Global Production Shortfalls Bring Record Wheat Prices

Weather events, low inventories, and subsequent increased export demand have combined to drive U.S. and world wheat prices to record levels. The projected 2007/08 season-average wheat farm price of $5.50-6.10 (as of September 2007) exceeds the previous U.S. record of $4.55 per bushel, even though domestic production of 2.1 billion bushels is only slightly above the average for the previous 5 years. In response, domestic and foreign food processors are announcing price increases for bakery and pasta items, and wheat futures prices on all three U.S. wheat exchanges have hit record highs.

The underlying market pressures leading to these price levels have been developing gradually, with global consumption exceeding production in 7 of the last 8 years. However, markets reacted sharply this year as adverse weather in the Northern and Southern Hemispheres reduced global production, and this year’s global carry-over stocks are projected to sink to 30-year lows.

Adverse weather events have brought smaller than expected crops in wheat-producing and -exporting countries in North America and elsewhere. Freeze damage in the U.S. and heavy rains at harvest in the U.S. and Western Europe reduced the output and quality of wheat. Dry weather hurt crops in Canada, Eastern Europe, and some countries of the former Soviet Union. Drought in Southeastern Europe reduced area’s wheat and corn crops, forcing livestock producers in the European Union (EU) to import wheat and feed grains for feed rations. The production shortfalls have curtailed EU wheat exports.

Tight U.S. supplies combined with reduced export competition have driven importers to buy U.S. wheat at a pace not seen since the 1970s. U.S. wheat export sales continue to grow despite higher prices and record-high ocean freight rates, as unfavorable growing conditions in Australia raise concerns about the size of the forthcoming harvests.

All wheat average prices received by farmers

While U.S. farmers benefit from higher wheat prices, the extent of those benefits depends on when the crops were marketed and whether output was reduced by local weather conditions. Even as the 2007 wheat crop works its way around the world, current high prices are influencing market expectations about next year’s crop. Futures market prices for 2008 crop contracts, though high by historical standards, reflect the expectation that farmers around the world will be planting more wheat in response to high prices, and the additional supplies will result in lower prices.

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This finding is drawn from . . .