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OUTLOOK FOR WHEAT

Talk by James J. Naive
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at the 1972 National Agricultural Outlook Conference
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Supply

The record 1971 harvest of 1,640 million bushels pushed the wheat supply to the highest level in 9 years although the carryover last July 1 was down 17% (table 1). A record hard red spring (HRS) crop spearheaded the advance. Production of soft red winter (SRW), white, and durum rose substantially, while hard red winter (HRW) was virtually unchanged.

Harvested area for the 1971 crop at 48.5 million acres was 10% higher than the previous year but well below the long-term average. Average yield per harvested acre was a record-high 33.8 bushels.

Disappearance

Total utilization of wheat during the first half of the 1971/72 marketing year was about 817 million bushels, down 3% from a year earlier. This decline was due to lower exports as dock strikes and uncertainty about future work stoppages were damaging to export sales. Food and seed uses were little changed, while feed use, bolstered by very heavy early season feeding, was up substantially.

Disappearance for the remainder of the season will decline seasonally from the July-December level. Feeding and seed uses, which normally are much heavier during the first half of the marketing year, account for this pattern. If there are no prolonged port tie-ups, January-June exports should about equal the previous 6 month's performance.

Exports for the season are now estimated at 575 million bushels, down about a fifth from last season's high level. A record 1971 world wheat crop has increased supplies of other exporters and lowered demand of some importing nations. The adverse effect of the dock strikes has also resulted in lost export sales.

The expected decline in exports would reduce total disappearance to 1,400 million bushels, 8% less than last season. Carryout stocks next summer may reach 971 million bushels, the most since 1963.

Farm Prices

National average farm prices for wheat have climbed seasonally since reaching the September low of \$1.26 per bushel. Prices for the remainder of the season are expected to average moderately below the December level of \$1.34.

For the 1971/72 season, the average farm price is estimated at \$1.32 per bushel, 1¢ lower than last season. The estimated winter wheat price, at \$1.33, is 3¢ higher but spring wheat prices are averaging about 17¢ lower.

Growers participating in the 1971 Wheat Program will receive around \$1.86 per bushel for their wheat when the value of the domestic certificates is taken into account.

Loan Activity

Loan activity from the 1971 wheat crop has moved well ahead of the previous season. Through December producers placed 359 million bushels or 22% of the crop under loan, compared to 226 million bushels or 16% a year earlier. Loan redemptions at 44 million bushels were down a half from 1970. The price conditions of the classes of wheat are generally reflected in the pattern of loan activity. In major HRW States, loan activity is down sharply, primarily because of early season price strength. But in the spring wheat States of the Northern Plains and the white wheat States of the Pacific Northwest, where prices are under pressure, loans have increased greatly.

WHEAT CLASSES

Hard Red Winter

Total supplies of hard red winter for 1971/72, at 1,309 million bushels, are 6% below a year earlier because of reduced carryin. The quality of the 1971 HRW crop was excellent; average protein content was higher than in the 2 preceding years.

HRW has been influenced by a number of unusual situations this year. Drought in Texas and Oklahoma resulted in a short crop and an active demand for early season supplies in that region. Millers and livestock feeders found themselves competing vigorously with exporters for existing supplies.

Domestic demand for HRW in 1971/72 is expected to about equal last year's 384 million bushels. After a strong first quarter 1971/72 export performance, HRW grain shipments declined sharply during October-December. For the first

half of the 1971/72 crop year they were down 20% from a year ago. Based on current expectations of disappearance, carryover on June 30, 1972, may be slightly above the 550 million bushels of this past summer.

HRW farm prices in 1971/72 have been relatively firm and should average around 4% above last season. The very strong early season demand, coupled with drought-reduced supplies in the Southwest, pushed prices well above year-earlier levels. This supply-demand situation is reflected in lower loan activity in the HRW area.

Soft Red Winter

Supplies of soft red winter in 1971/72 are the largest since 1968/69. Because of record yields in a number of major producing States production in 1971 rose a fifth.

SRW feeding was heavy during July-December but should taper off during the remainder of the season because of the record supplies and lower prices of feed grains.

