exports are down and potential gross returns are not as competitive as they had been relative to grains and oilseeds, but growers don't seem to have a problem selling what they want. Available data suggests farmers sold almost half their pea crop by the end of December, compared to around 40% during the same period last season. This should encourage more farmers to stick with peas, with the result this year's seeded area is not expected to change much.

In the case of lentils, initial demand for red lentils is better than last season, but growers are not selling as many green lentils as they expected. Ending stocks of red lentils will be down from last season, while residual supplies of green lentils

will be up sharply. There is a chance red lentil area could decline again this year, while growers sharply reduce green lentil seedings.

As for Kabuli chickpeas, prices set record lows after seeding. That shock is expected to result in a massive drop in area in Canada, the United States, and other countries. A contrarian might think that will force prices higher, but when you look at the how easy it is to sell chickpeas, you should expect ending stocks to soar. Some people think enough will be carried over to keep a lid on prices until 2020.

The big question is always what will happen to prices. The cobweb theory is useful. What those old adages and that

theory are really saying is that farmers tend to overreact over time. Production rises or falls until it is out balanced with demand and prices are pushed in one direction or the other.

Looking at the supply and demand forecasts for the coming marketing year, you can get a sense that prices could be higher on average for peas, as long as demand is as good as expected. Red lentils might also be higher on average, while greens could flounder for another marketing year. Chickpea bids could improve as the coming marketing year advances, but a lot depends on how much India or Mexico produce this year and in 2020.

This is not a big change from what seems

likely for the remainder of this marketing year. Grower bids for peas and red lentils appear to be on a modest upward trend because demand is good relative to available supplies. By contrast, supply and demand fundamentals for green lentils and chickpeas make it hard to see prices trending upwards, despite periodic spikes in demand and bid levels.

The bottom line is growers may want to take advantage of spikes in prices to move some product in an effort to reduce year-end inventories.

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## LENTIL SUPPLY DEMAND

### Supply and Demand Estimate for Lentils in 2018/19

	Large Green Lentils	Medium Green Lentils	Small Green Lentils	Extra Small Red Lentils	Small Red Lentils	All Red Lentils	Other Lentils	All Lentils
Area (acres)	1,252,600	48,000	415,600	57,000	1,979,900	2,036,900	15,000	3,768,100
Yield (lb/ac)	1,048	1,286	1,314	1,276	1,309	1,308	1,808	1,224
Production	595,700	28,000	247,700	33,000	1,175,500	1,208,500	12,300	2,092,200
Carry-In	5,000	3,000	29,000	15,000	823,000	838,000	1,000	876,000
Supply	600,700	31,000	276,700	48,000	1,998,500	2,046,500	13,300	2,968,200
Exports	454,600	18,300	163,300	28,300	1,079,500	1,107,800	7,900	1,751,900
Seed	31,500	900	6,400	1,200	59,800	61,000	200	100,000
Feed, Waste, and Other	77,600	4,800	38,000	7,500	271,200	278,700	2,200	401,200
Total Usage	563,700	24,000	207,700	37,000	1,410,500	1,447,500	10,300	2,253,200
Ending Stocks	37,000	7,000	69,000	11,000	588,000	599,000	3,000	715,000
Stocks/Use	7%	29%	33%	30%	42%	41%	29%	32%

\*All quantities in tonnes

### Supply and Demand Forecast for Lentils in 2019/20

	Large Green Lentils	Medium Green Lentils	Small Green Lentils	Extra Small Red Lentils	Small Red Lentils	All Red Lentils	Other Lentils	All Lentils
Area (acres)	771,000	29,000	282,000	52,000	1,882,000	1,934,000	10,000	3,026,000
Yield (lb/ac)	1,230	1,292	1,329	1,314	1,364	1,362	1,323	1,325
Production	430,000	17,000	170,000	31,000	1,164,000	1,195,000	6,000	1,818,000
Carry-In	37,000	7,000	69,000	11,000	588,000	599,000	3,000	715,000
Supply	467,000	24,000	239,000	42,000	1,752,000	1,794,000	9,000	2,533,000
Exports	331,500	17,000	169,600	29,800	1,243,600	1,273,400	6,400	1,797,900
Seed	26,200	900	6,500	1,500	75,100	76,600	200	110,400
Feed, Waste, and Other	60,300	3,100	30,900	5,700	224,300	230,000	400	326,000
Total Usage	418,000	21,000	207,000	37,000	1,543,000	1,580,000	7,000	2,233,000
Ending Stocks	49,000	3,000	32,000	5,000	209,000	214,000	2,000	300,000
Stocks/Use	12%	14%	15%	14%	14%	14%	29%	13%

\*All quantities in tonnes

Source: STAT Publishing Ltd.

