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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR WHEAT

Talk by William R. Askew
Economic and Statistical Analysis Division
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SUMMARY

The total supply of wheat for the 1965-66 marketing year is estimated at 2,175 million bushels, based on the October crop report. Total disappearance is expected to exceed production for the fifth consecutive year and, as a result, carryover stocks on June 30, 1966, may decline by at least 70 million from the 819-million-bushel beginning carryover.

Exports are estimated at 750 million bushels for 1965-66; although, if they were to continue at the rate of the July-September period, the total for the year would be higher than this estimate. During the first quarter of 1965-66, exports ran at a high level, with commercial exports substantially above a year earlier.

Feeding of wheat in 1965-66 is expected to be above the 70 million bushels of a year earlier, based on the expectation that wheat prices will be closer to feed grain prices at the farm level. This closer relationship occurred in July-September 1965 and known disappearance during this period indicated a sharp increase in wheat feeding over the same months a year earlier, thus substantiating the higher estimate of 100 million bushels of wheat for feed in 1965-66. In July-September 1965, feed grain prices averaged above a year earlier while wheat prices averaged about the same.

Despite the competitiveness of wheat and feed grain prices, wheat prices so far this year have been high relative to the loan. They seem to be following last year's pattern; prices in 1964-65 were highest during the summer and fall months. Farmers have again been withholding wheat from the market this season which has helped to strengthen prices. This, along with the expected heavy disappearance, is likely to maintain the season average price received by farmers in 1965-66 slightly above the national average loan rate of \$1.25 per bushel.

The Food and Agriculture Act of 1965, passed by Congress in October, continues the voluntary wheat certificate program for the next 4 years.

The legislation provides a program quite similar to the present program. Price support loans, at a national average of \$1.25 per bushel for the 1966 crop, are to be offered to producers who comply with their allotments. Marketing certificates valued at the difference between the loan level and the parity price will be issued on about 45 percent of the normal production. Parity was \$2.56 per bushel in October 1965 but could change by the time the official determination must be made in June 1966. Domestic food processors will be required to purchase certificates valued at 75 cents per bushel, the same as in 1965-66, with the remainder of the certificate value met with Government funds.

WHEAT SITUATION AND OUTLOOK

Total Supply Smaller

The total supply of wheat for the 1965-66 marketing year is estimated at 2,175 million bushels, based on data available in late October. This is slightly smaller than last year and substantially below the 5-year average (table 2). The beginning carryover of 819 million bushels was 82 million below the carryover on July 1, 1964, and represented a continuation of the decline in wheat stocks. Fiscal data on CCC holdings put Government-owned wheat at 646 million bushels on July 1, 1965. This, along with the 75 million remaining under loan and resale on that date, left a July 1 "free" carryover of 98 million bushels. The October crop report placed 1965 production at 1,354 million bushels, about 55 million above 1964. Imports are currently estimated at 2 million bushels for 1965-66, unchanged from a year earlier.

Free Supply Larger

Based on estimates of the free carryover and the 1965 crop, the beginning "free" supply in 1965-66 totaled about 1,452 million bushels. This is sharply above recent years and the most since 1958, when there were 1,485 million bushels in private hands.

High Level of Disappearance Expected

Total disappearance in 1965-66 is put at 1,425 million bushels, somewhat above a year earlier and considerably above the 5-year average (table 2). It is comprised of an estimated domestic disappearance of about 675 million bushels and expected exports of 750 million.

Domestic Disappearance to Increase

Feeding of wheat is expected to be heavier in 1965-66, pushing domestic disappearance to an estimated 675 million bushels, the highest level in 12 years. The current estimate is for 100 million bushels to be

fed during the marketing year beginning July 1, 1965. Disappearance during July-September 1965 substantiates this estimate; it indicates that feeding of wheat was up sharply from the same period a year earlier.

The use of wheat for feed in 1964-65 was calculated, through the residual method, at 70 million bushels. This is about 30 million bushels above the 1958-62 average and sharply above the level of the 2 preceding marketing years. The quantity of wheat fed on farms where grown in 1964-65, based on a Crop Reporting Board survey, was placed at 36 million bushels (table 2).