Soft red winter was the only class registering an export gain during July-December. Inspections at 25 million bushels were nearly double the year-earlier level. However, export activity is expected to tail-off during the remainder of the 1971/72 season. Cash prices for SRW, which have increased sharply since September to around the levels of the ordinary hard wheats, are no longer competitive with other classes. Thus, importers are more apt to select hard wheats to fill their import needs.

Although disappearance is likely to increase this year, stocks may still rise moderately by next summer.

Hard Red Spring

Plentiful hard red spring supplies for 1971/72 reflect the record 1971 crop of 367 million bushels. The protein content of the 1971 crop is significantly lower than last year--in many areas as much as a full percentage point. Ergot which was prevalent in much of the HRS in North Dakota and Eastern Montana has caused marketing problems for export sales. 1/

HRS export inspections of 48 million bushels during the first half were down about a fourth from a year ago. Exports for the year may fall about 15% below last year's level of 113 million bushels.

1/ Ergot is a disease which is common to grasses, rye, barley, durum, and some varieties of HRS. The disease becomes apparent soon after heading by the appearance of a sticky fluid. Later the fungus bodies (sclerotia) become purplish-black in the ripened heads. The sclerotia, which are usually longer than grain, protrude from the chaff, and thresh out with the grain.

The ample supplies of HRS at lower prices should result in stronger mill demand and higher domestic disappearance than a year ago.

Total disappearance is expected to fall far short of the record crop. Carryover by the summer of 1972 could soar to nearly 250 million bushels, the largest since 1958.

The record 1971 hard red spring crop and weakened export demand have been decided price depressants. Estimated farm prices for 1971/72 are about a tenth below last season. Lower prices have led to much heavier use of the loan program in the Northern Plains States of the HRS area. By the end of December, 30% of the crop had been placed under loan compared with 13% a year earlier.

Durum

The sharply larger 1971 durum crop pushed supplies to 142 million bushels, up 11% from a year ago. Quality of the 1971 durum crop was good. Data show the semolina milling yield high and the product excellent in color.

Domestic use this year will likely total around last year's 35 million bushels. Exports during the first half of the marketing year were off sharply from the same period of a year ago. However, for the entire year they are expected to fall only slightly below last year's 39 million bushels.

White Wheat

The supply of white wheat for 1971/72 is estimated at 225 million bushels, up 8% from a year ago. A larger 1971 crop more than offset smaller carryin stocks.

The most important feature of the white wheat situation thus far was the shutdown of West Coast ports. Dock strikes have probably hurt white wheat more than any other class. With West Coast ports closed over half of the period, first half exports for the 1971/72 marketing year were down more than 40%. Sales to Far Eastern markets were lost when buyers turned to other countries for supplies.

The export slowdown led to weakening farm prices and heavy use of the loan program. At the end of December, Pacific Northwest producers had put about a third of the 1972 crop under loan.

Domestic use in 1971/72 is expected to total somewhat above the year-earlier level of 79 million bushels. But with exports slipping, stocks by next summer could almost triple the 1971 level of 20 million bushels.

WORLD WHEAT OUTLOOK 1/

1971 World Crop

World wheat production in 1971 rose to around 313 million tons up 9% from last year, according to preliminary estimates by the Foreign Agricultural Service. Crops were larger in all major producing regions except the USSR. Generally favorable weather and expansion of harvested area contributed to the increase.

Canada's wheat harvest at 14.2 million tons is up 58% from the small crop of a year ago, the largest gain by any major producer. This was due almost solely to area expansion. Western Europe, led by France, West Germany, and Spain, increased wheat output 16% to a record of 51 million tons. Another record was achieved in Eastern Europe where output jumped 27% following a relatively poor harvest in 1970. Current indications for the USSR, the world's largest wheat producer, point to a moderate decline from the 1970 bumper crop of 80 million tons.

