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OUTLOOK FOR WHEAT in 1967/68

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Total wheat supplies for 1967/68 are placed at 1,981 million bushels (based on indications in October), an increase of 133 million bushels from supplies of a year earlier. This is the first time since 1960/61 that the supply of wheat in the United States has increased from that of the previous year. The July 1, 1967, carryover of 426 million bushels was the smallest since 1952 but the decline was more than offset by the record crop of 1,554 million.

First Quarter Disappearance Up Slightly

Total disappearance of wheat during July-September 1967, at 415 million bushels, was slightly larger than for the same period a year earlier. Exports, totaling an estimated 195 million bushels were down 16 percent from exports in July-September 1966. During that period of 1966, exports totaled 231 million bushels with dollar exports (including short term CCC credit) comprising half of the total. Dollar exports through September this year have been somewhat smaller, accounting for only 40 percent of the total. Barter exports this year are up sharply totaling an estimated 42 million bushels during July-September compared with 9 million in that period of 1966.

Use of wheat for food was little changed from a year earlier while seed use was off, reflecting the 13 percent reduction in the national acreage allotment for the 1968 crop. Feeding of wheat was greater during this past July-September than a year earlier, due to the narrower spread between wheat and feed grain prices. The approximately 45 million bushels fed to-date this year is about 30 million more than a year ago.

October 1 Stocks Larger

Stocks of wheat in all positions on October 1 totaled 1,565 million bushels, up 124 million from October 1966. The Commodity Credit Corporation owned only 116 million bushels this October 1 compared with 179 million on the same date in 1966.

Feed Use May Rise in 1967/68

Total domestic disappearance may increase in 1967/68, primarily as a result of heavier use of wheat for feed. However, with the record corn and grain sorghum crops and probable lower prices for these grains, the rate of wheat feeding may decline from the high level of the first quarter. For the entire 1967/68 marketing year, feeding is estimated at 100 to 125 million bushels compared with 93 million last year.

Per Capita Flour Consumption Continues Decline

The Bureau of the Census made downward revisions in their data on wheat ground and flour produced for calendar years 1962 to 1966, resulting in smaller domestic wheat food usage and a lower per capita disappearance of flour. The level of per capita flour disappearance was reduced by about 2 pounds so that the average for 1966 has been revised to 112 pounds. Prior to revision, per capita consumption showed signs of stabilizing. The revisions place the recent trend in per capita flour use at a 1 pound reduction per year. As a result, it appears that food use of wheat in 1967/68 may total 510 to 515 million bushels.

Total Domestic Disappearance May Increase

Seed use of wheat in 1967/68 is likely to total 70 million bushels, somewhat below the 78 million of last year. This is likely to be more than offset by increases in food and feed use, resulting in a total domestic disappearance in 1967/68 of 680 to 700 million bushels. This would be about the same as or slightly higher than last year but somewhat below the record 731 million of 1965/66.

Export Availability Increases; Competition Stiffens

Allowing 680 to 700 million bushels for domestic requirements for the entire 1967/68 marketing year, the quantity available for export and carryover is above that of a year earlier. The Department's export target was announced last summer at 750 million bushels, fractionally larger than the 742 million of 1966/67. U.S. commercial exports are likely to be below last year's record level, while Food for Freedom exports may be larger than last year's reduced outgo.

Through October 30, exports of wheat and products, as well as forward registration for export payment, were behind last year's record level on that date. With large and better distributed crops around the world, competition for export markets is much greater this year than in 1966. While the 1966 world crop was a record 10.3 billion bushels, this was not apparent until the late fall of 1966. Australia and Argentina were short of wheat during July-November 1966, but Australia harvested a record crop in December of that year. The Soviet Union harvested a record crop comprising about one-quarter of the world total and it is probable that much of their wheat went to replenish stocks depleted by several years of poor harvests.

Much of the current lull in world trade stems from reduced purchases by the Soviet Union, East European countries, and Mainland China. With a crop of around 2.3 billion bushels, the Soviet Union has only taken the minimum annual quantity of 75 million bushels established under their 3-year contract signed with Canada in 1966. This contract was negotiated in June of that year prior to the time the U.S.S.R. harvested their record 2.9 billion bushel crop. Canada still has long-term agreements with several East European countries but no sales have been made to-date. Mainland China has yet to take any wheat from Canada, although they have an agreement calling for a minimum of 168 million bushels and a maximum of 280 million to be taken over 3 years. In 1966/67, the first year of the agreement, Mainland China purchased nearly 95 million bushels from Canada.

Thus, a near-record 1967 world crop, along with a better distribution of the crop by country and reduced Communist purchases, has tended to slow down world trade and bring lower prices. The export price of U.S. No. 1 Hard Winter, ordinary protein, at the Gulf on October 26 was $1.71 per bushel, including an export payment of 7 cents. A year earlier, the export price was $1.79 per bushel, with a payment of 20 cents.