## PROSPECTIVE RETURNS AS PERCENTAGE OF GRAINS OILSEEDS

## Average Gross Returns as a Percentage of Wheat

	Large Green Lentils	Small Green Lentils	Red Lentils	Yellow Peas	Green Peas	Kabuli Chickpeas	Small Kabuli Chickpeas
2012/13	109%	121%	114%	114%	127%	232%	107%
2013/14	172%	146%	188%	188%	106%	224%	204%
2014/15	212%	186%	252%	252%	112%	197%	175%
2015/16	418%	349%	323%	323%	121%	304%	247%
201/17	229%	247%	155%	155%	91%	267%	400%
2017/18	158%	130%	108%	108%	128%	203%	321%
2018/19 Forecast	91%	97%	108%	108%	253%	112%	115%
<b>Three-Year Average</b>	<b>268%</b>	<b>242%</b>	<b>195%</b>	<b>195%</b>	<b>113%</b>	<b>258%</b>	<b>322%</b>

## Average Gross Returns as a Percentage of Durum

	Large Green Lentils	Small Green Lentils	Red Lentils	Yellow Peas	Green Peas	Kabuli Chickpeas	Small Kabuli Chickpeas
2012/13	117%	130%	123%	125%	225%	249%	115%
2013/14	164%	139%	179%	137%	244%	214%	194%
2014/15	139%	122%	165%	109%	78%	129%	115%
2015/16	369%	308%	286%	168%	137%	269%	218%
2016/17	261%	281%	176%	179%	187%	304%	455%
2017/18	193%	159%	133%	138%	160%	249%	393%
2018/19 Forecast	96%	102%	115%	112%	156%	118%	121%
<b>Three-Year Average</b>	<b>275%</b>	<b>250%</b>	<b>198%</b>	<b>162%</b>	<b>161%</b>	<b>274%</b>	<b>356%</b>

## Average Gross Returns as a Percentage of Canola

	Large Green Lentils	Small Green Lentils	Red Lentils	Yellow Peas	Green Peas	Kabuli Chickpeas	Small Kabuli Chickpeas
2012/13	58%	65%	61%	62%	112%	124%	57%
2013/14	96%	81%	104%	80%	142%	124%	113%
2014/15	108%	94%	128%	84%	61%	100%	89%
2015/16	220%	183%	170%	100%	82%	160%	130%
2016/17	137%	148%	93%	94%	98%	160%	240%
2017/18	95%	79%	66%	68%	79%	123%	194%
2018/19 Forecast	53%	57%	64%	62%	87%	66%	67%
<b>Three-Year Average</b>	<b>151%</b>	<b>137%</b>	<b>109%</b>	<b>87%</b>	<b>86%</b>	<b>147%</b>	<b>188%</b>

\* Calculations based on pulse price data collected by STAT versus Agriculture and Agri-Food Canada price data for grains and oilseeds

## CHICKPEA FIELD PEA SUPPLY DEMAND

## Supply and Demand Estimate for Chickpeas and Field Peas in 2018/19

	Desi Chickpeas	Kabuli Chickpeas	Small Kabuli Chickpeas	All Chickpeas	Yellow Peas	Green Peas	Other Peas	All Peas
Area (acres)	13,800	421,900	7,300	443,000	3,080,000	459,800	75,500	3,615,300
Yield (lb/ac)	2,284	1,379	1,631	1,549	2,164	2,294	2,316	2,184
Production	14,300	263,900	5,400	311,300	3,023,200	478,400	79,300	3,580,900
Carry-In	0	2,800	200	3,000	570,000	79,000	1,000	650,000
Imports	0	29,000	0	29,000	87,200	30,200	3,600	121,000
Supply	14,300	295,700	5,600	343,300	3,680,400	587,600	83,900	4,351,900
Exports	6,000	153,700	4,100	163,800	2,202,700	464,000	52,300	2,719,000
Seed	243	14,300	500	15,043	207,000	38,000	5,000	250,000
Feed, Waste, and Other	3,057	33,700	0	64,457	814,700	67,600	19,600	901,900
Total Usage	9,300	201,700	4,600	243,300	3,224,400	569,600	76,900	3,870,900
Ending Stocks	5,000	94,000	1,000	100,000	456,000	18,000	7,000	481,000
Stocks/Use	54%	47%	22%	41%	14%	3%	9%	12%

\*All quantities in tonnes

## Supply and Demand Forecast for Chickpeas and Field Peas in 2019/20

	Desi Chickpeas	Kabuli Chickpeas	Small Kabuli Chickpeas	All Chickpeas	Yellow Peas	Green Peas	Other Peas	All Peas
Area (acres)	6,000	177,000	10,000	193,000	2,950,200	534,800	75,000	3,560,000
Yield (lb/ac)	2,278	1,436	1,543	1,496	2,184	2,107	1,755	2,164
Production	6,200	115,300	7,000	131,000	2,923,100	511,200	59,700	3,494,000
Carry-In	5,000	94,000	1,000	100,000	456,000	18,000	7,000	481,000
Imports	0	34,000	0	34,000	87,900	30,500	3,600	122,000
Supply	11,200	243,300	8,000	265,000	3,467,000	559,700	70,300	4,097,000
Exports	5,000	115,600	2,900	123,500	2,287,800	413,000	47,200	2,748,000
Seed	243	13,300	400	13,943	242,000	39,000	4,000	285,000
Feed, Waste, and Other	1,957	47,400	1,700	53,557	799,200	88,700	14,100	902,000
Total Usage	7,200	176,300	5,000	191,000	3,329,000	540,700	65,300	3,935,000
Ending Stocks	4,000	67,000	3,000	74,000	138,000	19,000	5,000	162,000
Stocks/Use	56%	38%	60%	39%	4%	4%	8%	4%

\*All quantities in tonnes

Source: STAT Publishing Ltd.



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