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1982/83 Situation - The Records Continue

The 1982/83 situation continued to reflect record production and increasing stocks for the third successive year. Although producers in response to the announced acreage reduction program (ARP) reduced their harvested acreage in 1982, generally favorable growing conditions in nearly all production areas was more than offsetting. Yields rose to an all time high 35.6 bushels per acre producing the largest wheat crop (2,811 million bushels) in U.S. history. The 1982 production was about 1 percent above last year and nearly a fifth higher than two years ago.

Although variable weather conditions throughout the year threatened the final crop outcome, generally favorable growing conditions prevailed from Texas to the Canadian border in the Great Plains wheat belt. The perennial leading States of Kansas and North Dakota harvested their largest crop ever. In contrast, above normal winter damage and excessive spring rains in major Eastern and Southern production areas, along with dry and hot conditions in the Pacific Northwest, reduced yields significantly for both soft red and white wheat.

Overall, wheat growers adjusted the seeding of their 1982 crop only slightly in response to the announced ARP. Winter wheat plantings actually increased to a new high as seeding was completed before the ARP announcement. Spring wheat producers reduced from the previous year's plantings by 9 percent. As a result, total 1982 harvested acreage was below the record 80.9 million acres of a year ago by less than 2 million acres. However, higher yields more than compensated for this decline. Nationally, the average yield per harvested acre was an all time high 35.6 bushels, 1.1 bushels above 1981. A review of acreages, yields, and production by various production regions for 1981 and 1982 compared to historical data outlines regional changes in the production of wheat in the U.S.

Region	Harvested Area			Production			Average Yield	
	1976/77	1981/82	1982/83	1976/77	1981/82	1982/83	1976/77	1982/83
Pacific N.W.	6.1	5.9	5.5	277.2	335.5	288.2	45.8	52.0
Southern Plains:	28.3	32.0	33.0	756.2	872.2	1045.7	26.7	31.7
Northern Plains:	24.1	24.9	22.7	625.1	737.5	756.0	25.9	33.3
Southeast	2.2	6.9	8.7	75.1	287.9	317.7	33.4	36.3
Corn Belt	7.9	8.7	6.9	291.7	394.2	275.2	37.0	40.1
Southwest	1.7	1.9	1.5	100.6	129.6	104.2	59.8	67.2
Northeast	.6	.7	.6	22.4	26.4	23.4	34.7	39.0
U.S. Total	70.9	80.9	79.0	2148.8	2793.4	2810.5	30.3	35.6

PNW = ID, OR, WA; Southern Plains = CO, KA, NB, NM, OK, TX, WY, Northern Plains = MY, MT, ND, SD; Southeast = AB, AR, FL, GE, DY, LO, MI, NC, SC, VA, WV; Corn Belt = IL, IN, IO, MC, OH, WI, Southwest = AR, CA, NE, UT; Northeast = CN, DE, MD, MA, NJ, NY, PE, VE.

The quality of the hard red winter crop has been above average the past few years but this year's crop deteriorated considerably. Harvest delays from excessive rainfall and cool temperatures downgraded the crop. Protein was close to the 10-year average, but down nearly 2 percentage points from last year. The fungus disease "wheat scab" affected some HRW areas but less than 3.5 percent of such production was affected. Hard red spring quality was one of the best in recent years. The quality of the soft red, white and durum wheat crops was generally good.

Exports Expected To Be Large, But Less Than Last Season

At last year's Outlook Conference we were very bullish on 1981/82 marketing year prospects, even suggesting they might reach 2.0 billion bushels. Our optimism was clouded somewhat by of a number of factors --the continuing downturn in the world economy, the strengthening of the U.S. dollar in world markets, better than expected world production and political unrest. Record U.S. exports were still attained at nearly 1.8 billion bushels. Many of the same factors continue to plague the world today. U.S. exports of wheat for the 1982/83 season are presently estimated at 1.65 billion bushels, down principally because of reduced exports from the U.S. to the Soviet Union and intensified competition from other exporting nations for our markets. At this time, the U.S. share of overseas wheat markets is expected to dip slightly below last season's high of 48 percent. Export commitments to date are just over half of the season's projected volume. This compares to about two-thirds of final sales a year ago. Therefore, in order to achieve our current export estimate, average loadings for the remainder of the year need to increase by about 2.5 million bushels weekly. This is close to the average weekly pace that established last year's record shipments. Whether our current 1.65 billion bushel estimate is reached depends heavily on the Soviet Union.