Canada Introduces Special Wheat Subsidy

In an unprecedented action, the Canadian Government announced on September 27 that it will pay subsidies on wheat sold by the Canadian Wheat Board below minimum price levels, which also were the levels agreed to in the International Grains Arrangement (IGA). The IGA minimum prices are not expected to become effective until July 1, 1968. However, the subsidies are to apply to all sales made from the beginning of the current Canadian marketing year (August 1, 1967).

Under the Canadian marketing system, the wheat farmers' total return is based on two payments: the initial or guaranteed payment and the final payment. For the current crop, the initial payment--basis instore Fort William/Port Arthur--is C$1.70 (Canadian dollars) for Manitoba No. 1. For the past 5 years, the initial payment has been C$1.50 for No. 1 Manitoba; payments for other grades were slightly less. Transportation costs, handling fees, and Wheat Board operating expenses are deducted from the payments. Typically, these charges run about 18 to 20 cents per bushel. The second and final payment is distributed to farmers well after the close of the marketing year. In January 1967, the Wheat Board distributed a final payment for the 1965/66 marketing year that averaged 48 cents per bushel. For Manitoba No. 1 the final payment that year was 50 cents and for No. 3

it was 46 cents, making the total payments for these two grades C$2.00 and C$1.88, respectively, at Fort William/Port Arthur. Deducting the charges listed above, and converting U.S. currency, provides a farm price ranging from U.S. $1.57 to $1.68. In contrast, a participant in the U.S. Wheat Program in 1965/66 received an average return of $1.79 per bushel when marketing certificate payments were added to his return from the market.

Some Carryover Increase Likely

With the currently indicated level of total disappearance in 1967/68, carryover stocks on June 30, 1968, are expected to be somewhat larger than the 426 million bushels of this past summer.

Prices Hold Over Loan

The U.S. average farm price remained 12 to 16 cents a bushel above the national average price support loan of $1.25 per bushel during the harvest of the record 1967 crop. While well below the July-September 1966 average of $1.72 per bushel, the $1.39 per bushel average for the first quarter of the 1967/68 marketing year is significant in that this normally is the period of lowest prices. The abnormal pattern of prices during 1966/67 stemmed from concern over world wheat supplies, which at first appeared short of requirements and pushed U.S. prices during July-September to the highest level of the 1966/67 year.

Having withstood the effects of the record 1967 harvest, prices could show some increase. In fact, the October farm price at $1.43 per bushel was the highest monthly farm price of the current season. Barring an unexpected decline in exports from the indicated 750 million bushels, it appears that the farm price for the entire year may average 10 to 15 percent above the loan.

Loan Activity Increases; CCC Sales Negligible

Through September, farmers had placed 140 million bushels of 1967-crop wheat under loan, about 64 million more than the same time a year earlier. Through September 1967 the quantity of wheat placed under loan accounted for about 9 percent of the 1967 crop compared with 6 percent a year ago.

Sales and disposition by the Commodity Credit Corporation through September totaled only 11 million bushels, well below the 85 million of a year earlier. With smaller stocks, the CCC has generally withdrawn from the market, limiting their sales and dispositions largely to out-of-condition wheat.

Commercial Reseal Announced

All farmers who are eligible for price support and use the loan program on 1967 crops will be eligible for reseal in commercial storage. This is similar to the farm reseal program which has been in operation for many years. Storage costs accruing during the reseal period will be paid by CCC. These payments will be made to farmers who provide farm storage or who prepay warehouse storage charges for the extended period. If warehouse charges are not prepaid, CCC will make these payments for the extended period direct to the storing warehouseman. Payments by CCC to the warehouseman for reseal will not relieve producers of their obligation for warehouse charges which accrued during the initial loan period.

Procedural Change in Export Program

Following a series of discussions with U.S. wheat exporters, USDA made several changes in the export payment program which are designed to maximize exports. They became effective on October 30, 1967. The new procedure applies to all classes of wheat except durum. It does not apply to P.L. 480 exports. The major change is the elimination of the requirement that an exporter have made a foreign sale prior to entering into a contract with USDA for export payment. Under the new system, the exporter will offer to export a stated quantity and class of wheat from a specified cost during a specified period. If accepted by USDA, the applicable subsidy rate will be the announced rate in effect at the time the exporter wishes the Department to consider his offer.

The exporter must still furnish a Notice of Sale at the earliest date possible after a sale is made which is to be applied against an existing contract with CCC. However, the Notice of Sale will have no effect upon the subsidy rate applicable to the contract. Provision is also made for assessment of liquidated damages of 25 cents per bushel if an exporter fails to export under his contract with CCC.

Soft Wheat Production Up Sharply

The most significant feature of the record 1967 crop is the dominant position of soft wheat. Combined soft red winter and soft white wheat production at 510 million bushels made up 33 percent of the total compared with only 28 percent during the 5-year average for 1961-65. Coupled with the June 30, 1967, carryover, the total supply of each of the winter wheats in 1967/68 is larger than a year ago while spring wheat and durum supplies in 1967 are both below 1966 levels.