Wheat was priced low enough in 1964-65 to compete with feed grains. The same price relationships are expected to exist this year--the loan rates for 1965 crops of both wheat and corn are down 5 cents a bushel with wheat continuing at 20 cents a bushel above corn. In July-September this year, wheat farm prices, despite being higher relative to the loan, became more competitive with those of feed grains than in the same first 3 months of the 1964-65 year. It is expected that producers, after a year to become more familiar with the present program and more aware of the wheat-feed grain price relationships, will be even further inclined to feed wheat in 1965-66.

Food use of wheat in 1965-66 is now estimated at 510 million bushels, about the same as the quantity used for food a year earlier and in line with the flat trend of recent years. This trend is a result of annual decreases in per capita consumption of wheat products offsetting increases in population.

Larger Exports Indicated

Some increase in commercial exports and continued large Food-for-Peace shipments point to exports of wheat and flour in 1965-66 of around 750 million bushels. However, if exports were to continue at their present rate, the total for this year would be higher than the current estimate. Last year, about 728 million bushels were exported with a large proportion shipped under the Food for Peace Program. Government-financed exports totaled an estimated 566 million bushels, over three-fourths of the total. India was the major recipient, acquiring about 220 million bushels; Pakistan and Brazil followed with 65 million and 40 million, respectively. Exports for dollars, estimated at 162 million bushels, were slightly below the 1958-62 average and were well below the record level of 352 million bushels in 1963-64 (table 2). Japan was the major dollar buyer, taking about 60 million bushels.

In late January of 1965, USDA reduced the net export price to improve its competitive position in the world markets. Lower prices resulted in a significant rise in U. S. commercial exports during the remainder of 1964-65. However, the full effect of the price reduction was probably not felt

because many commercial export markets had already been taken by other exporters and because the dock strike curtailed shipping during January and February 1965.

Exports Up in First Quarter

During the first 3 months of the current marketing year, inspections for export of wheat, as grain, at 183 million bushels were sharply above a year earlier. Much of the increase was in commercial sales. These sales totaled 56 million bushels and comprised 30 percent of the wheat exported compared with only 18 percent a year earlier.

Japan continues to be the major cash buyer of U. S. wheat, taking nearly 20 million bushels during July-September 1965. India is still the largest recipient of U. S. wheat, receiving 63 million bushels during the period; nearly all moved under Title I, P.L. 480.

Carryover Stocks to Continue Decline

Based on the foregoing estimates of domestic disappearance and exports, carryover stocks on June 30, 1966, may decline at least 70 million from the 819-million-bushel beginning carryover. Total disappearance in 1965-66 is placed at 1,425 million bushels with carryover stocks on June 30, 1966, now estimated at 750 million bushels.

Prices Competitive With Feed Grains

The season-average price received by farmers for wheat in 1965-66 is expected to be slightly above the national average loan rate of \$1.25 per bushel. Approximately 84 percent of the 1965 acreage allotment was enrolled in the program, and all production from this acreage is eligible for price support. This should provide an offset to the large free supply and give strength to prices.

Prices received by farmers for wheat during July-September 1965 averaged \$1.33, 8 cents above the national average loan rate applicable to the 1965 crop. The quarterly average price is 1 cent a bushel below that for the same months a year earlier, when the national average loan rate was \$1.30. Despite the high level of wheat prices relative to the price-support loan this year, they became more competitive with those of feed grains. During July-September 1965, farm prices of the major feed grains were higher relative to wheat than during the same months in 1964. Wheat prices averaged 8 cents per cwt. over corn and 12 cents over barley. If adjustment is made for the greater nutritional value of wheat--5 percent over that of corn and 14 percent over barley--wheat was actually cheaper than these grains.

During the 1964-65 marketing year, prices received by farmers for wheat averaged \$1.37 per bushel. However, they did not follow a normal seasonal

pattern. Wheat prices were highest during the summer and fall months. From December to June, they declined; under a normal seasonal pattern this would have been the period of highest prices. Based on wheat prices so far this year, it appears that they are following last year's pattern.