President Reagan announced on October 15, 1982, that a total of 23 million metric tons of grain from the U.S. would be made available to the U.S.S.R. during the seventh year of the U.S.-U.S.S.R. grain agreement. The same assurances of reliable delivery would be extended to purchases above the 8 million metric tons, if the U.S.S.R. contracted for the additional tonnage during the month of November with shipment within 180 days from date of the contract. Soviet purchasing during the month of November has been slow.

Also, in an effort to establish a more competitive position in the world markets and to generate additional export sales, USDA announced a 3-year "Blended Credit" export enhancement program in late October. This program adds \$500 million in fiscal 1983 to existing Commodity Credit Corporation (CCC) export credit sales program. A portion of this program includes interest-free direct export credit blended with commercial export financing guaranteed by the Government. The program will be targeted to developing countries, especially new customers or those re-entering the U.S. markets. Most of the \$500 million allocated to the blended credit program has been utilized, going to countries such as Morocco, Egypt, Yugoslavia, Philippines and India. The impact of this program on U.S. agricultural exports will be beneficial.

Domestic Use Little Changed From Last Year

Apparent wheat food use (mill grind less flour exports) during the first 4 months of the marketing year was up only slightly from the same period a year earlier. However, the significance of this pickup is that it reflects a recovery from the slow milling activity in the latter months of the 1981/82 marketing year. Wheat food use disappearance in 1982/83 is projected to climb back on trend to 610 million bushels. Abundant supplies of low priced wheat have stabilized bread flour prices. Also because of the large supplies miller and bakers can continue buying "hand-to-mouth", minimizing inventory carrying costs. Increased use of the grain reserve by producers could limit readily available supplies of certain wheat classes, in the second half of the season.

October's stocks confirmed the earlier forecast that wheat feeding could follow a similiar pattern to last season. Apparent feed disappearance during June-September was around 175 million bushels only slightly below a year ago. This is an indication that below loan level prices at harvest encouraged wheat in feed rations, particularly low quality discounted stocks. But the final 1981/82 volume charged to the feed-residual eroded away to a more realistic amount--50 million bushels--below the June-September period. This accounting pattern could be duplicated for 1982/83 meaning that the total amount fed may be around 150 million bushels, not significantly different from last season.

Wheat Prices At 4 Year Low-Loan Volume Soars

With the 1982 bumper crop boosting supplies to a record 4.0 billion bushels--up 5 percent from last year and 21 percent above two years ago--the 1982/83 marketing year price outlook (\$3.40-\$3.50) is expected to be

the lowest since 1977/78. Farm prices during the first 5-months of the 1982/83 marketing year (June-October) have averaged \$3.34 per bushel, more than 20 cents under the national average loan rate of \$3.55 per bushel. The last time farm prices were below the loan rate during the June-October period was in 1977 when they averaged 12 cents under the loan rate. Although farm prices since 1955 have on occasion averaged below the national average loan rate during the June-October period, the differential has not been as large as this year.

With farm prices below the \$3.55 per bushel loan rate, it is obvious that the maximum deficiency payment of 50 cents per bushel will be paid to wheat producers participating in the 1982 ARP. Estimated payments of about \$500 million will be issued to farmers in December, compared to \$415 million for the 1981 crop when all producers were eligible to receive deficiency payments.

