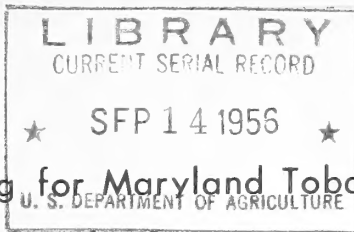


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Better Marketing for Maryland Tobacco
- More Income for Growers -



Resales of tobacco on Maryland auctions in 1955 brought warehousemen and speculators a half million dollars more than they paid farmers for the tobacco.

These buyers bought and resold nearly 6 million of the 37 million pounds sold by farmers on the auctions in 1955. In addition to taking advantage of price fluctuations, these buyers put much of the tobacco into more salable condition by repacking and sorting.

This repacking and sorting accounted for a part of the 11 cents per pound difference between the buying price and selling price of resale tobacco, indicating that growers could have received more income from their tobacco through more careful preparation for market.

Resales have increased sharply since 1950. In 1955, they were 50 percent larger than in 1950, both in total volume and in proportion to net sales. Not only have resales increased relative to earlier years on the Maryland markets, but they have increased relative to resales on the flue-cured and burley markets (table 1).

Table 1.--Tobacco resales at Maryland looseleaf auctions, 1950 to 1955 (crops of 1949 to 1954), and comparison with percent resales for flue-cured and burley

Year	Maryland		Flue-cured	Burley
	1,000 pounds	Percent	Percent	Percent
1950.....	3,867	10.8	10.2	6.2
1951.....	3,323	9.6	9.2	5.4
1952.....	4,428	11.6	10.9	4.9
1953.....	5,228	15.0	11.3	6.3
1954.....	5,112	14.2	11.9	5.2
1955.....	5,813	15.6	7.7	3.6 p

Source: Tobacco Division, AMS.

p Preliminary



Resales brought warehousemen and speculators \$509,000 above the cost of their total purchases, in addition to leaving them 200,000 pounds still to resell. Warehousemen resold the largest amount of tobacco, but speculators' margins were widest. Speculators sold for an average of \$13.68 a hundredweight more than they had paid for the tobacco. Their total margin was \$265,000. Warehousemen's resales averaged \$7.90 a hundred above their purchase price. Their total margin was \$244,000. These total margins are not net profit. Handling costs, including any losses of tobacco, must be paid for out of these totals (table 2).

United States Department of Agriculture,
Washington, D. C.
Agriculture-Washington July 1956 AMS-127

Figure 1.--Good tobacco marketing starts with good preparation.

Table 2.--Volume and value of purchases and sales at Maryland looseleaf tobacco auctions, 1955 season

Type of sale	Volume	Price	Value
	<u>1,000 pounds</u>	<u>Dollars per cwt.</u>	<u>1,000 dollars</u>
Total sales.....	43,007	40.02	17,212
Net sales.....	37,194	39.53	14,702
Resales.....	5,813	43.19	2,510
Packers' purchases.....	37,052	41.20	15,266
Packers' resales.....	139	39.46	55
Net packers' purchases..	36,913	41.21	15,211
Warehouse purchases 1/....	3,188	35.59	1,135
Warehouse resales 1/.....	3,171	43.49	1,379
Difference.....	2/ 17	7.90	244
Speculators' purchases....	2,767	29.31	811
Speculators' resales.....	2,503	42.99	1,076
Difference.....	2/ 264	13.68	265

Source: The data on purchases and sales for the 1954 crop were made available by the tobacco auction warehouses in the several markets through the cooperation of the Maryland Tobacco Authority.

1/ Includes pickups, lost tickets, and tobacco returned from packers.

2/ About 80,000 pounds lost in handling and 200,000 pounds sold direct to packers or held over until 1956.

PRICES LOWER IN 1955

Maryland tobacco has not shared in the increased demand for cigarette tobacco to the extent that flue-cured and burley have. 1/ Production of Maryland tobacco since 1949 has averaged 40 million pounds, but total disappearance has averaged only a little over 36 million pounds. Domestic use for the past 5 years has averaged under 29 million pounds, and exports have averaged less than 8 million pounds. The difference between production and use has increased stocks from 60 million pounds on October 1, 1950, to 84 million pounds on October 1, 1955, the highest on record--11 million of this is in government loan stocks.

The 1953 crop, which brought 54 cents a pound, was supported under the Federal loan program, as were the 1949 and 1950 crops. Of the 40 million pounds produced in 1953, 33 millions went directly to users on the Maryland markets. About 7 millions were placed under Government loan. The 1954 crop brought slightly less than



Figure 2.--A uniform hand of good quality Maryland leaf.

1/ Maryland Experiment Station Bul. 451, p. 31. The Station also made available unpublished studies of supply and demand as they affected the price of Maryland tobacco.

40 cents a pound, the lowest price since World War II.

Low quality was an important reason for lower prices for the cigarette portion of the 1954 crop. Manufacturers regarded it as one of the poorest crops on record for cigarette use. ^{2/}

SEASONAL PRICE PATTERN NEAR NORMAL

Changes in daily average prices paid for Maryland tobacco are to a considerable extent the result of variations in quality of leaf offered for sale. However, prices of tobacco of the same quality, as measured by Federal grades, do fluctuate from day to day. There is little price variation in the very top grades and in the lowest grades, but the medium grades, which sold at 20 to 60 cents a pound in 1955, fluctuate considerably.



Figure 3.--Care in packing the basket can pay off at the auction.