Winter Wheat Exports to Increase

Similarly, exports of hard winter, soft red, and white wheats are likely to be larger in 1967/68 than in the preceding year. The increases in the soft red and white wheats stem largely from increased availabilities. The estimated increase for hard winter wheat reflects both the larger supply and the relatively low level of exports of this class of wheat in 1966/67. During 1966/67, hard spring wheat was used extensively in the Food for Freedom Program to protect the smaller supply of hard winter. Exports of hard spring and durum are likely to decline from last year's record levels. Last year's durum exports included large amounts of feed grade wheat; this is not likely to be repeated in 1967/68.

During July-September, grain exports (based on inspections) were sharply higher than a year earlier for soft red winter and white wheats. The inspections of soft red wheat for export do not include the approximately 8 million bushels of 1967-crop wheat shipped from the Gulf ports in June. In June 1966, nearly 5 million bushels of 1966-crop wheat was shipped from these ports. Increased use of soft red and white wheat in the P.L. 480 Program primarily accounts for the stepped-up exports. Hard spring wheat exports were off considerably during July-September 1967, as were durum exports. Almost all of the spring wheat exports were dollar sales.

Table 1.--Wheat: Supply, distribution and prices, annual 1962-67

Item	Year beginning July 1962	1963	1964	1965	1966 1/	1967 projected
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
Supply						
Carryover, July 1	1,322.0	1,195.2	901.4	817.3	535.2	426
Production	1,092.0	1,146.8	1,283.4	1,315.6	1,310.6	1,554
Imports 2/	5.4	3.9	1.1	.9	1.8	1
Total	2,419.4	2,345.9	2,185.9	2,133.8	1,847.6	1,981
Domestic disappearance						
Food 3/	500.4	503.3	509.2	515.1	507.7	512
Seed	61.4	65.0	65.6	61.9	78.3	70
Industry	.1	.1	.1	.1	.1	---
Feed (residual) 4/	18.5	20.0	68.7	154.1	92.8	100-125
On farms where grown	(16.1)	(15.2)	(31.4)	(41.7)	(24.6)	
Total	580.4	588.4	643.6	731.2	678.9	682-707
Available for Export and Carryover	1,839.0	1,757.5	1,542.3	1,402.6	1,168.7	1,274-1,299
Exports 2/	643.8	856.1	725.0	867.4	742.4	750
Total disappearance	1,224.2	1,444.5	1,368.6	1,598.6	1,421.3	1,432-1,457
Stocks, June 30	1,195.2	901.4	817.3	535.2	426.3	524-549
Private--"Free"	(6.0)	(19.7)	(97.0)	(194.8)	(221.9)	
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.
Price support (per bu.)						
National average loan rate	2.00	1.82	1.30	1.25	1.25	1.25
Average certificate payment	---	5/.18	.43	.44	.59	.48
Season Average Price Received (per bu.)						
By all producers	2.04	1.85	1.37	1.35	1.63	
By program participants	2.04	2.03	1.80	1.79	2.22	

1/ Preliminary. 2/ Imports and exports are of wheat, including flour and other products in terms of wheat. 3/ Used for food in the United States and U.S. territories, and by the military both at home and abroad. Revisions in food item based on 1963 Census of Manufactures. 4/ Assumed to roughly approximate total amount used for feed, including amount used in mixed and processed feed. 5/ Includes 18 cents per bushel price support payment made to producers participating in voluntary diversion program in 1963.

Table 2.--Wheat: Estimated supply and distribution by classes, United States, average 1964-66, annual 1966, and projection for 1967

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

Item	Hard winter	Red winter 1/	Hard spring	Durum	White	Total
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
Average 1964-66						
Carryover, July 1	490	6	189	54	12	751
Production	661	207	190	67	178	1,303
Imports 2/	---	---	2	---	---	2
Supply	1,151	213	381	121	190	2,056
Exports 2/	490	64	77	30	117	778
Domestic disappearance 3/	308	140	137	41	59	685
Carryover, June 30	353	9	167	50	14	593
1966/67						
Carryover, July 1, 1966	267	8	186	54	4/20	535
Production	676	213	181	63	178	1,311
Imports 2/	---	---	2	---	---	2
Supply	943	221	369	117	198	1,848
Exports 2/	377	66	120	47	132	742
Domestic disappearance 3/	306	143	136	41	54	680
Carryover, June 30, 1967	260	12	113	29	4/12	426
1967/68 (Projected)						
Carryover, July 1, 1967	260	12	113	29	4/12	426
Production	722	279	239	69	245	1,554
Imports 2/	---	---	1	---	---	1
Supply	982	291	353	98	257	1,981
Domestic disappearance 3/	311-326	145-150	136	30	60-65	682-707
Available for export and carryover	656-671	141-146	217	68	192-197	1,274-1,299
Exports 2/	393	110	65	22	160	750
Carryover	263-278	31-36	152	46	32-37	524-549

1/ Beginning with 1964, exports adjusted to reflect year of production

2/ Imports and exports are of wheat, including flour and other products in terms of wheat.

3/ Wheat used for food (in the United States and U.S. territories, and by the military both at home and abroad) feed, seed, and industry.

4/ Based largely on Pacific Northwest wheat survey, but includes allowance for white wheat in the East and other West.