As a result of the low farm prices, loan volume from the 1982 crop is nearly 50 percent higher than last year, even though only 42 percent of the 1982 crop is eligible compared to the total crop for 1981. Total loan volume this year may approach the record set in 1958 when 610 million bushels were placed under loan. The reserve loan of \$4.00 per bushel with an annual 26.5 cent per bushel storage payment has been a major contributor to this year's increased loan volume. The following table shows by region and selected States current and projected loan activity for the 1982-crop.

State	: Implied : Eligible : Production: : (Mil.Bu)	: Total Loan: : Volume As : of Nov. 10: : (Mil.Bu)	: Quantities in: : Reserve as : of Nov. 10 : (Mil. Bu)	: Reserve: : As of %: : of Loan: : Volume	: Projected Volume : Total : Loan : (Mil. Bu)	: Reserve : Reserve : (Mil.Bu)
<u>Southern Plains</u>	:	:	:	:	:	:
Colorado	: 40.1	: 14.0	: 12.8	: 91.4	: --	: --
Kansas	: 149.8	: 82.2	: 76.8	: 93.4	: --	: --
Nebraska	: 33.2	: 15.4	: 14.4	: 93.5	: --	: --
Oklahoma	: 90.6	: 51.7	: 50.2	: 97.1	: --	: --
Texas	: 63.1	: 45.6	: 45.1	: 98.9	: --	: --
Total	: 376.8	: 208.9	: 199.3	: 95.4	: 235	: 225
<u>Northern Plains</u>	:	:	:	:	:	:
Minnesota	: 56.4	: 25.3	: 19.6	: 77.4	: --	: --
Montana	: 166.0	: 29.5	: 16.1	: 54.6	: --	: --
North Dakota	: 226.5	: 72.4	: 52.6	: 72.7	: --	: --
South Dakota	: 59.3	: 27.0	: 21.9	: 81.1	: --	: --
Total	: 508.2	: 208.9	: 110.2	: 71.5	: 280	: 200
<u>Pacific Northwest</u>	:	:	:	:	:	:
Idaho	: 46.1	: 14.8	: 12.4	: 83.8	: --	: --
Oregon	: 24.5	: 5.8	: 4.5	: 77.5	: --	: --
Washington	: 66.7	: 26.4	: 23.4	: 88.6	: --	: --
Total	: 137.3	: 47.0	: 40.3	: 85.7	: 65	: 55
Selected State Total:	: 1022.3	: 410.1	: 349.8	: 85.3	: 580	: 480
U.S. Total	: 1179.6	: 436.6	: 366.0	: 83.8	: 610	: 500

How Big Will the Farmer-Owned Reserve (FOR) Become

The net size of the FOR at the end of the 1982/83 season is estimated to be 950 million bushels or larger. As of mid-November, total quantities in the FOR (1976 thru 1982 crops) exceeded 955 million bushels. The following table shows the reserve breakdown by the year and class as of 10/31/82.

Crop Year	Hard		Soft				Total
	Red Spring	Durum	Red Winter	White Winter	White Mixed		
-----Million Bushels-----							
1976	40.3	3.2	9.9	.1	3.7	--	57.2
1977	28.2	1.0	24.6	.3	.8	--	54.9
1978	10.8	1.1	7.0	--	.6	--	19.5
1979	12.2	.6	19.1	--	2.2	--	34.1
1980	33.3	6.4	126.1	1.8	34.9	1.1	202.6
1981	63.5	33.0	79.2	14.0	30.6	1.1	221.4
1982	65.3	17.2	213.7	12.0	36.2	1.5	345.9
Total	253.6	62.4	479.7	28.2	109.0	2.7	935.6