The average price per bushel received by program participants and non-participants, as well as a blend price for all wheat farmers, is shown in table 2. Participants in the 1964 wheat program obtained approximately 43 cents per bushel more than nonparticipants--\$1.80 and \$1.37, respectively. The \$1.80 received by participants and the \$1.69 blend price received by all farmers include an allowance for marketing certificate payments, but not for acreage diversion payments.

1965-Crop CCC Loan Activity Lighter

The quantity of 1965-crop wheat put under loan through September totaled 113 million bushels, down slightly from the 122 million a year earlier. Of the wheat put under loan this year, 75 million bushels were stored in warehouses and the rest was stored on farms. On September 30, 1965, approximately 70 million bushels of wheat remained under resale loan from the 1964 and previous crops.

For the 1964-65 marketing year, about 198 million bushels of 1964-crop wheat were placed under loan and another 100 million were eligible for direct purchase by CCC. However, CCC acquired only about 75 million bushels under the support program through June 30, 1965. There were several reasons for heavy usage of the loan program in 1964-65. Most farmers thought market prices were too low when compared with the high levels of the past 2 decades; undoubtedly, they believed prices would rise.

Dispositions Continue Heavy

CCC sales and dispositions of wheat during the first 3 months of the current marketing year declined from the level of a year earlier. During the period, about 105 million bushels of CCC wheat moved into the market; most of it represented redemption of payment-in-kind script. During the same period in 1964, about 135 million bushels of CCC wheat came into the market, with 110 million at the statutory minimum price.

In 1964-65, sales and dispositions by CCC of about 310 million bushels almost reached the record of a year earlier. PIK redemptions totaled 130 million bushels. Last spring, CCC discontinued offering any wheat for sale at the statutory minimum price--105 percent of the price support loan plus applicable carrying charges or the market price, whichever is higher.

THE FOOD AND AGRICULTURE ACT OF 1965

The program will be quite similar to the present program. Price support loans, at a national average of \$1.25 per bushel for the 1966 crop, are offered to producers who comply with their allotments. Marketing quotas are suspended while the program is in effect. Producers who are prevented from planting wheat because of natural disasters receive the same program benefits they would have received if they had planted, provided the land is not planted to any other income-producing crop.

Wheat for domestic food use will be supported at 100 percent of parity or as near as practicable. For 1966, domestic certificate wheat will be supported at parity. CCC will pay the support above \$2.00, and domestic wheat processors will pay the difference between the national average price-support loan rate and the \$2.00 domestic food-processor level. (In 1965-66, processors are also paying 75 cents per bushel). Domestic marketing certificates will be issued to producers to cover estimated domestic food use but the minimum number of certificates cannot be less than 500 million. They will be issued on about 45 percent of normal production. There was no minimum for certificates in 1965.

Noncertificate wheat and wheat for export will be supported through loans at a level based on the world market price and the feeding value of wheat. Export certificate costs to exporters will be on a day-to-day basis rather than on a predetermined annual value as in 1965. At the end of the marketing year, the proceeds from export certificates minus export payments will be distributed to eligible producers on a pro-rata basis. In 1965, export certificates with a predetermined face value of 30 cents per bushel were issued to producers for 35 percent of the normal yield of their allotments.

For the 1967 through 1969 crops, the blend, or weighted average, return per bushel on the projected yield of the allotment cannot be less than the blend return per bushel in 1966--provided the required diversion is more than 10 percent.

The minimum national acreage allotment will be the number of acres needed to produce the estimated requirements on a projected national yield. No minimum acreage allotment is specified. The 1966 allotment was established at 47.8 million acres in April 1965 under the Food and Agriculture Act of 1962. Under the program applicable for the 1965 crop, the national allotment could not have been less than 49.5 million acres.

Diversion payments are authorized on additional voluntary diversion up to 50 percent of the farm allotment or 25 acres, whichever is larger. In 1965, the maximum was 20 percent or 15 acres, whichever was larger. Authority is given, under certain conditions, to allow planting on diverted acreage to a number of minor crops.