India's harvest of 23.2 million tons marked the fourth consecutive record, reflecting the continued success of high-yielding semidwarf wheat varieties. Pakistan's output, which was affected by adverse climate conditions, slipped about 11% after setting records the 3 previous years. The success of Turkey's crop, which soared to a record 10 million tons, was due to a combination of the use of high-yielding wheat varieties and favorable weather. Mainland China's wheat crop is estimated to be down moderately from last year's good harvest. Indications point to larger crops in Australia and Argentina where the harvests have just been completed. Australia's crop is estimated at 8.3 up 6% from 1970. Production in Argentina at 5.2 million tons is around a fifth larger.

World Trade

The larger 1971 wheat harvest, especially in many importing countries, indicates that import demand may be down about 7% from the high level of 53.6 million tons in 1970/71. The increased wheat crop in Europe will be the major depressing factor on world wheat trade. However, carryovers are unusually low, and some of the 1971 wheat crop will likely go toward rebuilding stocks.

World wheat trade in 1971/72 will benefit somewhat from increased purchases by the Soviet Union. The USSR will take about 1 million tons of Canadian wheat remaining on a 1966 long-term contract and will also purchase up to about 2.5 million tons on a new contract. In addition, the Soviet Union contracted to purchase 500,000 tons each from France and Australia.

1/ All units are metric unless noted otherwise. One metric ton of wheat is equivalent to 36.74 bushels.

Other wheat markets are expected to show little net change from 1970/71. Turkey, North Africa, India, and Brazil are likely to take less. But this could be offset by increases in imports by Pakistan, the Middle East, and markets in the Far East where there is a general upward trend in wheat consumption and imports.

With large exportable supplies available, competition among wheat exporters in 1971/72 has been strong. This is partly reflected in lower world prices. Canadian exports, braced by large sales to Mainland China and the USSR, are expected to be up a sixth from last year's 11.5 million tons. Australia's shipments are estimated to be down only slightly from the 1970/71 record of 9.3 million tons. France, which again has picked up in export activity, may increase shipments as much as 2 million tons.

World Wheat Prices

Lower import demand and large exportable supplies have pushed world prices below 1970/71 levels. Recent prices at Rotterdam for selected classes have been running between 15 and 20 cents per bushel lower than a year ago. The price differentials between soft and hard wheats have narrowed as the season progressed. In mid-August soft winter was priced 18 and 27 cents a bushel less than hard winter and hard spring respectively; by mid-December these differentials had narrowed to 6 and 18 cents.

Table 1 --Wheat: Supply, distribution and prices, total and by class
July-June average 1964-68 and annual 1969-71 1/

Item and Year	Average 1964-68	1969/70	1970/71 preliminary	1971/72 projected	
----- Million bushels -----					
Beginning carryover	644	819	885	730	
Production	1,402	1,460	1,370	1,640	
Imports 2/	1	3	1	1	
Total supply	2,047	2,282	2,256	2,371	
Food 3/	514	521	518	520	
Seed	68	57	60	65	
Industry	---	---	---	---	
Feed (residual) 4/	110	213	209	240	
On farms where grown	(43)	(61)	(62)		
Domestic disappearance	692	791	787	825	
Exports 2/	728	606	739	575	
Total disappearance	1,420	1,397	1,526	1,400	
Ending carryover	627	885	730	971	
Privately owned--"Free"	(194)	(152)	(169)		
----- Dollars per bushel -----					
Price Support					
National average loan rate	1.26	1.25	1.25	1.25	
Average certificate payment	.50	.65	.75	.54	
Season Average Price Received					
By non-participants	1.39	1.24	1.33	1.32	
By program participants	1.89	1.89	2.08	1.86	
	Hard winter	Red winter	Hard spring 5/	Durum	White
----- Million bushels -----					
Average 1964-68					
Beginning carryover	411	13	161	43	16
Production	700	225	205	73	199
Total supply	1,111	238	367	116	215
Domestic disappearance	303	146	138	39	666
Exports 2/	422	73	76	34	123
Total disappearance	725	219	214	73	189
1969/70					
Beginning carryover	524	33	163	41	58
Production	790	194	189	106	181
Total supply	1,314	227	355	147	239
Domestic disappearance	353	176	137	35	90
Exports 2/	336	28	89	34	119
Total disappearance	689	204	226	69	209
1970/71 Preliminary					
Beginning carryover	625	23	129	78	30
Production	760	183	198	50	179
Total supply	1,385	206	328	128	209
Domestic disappearance	384	165	124	35	79
Exports 2/	451	26	113	39	110
Total disappearance	835	191	237	74	189
1971/72 Projected					
Beginning carryover	550	15	91	54	20
Production	759	221	367	88	205
Total supply	1,309	236	459	142	225
Domestic disappearance	391	180	133	36	85
Available for export or carryover	918	56	326	106	140