The FOR quantities from the 1976 and 1977 crops will be reaching the five-year limit and cannot be continued under the reserve. Nearly 85 percent of the 112.1 million bushels will mature during the first three months of calendar year 1983. Loan redemption values for this grain will vary between \$2.40 and \$2.50, as this grain carried only a \$2.25 loan level. Producers will have two options--either redeem the loan amount plus interest or forfeit the loans to CCC. It seems unlikely that any of this grain will be acquired by CCC. The Secretary could allow producers holding 1976 and 1977 grain to extend their repayment date beyond maturity. If such an action is taken, producers would be required to pay interest from maturity and storage payments would cease. Also, before the end of this season (May 31, 1983), more than 50 million bushels of the 1978 and 1979 crop reserve grain will be reaching the initial 3-year maturity. These producers will have three options--(1) redeem the loan amount plus interest (2) forfeit the loans to CCC or (3) extend the reserve contract for another two years. No grain is expected to be acquired by CCC from these contracts. Most is expected to be redeemed with the balance continued under reserve for another two years. The repayment value for 1978 and 1979 reserve contracts will vary from \$2.60 to \$2.85 per bushel (1978 crop loan was \$2.35; 1979-\$2.50). No other reserve grain matures before May 31, 1982.

1982/83 Carryover Near Record

The highest level of carryover wheat stocks (1502 million bushels) in the U.S. occurred as of May 31, 1961. Stocks at the end of the 1982/83 season are now estimated at 1461 million bushels and could exceed the 1961 record if export projections and food residual estimates are not realized. The breakdown of the 1982/83 carryover by wheat class follows:

	Hard Red Winter	Hard Red Spring	Soft Red Winter	Durum	White	Total
Total Stocks	692	441	58	140	130	1461
Est. FOR Stocks	485	245	30	75	115	950
Est. CCC Inventory	126	45	8	2	4	185
Implied Free Stocks	81	151	20	63	11	326

Based on expected levels of FOR and CCC stocks on May 31, 1983, it would suggest that the "free stocks" position of some classes, such as white, might become quite tight. This situation is presently being reflected in the white wheat market, where prices are nearly equal to year earlier levels while prices of other classes are ranging from 10 to 25 percent below year earlier levels.

Movement into the FOR has maintained a brisk pace and, if this continues, levels shown above could become larger, further tightening the "free stocks" of other classes of wheat. Even though some tightness may occur, little price strength is expected.

1982 Acreage Reduction Program (ARP)

With stocks building to excessive levels, an acreage reduction program was implemented for the 1982 crop of wheat. The major provisions of the program were:

- ARP percentage - 15% from an acreage base or 17.65 percent of acreage for harvest.
- Acreage Base - Established using higher of 1981 or average of 1980 and 1981 acreage planted for harvest. Adjustments for crop rotations and other abnormal factors were authorized.
- Target Price - \$4.05 per bushel.
- Loan Price - \$3.55 per bushel.
- No offsetting or cross compliance.
- Farmer-Owned Reserve (FOR) Provisions:
 - a) Entry Price - \$4.00 per bushel.
 - b) Storage Payment - 26.5 cents per bushel per year (paid in advance).
 - c) Interest charges - Interest at prevailing CCC rate charged first year of contract, waived second and third years.
 - d) Trigger "Release" Price - \$4.65 per bushel.
 - e) Entry into FOR - Direct.
 - f) Early Redemption - Penalty is equal to one-half of the current CCC interest rate from date contract is approved. In addition, standard redemption values and all storage payments paid must be repaid.

Participation in the 1982 ARP varied by region and is shown in the following table:

	: Total : Acreage : Base	: Enrolled : Acreage : Base	: Complying : Acreage : Base	: Acreage for : Harvest on : Complying : Farms	: Percent : of Base : Complying	Ac. for Harvest As % of Complying Base
	-----Million Acres-----			-----Percent-----		
Pacific NW	: 6.3	: 5.9	: 3.4	: 2.6	: 54.6	: 75.1
S. Plains	: 37.1	: 33.6	: 16.6	: 12.7	: 44.8	: 76.2
N. Plains	: 27.9	: 27.1	: 19.6	: 15.2	: 70.4	: 77.3
Southeast	: 7.7	: 3.1	: 1.3	: .9	: 17.0	: 68.0
Corn Belt	: 9.2	: 5.7	: 2.0	: 1.3	: 22.3	: 64.0
Southwest	: 1.9	: 1.2	: .6	: .3	: 30.9	: 60.1
Northwest	: .6	: .3	: .1	: 1/	: 20.6	: 64.1
U.S. Total	: 90.7	: 76.9	: 43.6	: 33.0	: 48.2	: 75.5

1/ 78 thousand acres.