Projected yields will be established for each farm for computing program benefits; they will be indicative of the yield per acre expected for each farm, assuming current cultural practices and normal weather conditions. Previously a 5-year average yield, subject to adjustments for abnormal weather and other factors, had been used. Generally, the new method should provide a higher yield than using the 5-year average.

Beginning in 1967, State, county, and farm wheat allotments will be computed on the basis of the preceding year's allotment instead of on the basis of 5- and 10-year history. Relationships between each will not be significantly changed but will reflect the increases made in small farm allotments under existing law. For 1966, State, county, and farm allotments are computed under the law existing before passage of the new bill.

Table 1.- Estimated supply and distribution of wheat by classes, United States, 1964-65 and 1965-66

(Note.-Figures in this table, except production, are only approximations).

Item	Hard	Red	Hard	Durum	White	Total
	winter	winter	spring			
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
<u>1964-65</u> <u>1/</u>						
Carryover, July 1, 1964	670	4	180	41	6	901
Production	642	229	173	66	181	1,291
Imports <u>2/</u>	---	---	2	---	---	2
Supply	1,312	233	355	107	187	2,194
Exports <u>2/</u>	502	80	24	9	113	728
Domestic disappearance <u>3/</u>	271	146	135	31	64	647
Carryover, June 30, 1965	539	7	196	67	10	819
<u>1965-66</u> <u>1/</u> <u>4/</u>						
Carryover, July 1, 1965	539	7	196	67	10	819
Production	695	187	213	65	194	1,354
Imports <u>2/</u>	---	---	2	---	---	2
Supply	1,234	194	411	132	204	2,175
Exports <u>2/</u>	561	40	40	12	97	750
Domestic disappearance <u>3/</u>	285	144	137	27	82	675
Carryover, June 30, 1966	388	10	234	93	25	750

1/ Preliminary. 2/ Include flour and products in wheat equivalent. 3/ Wheat for food (including military food use at home and abroad), feed, seed and industry. Includes shipments to U. S. Territories. 4/ Imports and distribution items are projected.

Table 2.- Wheat: Supply and distribution and prices, average 1958-62, annual 1962-65

Item	Year beginning July				
	Average 1958-62	1962	1963	1964 1/	1965 1/ 2/
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
<u>Supply</u>					
Carryover on July 1	1,244.6	1,321.9	1,194.9	901.2	819
Production	1,252.8	1,093.7	1,142.0	1,290.5	1,354
Imports 3/	7.0	5.5	4.3	1.9	2
Total	2,504.4	2,421.1	2,341.2	2,193.6	2,175
<u>Domestic disappearance</u>					
Food 4/	498.1	502.3	505.0	512.4	510
Seed	61.5	60.6	63.4	64.2	65
Industry	.1	.1	.1	.1	---
Feed (Residual) 5/	41.9	20.9	12.8	70.0	100
Fed on farms where grown	(29.6)	(20.3)	(19.9)	(35.8)	
Total	601.6	583.9	581.3	646.7	675
<u>Exports 3/</u>					
For dollars	595.5 (171.3)	642.3 (151.7)	858.7 (351.6)	728.0 (162.0)	750
Total disappearance	1,197.1	1,226.2	1,440.0	1,374.7	1,425
<u>Stocks on June 30</u>					
Privately owned---"Free"	1,307.3 (51.0)	1,194.9 (6.0)	901.2 (19.7)	818.9 (98.0)	750
<u>Price Support</u>					
National average loan rate	1.84	2.00	1.82	1.30	1.25
Average payment 6/	---	---	.18	.43	.44
<u>Season average price received</u>					
By all farmers	1.82	2.04	1.85	1.37	
With payment allowance	---	---	1.92	1.69	
By program participants	1.82	2.04	2.03	1.80	

1/ Preliminary. 2/ Imports and distribution items for 1965 are projected.
3/ Include flour and other products in wheat equivalent. 4/ Includes shipments to U. S. Territories and wheat for military food use at home and abroad.
5/ Assumed to roughly approximate total amount used for feed, including amount used in mixed and processed feed. 6/ Based on applicable allocation of normal production; does not include acreage diversion payments. Direct payment for 1963 and weighted average of marketing certificates for 1964 and 1965.