1/ Data by class, except production, are approximations. Projected disappearance figures should be regarded as midpoint of estimated ranges. 2/ Imports and exports include flour and other products in terms of wheat. 3/ Used for food in the United States, U.S. territories, and by the military at home and abroad. 4/ Assumed to roughly approximate total amount used for feed, including mixed and processed feed. 5/ Total supply of Hard spring includes imports.

Table 2.--Wheat: Comparison of 1971 and 1972 Program Provisions

Item	1971 Set-aside Program	1972 Set-aside Program
National domestic wheat allotment	19.7 million acres	19.7 million acres
Loan	\$1.25 per bushel	\$1.25 per bushel
Domestic certificate	Difference between the \$1.30 received by farmers in the first 5 months (July-Nov. 1971) of the marketing year and 100 percent of wheat parity on July 1, 1971.	Difference between average price received by farmers in the first 5 months (July-Nov. 1972) of the marketing year and 100 percent of wheat parity on July 1, 1972.
Total support or guarantee to program participants for certificated production	100 percent of parity (\$2.93)	100 percent of parity
Production eligible for domestic certificates	Production on 100 percent of farm domestic wheat allotment.	Same as for 1971
Production eligible for loan	Total production on participating farms	Same as for 1971
Certificated production on participating farms--estimated	535 million bushels	Same as for 1971
Preliminary payments	75 percent of estimated value of certificates soon after July 1, 1971. Final payments made after December 1. If preliminary payment is larger than value of certificates finally determined, no refund will be required.	Same as for 1971
Payment limitations	Maximum value of 1971 wheat certificates to any person \$55,000	Same as for 1971
Limitation on acreage planted to wheat	Participant who sets aside cropland equal to the required percentage of his domestic wheat allotment and maintains his conserving base may plant all the remaining cropland on the farm to wheat or any other crop he wishes--without loss of certificates (planting of quota crops limited by other programs).	Same as for 1971 except for the voluntary set-aside requirement which limits planting of spring wheat.
Required set-aside	75 percent of farm domestic wheat allotment	83 percent of farm domestic wheat allotment
Compensation for required set-aside	Value of wheat certificates and loan eligibility	Same as for 1971
Voluntary set-aside for payment	None	Up to 75 percent of a farm's domestic allotment. Spring wheat producer's planted acreage plus voluntary set-aside cannot exceed his total planted acreage in 1971.
Payment for voluntary set-aside	None	94 cents per bushel times farm yield times acre voluntarily set-aside.
Planting requirement to prevent loss of allotment	Producer who fails to plant 90 percent of his domestic allotment to wheat in 1971 will have his 1972 allotment reduced by the underplanting-- up to 20 percent. Acreage planted to corn or sorghum is considered planted to wheat. Acreage not planted due to natural disaster or conditions beyond producers control will be considered planted and producer who makes a set-aside but elects to receive no payment will not suffer an allotment loss.	With the inclusion of barley and soybeans, same as for 1971
Substitution	Any producer who sets aside cropland equal to the required percentages of his base and allotment and maintains his conserving base can plant his entire acreage to wheat, corn or sorghum without loss of payments, certificates, base acreage or allotment. A producer with only a base or only an allotment can participate in one program and plant all wheat or all feed grains without loss of benefits, base or allotment.	With the inclusion of barley and soybeans, same as for 1971
Conserving base	Acreage diverted must be in addition to the conserving base, i.e., average acreage of conserving crops in 1959 and 1960.	Same as for 1971
Farm program yield (used to calculate benefits)	Projected from 1967-69 average	Projected from 1968-70 average

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