Program participation was not as high as hoped, generally because of the late announcement of the program (January 29, 1982) and the favorable growing conditions this spring.

Outlook for 1983 Wheat Crop

The 1983/84 season will be the second successive year that wheat growers will have to decide about participating in an ARP. Their decisions on what and how much to plant will be based on market conditions and market expectations for wheat and competing crops, the weather, and the benefits offered by the 1983 program. Early indications of winter wheat plantings would suggest that there may be little change from last year's 66.3 million acres. A higher level of participation is expected under the 1983 program. Therefore, if winter wheat plantings don't decline much, producers will need to make their participation decision next spring. If crop conditions are favorable through compliance dates, overall participation under the 1983 wheat program could be reduced below expectations. Farmers are reluctant to destroy growing crops especially, good ones. The size of the 1983-crop depends heavily on future weather developments and 1983 program participation. However, the prospects for a large crop are highly probable because of the widely disbursed production areas in the U.S. Evidence to support this contention can be drawn from experiences of the recent past. For instance, the major drought in the Northern Plains in 1980 and the massive freeze in the Central Plains in 1981, but in both years the total U.S. crop set new records. With the exception of the 1980 wheat crop, yields in the U.S. have risen every year since the 1976 crop. In 1980, yields were down less than a bushel per acre from the previous years record yield.

A lower than anticipated level of participation in the 1982 ARP, declining exports and record production caused carryover levels to increase further prompting the Secretary to announce an ARP again for the 1983 crop. The initial program announcement was made July 14, 1982, but this announcement was superseded by Congressional action--the Omnibus Budget Reconciliation Act of 1982. This legislation mandated a paid land diversion program coupled with an ARP. Major provisions of the currently announced program are:

- Acreage Adjustment Percentage-15%-ARP plus 5% paid land diversion (20% ARP announced on July 14, 1982.
- Diversion Payment Rate-\$2.70 per bushel.
- Acreage Bases-Shall be same as established for 1982 program purposes. Crop rotation and other adjustments continue to be authorized.
- Target Price-\$4.30 per bushel.
- Loan Price-\$3.65 per bushel.
- No offsetting or cross compliance requirements.
- Sign-up period-October 1, 1982, through March 31, 1983.
- Advance Payments-Payments equal to one half of the estimated deficiency rate (32.5 cents per bushel) and diversion rate (\$1.35 per bushel) are available to producers at signup.
- Farmer-Owned Reserve Provisions-to be announced later.

The supply situation has changed materially since the 1983 wheat program was announced. Pressure has been mounting for additional program changes to increase the effectiveness of the adjustment effort. A number of proposals are under review.

Provisions of the FOR are also under review and this program will be announced later. The size of the FOR is becoming a concern and adjustments in the program are needed.

Participation in the 1982 ARP was 48 percent of the base. 1983 levels of participation are estimated at 60 to 65 percent of the total acreage bases. Estimates by region are:

<u>Area</u>	1982	Estimated
	Compliance Level	1983 Compliance Level
	-----Percent-----	
PNW	54.5	50-60
S. Plains	44.8	60-70
N. Plains	70.4	70-80
Southeast	17.0	25-35
Corn Belt	22.3	25-35
Southwest	30.9	30-40
Northwest	20.6	20-25
U.S. Total	48.2	60-65

U.S. Rice Outlook:

Acreege Production and Yields Down but Total Supply at About the Same as Last Year's Record