There is also a rather definite seasonal pattern in the average prices of Maryland tobacco. ^{3/} This is in part the result of changes in quality as the season progresses, more high-quality tobacco coming to market in the first weeks. Grade prices decline to a lesser extent during the latter part of the season. Prices during the 1955 season were highest during the first couple of weeks, then weakened for the rest of the season. The decline during the last 2 weeks was rather sharp. Prices were higher on most Mondays than on other days during the week. These price movements did not differ greatly from the normal pattern. A clear difference from normal, however, appeared in the daily fluctuations in a number of the medium-priced grades, which were much wider than in other recent seasons.

POOR SORTING MEANS LESS MONEY

One opportunity for making a profit on resales is offered by poorly prepared baskets of tobacco, which result from the failure of growers to sort and pack their crops properly. The manner in which the grower prepares his tobacco for sale influences the price he receives. Poorly prepared baskets, if purchased by the packers, must be sorted into different packer grades before being placed in the hogsheads for storage. If they are purchased by a warehouseman or speculator, the buyers rework the baskets, making each one more uniform and more attractive in appearance.

Table 3.--Price and value of a lot of tobacco when originally offered and when re-sorted

Grade	Weight	Price	Value
	<u>Pounds</u>	<u>Cents per pound</u>	<u>Dollars</u>
B4R.....	182	16 (rejected bid)	29.12
Sale when re-sorted			
B4F.....	68	69	46.92
B4R.....	68	16	10.88
C4V.....	18	29	5.22
X4D.....	22	29	6.38
Average.....		39.43	
Total.....	176		69.40
Gain.....	- 6		40.28

Source: Tobacco Division, AMS.

^{2/} The Enquirer-Gazette, Upper Marlboro, August 5, 1955, p. 1.
^{3/} Maryland Agricultural Experiment Station Bul. 451, p. 54.

The reworking varies greatly. Only the off-color or poorer leaves may be removed; the basket may be repacked for better appearance, or the tobacco may be re-sorted into several grades.

The possibilities of reworking are shown by the record of a basket offered for sale in 1955 for which a bid of 16 cents a pound was rejected (table 3). The basket was re-sorted into four separate lots and sold for an average of 39.43 cents. The reworked tobacco brought \$40.28 more than the rejected bid would have totaled. Based on the original weight of the basket, the gain was equal to 22.13 cents a pound.

MARKET UPS AND DOWNS

Changes in the general market situation from time to time through fluctuations in supply, demand, and prices offer a second opportunity for gain by buying and reselling.

The warehouse operator and the speculator are on the market continuously and can judge quite accurately whether the current situation is weak, offering an opportunity to buy and resell later at a profit. These market changes may be due at least partly to changes in requirements of the packer-buyers. If their needs increase, they will bid more aggressively and prices will tend to rise. If their needs decline, they will be less aggressive, and prices will soften. Tobacco packers have certain overhead costs to meet and want to operate at a sufficient volume to minimize their costs. If the volume coming to market is low relative to their plant capacity, the packers may pay higher prices to secure the necessary volume. On the other hand, with large volumes bidding may be less active.

SALES CONDITIONS AFFECT PRICES

A third situation for a profit on the auction market arises from errors in judgment of the value of a given basket of tobacco. These errors arise in part from the conditions under which auctions are held. There are few objective measures of quality for tobacco. Each basket is valued by the judgment of each buyer, with his own standard for comparison. The speed of the sale gives little time for examination by the buyer or for each to make many bids. The light in the warehouse affects the recognition of color, and light varies from day to day and during the day. Color is an important factor in judging the quality of tobacco. The warehouseman or speculator, observing low bids on a basket, sometimes attributes them to the effect of the light on the color, and assumes the tobacco is priced under the market. He makes an offer. The other buyers, having moved on to the next basket, do not have time to reconsider their bids and the auctioneer sells the tobacco to the speculator. The buyer then seeks to offer the basket under more favorable conditions, hoping for a better price.

FARMERS PAY FOR RE-SORTING AND PACKING

Warehousemen and speculators perform an economic service in a competitive market. For the baskets which are purchased and reworked, the margin is a payment for the service of better sorting and packing of the tobacco. Likewise, where the low bid is the result of errors in judgment or of changes in the market situation, the warehousemen and speculators stabilize the market, and the margins taken are payment for these services.

The grower could secure a share of the margin by sorting and packing his tobacco better. By carefully judging the market situation and learning more about the qualities most desired, he would be better able to decide whether to reject low bids and when to reoffer the tobacco, perhaps in re-sorted form. Any time and effort growers spend in more carefully sorting and packing their tobacco will probably offer the best opportunity for increasing their incomes.

A detailed report of this study will be published after further analysis.

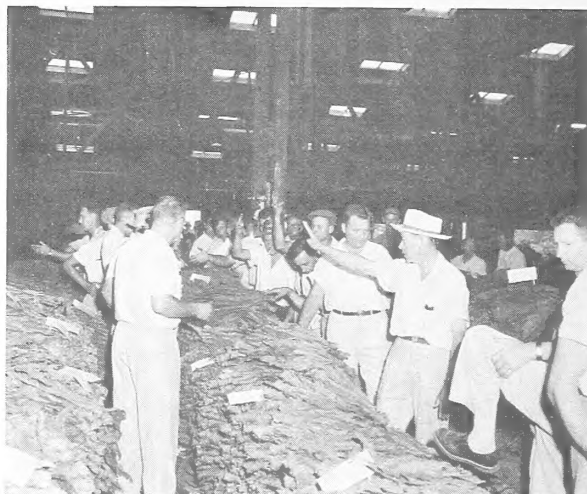


Figure 4.--Buyers on a Maryland auction floor.

