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Federal Reserve Bank of Chicago - -

November 16, 1973

WORLD GRAIN PRODUCTION prospects have improved substantially. Prior to the most recent U. S. and USSR production estimates, world production of wheat and coarse grains—feed grains plus rye—was expected to fall short of consumption by 8 million tons. Last year the production/consumption gap totaled nearly 46 million tons. The latest U. S. crop production estimates indicate that domestic production of corn and sorghum may be slightly less than reported in October. However, the most recent Russian estimates report a substantial increase in production and this may just about close the previously anticipated world production/consumption gap.

The November 1 crop report showed downward revisions in U. S. corn and sorghum annual yields indicating that total feed grain production fell nearly 3 million tons from the October estimate. Most of the reduction was in the corn crop. Part of the lower yield estimates may be related to the reported practice of allowing the corn crop to dry down in the field to conserve drying fuel. Although this practice is probably the best overall strategy considering the current fuel shortage, the resulting increase in field losses will likely lower yields.

World Coarse Grain Production/Consumption Estimates¹
Years Beginning July 1

| | 1971-72 | 1972-73 ² | 1973-74 ³ |
|--|-----------------------|----------------------|----------------------|
| | (million metric tons) | | |
| Production | | | |
| United States | 190 | 182 | 190 |
| Foreign | 373 | 363 | 386 ⁴ |
| Total | 563 | 545 | 576 |
| Exports | | | |
| United States | 21 | 36 | 37 |
| Foreign | 32 | 27 | 29 |
| Total world imports | 53 | 63 | 66 |
| Total world consumption | 548 | 563 | 582 |
| Net change in stocks (production-consumption) — | 15 | — 18 | — 6 |

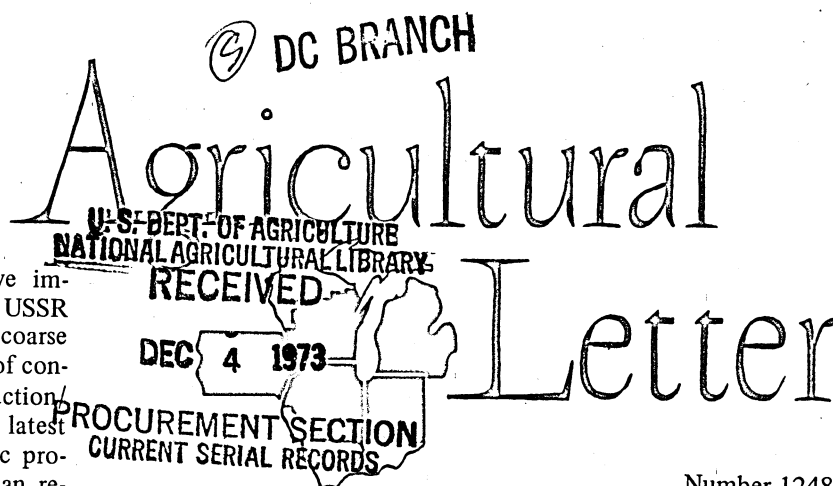
¹ Feed grains plus rye.

² Preliminary.

³ Projected including U. S. November revisions.

⁴ Prior to latest revised Russian crop estimate.

Recent estimates put total USSR grain production at 215 million tons, nearly 9 percent above the official Soviet production goal of 197 million tons and 30 percent above 1972 production. Two factors make it difficult to ascertain the full impact of the increase in Russian grain production on world markets. First, no production breakdown for the various crops is currently available. Earlier reports indicated that Russian wheat yields were substantially improved over 1972. This plus the fact that nearly 50 percent of the previous year's



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production was wheat suggests that a good portion of the 1973 production increase is probably wheat. It is unclear whether a similar increase occurred in feed grain production. Second, the Russian production report is based on the "gross weight" of the crop, a definition that includes chaff and other materials, and consequently overstates the amount of actual grain available.

World wheat consumption is expected to slow sharply in the current fiscal year. Wheat consumption is projected to rise only 1 percent this year, compared to last year's 5 percent increase. The more limited growth in consumption is a result of increased rice production, a substitute for wheat in many Asian countries, and lower economic growth rates throughout the world.

World coarse grain consumption in the 1973-74 fiscal year is expected to be nearly equal to the 3 percent increase posted last year. Although worldwide economic expansion rates may be down from the past year's growth rates, several major countries are still expanding livestock production. As a result, feed grain consumption will be pushed to higher levels. Japan is expected to import 9 percent more feed grains in the 1973-74 fiscal year to feed expanded livestock herds. Additional feed grain imports are expected in Western Europe, South Korea, Taiwan, and the People's Republic of China. Russia was expected to import about the same amount of feed grains in the 1973-74 fiscal year as they had in the previous year, about 5 million tons. That figure may be revised downward as a result of the reported increase in grain production in that country.

Feed grain and wheat prices will continue to be extremely sensitive to upcoming changes in production estimates, both domestic and foreign. Normal harvesttime price weakness in feed grains has not been apparent this fall, perhaps due to a lower-than-normal volume of harvesttime sales in the United States. The Middle East situation may also be responsible for some of the price strength.

If farmers continue to pursue their limited marketing strategy, feed grain prices should remain strong throughout the remainder of 1973. Corn and other feed grain prices may come under some downward pressure early in 1974 if farmers start moving stored grain to market at a more rapid pace. Moreover, further possible improvements in foreign production prospects may exert additional downward pressures on prices in 1974.

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