Rice production in 1982 based on November 1 estimate will be 152.8 million hundredweight, down almost 18 percent from last year's record crop of 185.4 million hundredweights. This production is based on harvested acreage of 3.29 million acres, down 13 percent from last years record harvested acreage of 3.80 million acres and a yield of 4,650 pounds per acre, also representing a decline of almost 5 percent from last year's record yield of 4,873 pounds per acre. All producing States except Missouri reduced plantings. Missouri increased acreage by 4 percent. The major reduction were in three States. Arkansas reduced acres by 14 percent to 1.35 million acres; Mississippi reduced by 22 percent to 265,000 acres; and Texas reduced by 21 percent to 460,000 acres. Yields are below 1981 in Arkansas, California and Mississippi--higher in Louisiana, Missouri and Texas. The reduction in harvested acreage and production is attributed, principally to producers participation in the 15 percent acreage reduction program announced by Secretary Block on January 29. Producers have certified a total of 3.1 million acres--about 77.9 percent of the total base acreage. Acres planted for harvest in complying farms total about 2.4 million acres. The 1982 acreage compliance report for the major rice-producing States is as follows:

	<u>Total Base Acres</u>	<u>Base Acres Enrolled</u>	<u>Base Acres Complying</u>	<u>Acres Planted on Complying Farms</u>	<u>Complying as a Pct. of Total Base</u>
Ark.	1,550,814.8	1,311,829.4	1,215,731.1	948,964.8	78.39
Calif.	690,020.1	589,444.1	438,511.6	340,923.3	72.00
La.	715,832.1	667,725.1	563,637.7	445,191.1	78.74
Miss.	358,948.7	315,223.8	278,447.7	200,323.2	77.57
Mo.	88,251.4	79,047.8	58,267.6	45,646.7	66.02
Tex.	632,008.0	559,646.7	529,626.8	408,910.3	83.80
USA <u>1/</u>	3,969,460.3	3,535,932.0	3,092,526.5	2,393,573.0	77.91

1/ Includes Minor States.

However, given the large beginning stocks of 48.9 million hundredweights of which an estimated 17.6 million hundredweights are CCC-owned and when combined with production of 152.8 million hundredweight plus imports of about 400,000 hundredweights total supply is estimated at 202.1 million hundredweights compared to last year's record total supply of 202.2 million hundredweights.

Export Demand Reduced for 1982/83

Rice exports for 1982/83 are currently projected at 82.7 million hundredweight or about (2.7 million tons, milled basis) unchanged from last year. The world rice harvest is projected to be 3 percent smaller than the record

1981/82 crop of 276 million tons (milled basis). However given large stocks in South Korea, Japan, Taiwan, Burma, Thailand and Indonesia, the U.S. will face keen competition in the world markets.

Domestic Use Increasing

Domestic food use and industrial use in 1982/83 are projected to reach 62.5 million hundredweights, or an increase of about 5 percent from last year. The increase indicates the continued expansion in food use and also the use of rice by brewers.

Ending Rice Stocks High and Virtually Unchanged from Beginning Stocks

Ending stocks are projected to be 46.9 million hundredweight, down only slightly from the beginning stocks of 48.9 million hundredweights. Of these, CCC-owned inventory is projected to be about 22 million hundredweights. Farm prices for rough rice are currently projected to range from \$7.50 to \$8.25 per hundredweight. The five-month (Aug.-Dec.) average price received by farmers is projected to be below the national average loan and purchase rate of \$8.14 per hundredweight. As a result, deficiency payments will be made to eligible producers at the rate \$2.71 per hundredweight (target price of \$10.85 less the loan rate of \$8.14).

Rice Outlook Workshop

A separate workshop on the rice situation and outlook is scheduled to be held December 14 in Little Rock, Arkansas. The location is the Executive Inn, 707 Interstate 30, between 8:30 am to 3:30 pm.

1983-Crop Rice Program

The 1983-crop rice program must be announced no later than January 31, 1983. The period for public comment on the program ended November 26, 1982. We would expect an announcement during December.