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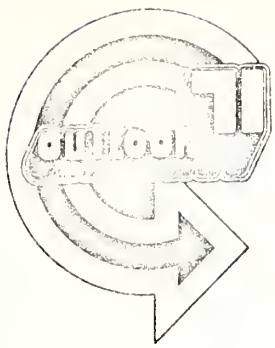
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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR WHEAT

Talk by William R. Askew
Economic and Statistical Analysis Division
at the 1971 National Agricultural Outlook Conference
Washington, D.C., 1:15 P.M., Wednesday, February 24, 1971

The total supply of wheat in 1970/71 is only fractionally smaller than the 2,282 million bushels of a year earlier. The 1970 crop was down about 80 million bushels from 1969 while the July 1, 1970 carry-over was up about 65 million.

The 1970 crop was harvested from 44.3 million acres, down 3.3 million from 1969 and one of the smallest in the last 50 years. Yield per acre was a record high 31.1 bushels exceeding the previous record of 30.7 bushels in 1969. The small acreage in 1970 reflected the 45.5 million acre national wheat allotment, and a voluntary acreage diversion program that took 3.6 million acres out of production.

Disappearance of wheat totaled 846 million bushels during the first half of the 1970/71 marketing year. Exports at 376 million bushels were sharply above those of July-December 1969. Food and seed use were little changed. There was little change in the quantity used for feed. This item totaled 157 million bushels virtually the same as in July-December 1969. National average grain price relationships pointed to prospects for increased use of wheat for feed. But, in the major wheat areas the principal feed grain was not competitive with wheat.

Stocks of wheat in all positions on January 1, 1971 totaled 1,417 million bushels, off sharply from those of a year earlier. Privately held ("free") stocks on January 1 totaled 657 million bushels, about the same as a year earlier. Reseal stocks accounted for 338 million bushels of the total, down somewhat from those of January 1, 1970. But the reseal loan is not being extended for many crops. Thus, about 220 million bushels of the wheat in reseal on January 1, 1971 is not eligible for extended reseal.

Unless there is a sharp increase in exports, disappearance of wheat during January-June 1971 is likely to be about the same as in July-December 1970. But, even with this leveling in usage, total disappearance in January-June 1971 is expected to be greater than the 649 million bushels in the same period in 1970.

Exports during January-June may equal the level of July-December 1970 (376 million bushels) in working towards a marketing year total of 725 to 750 million bushels. At approximately 350 to 375 million bushels they would be somewhat larger than the exports of January-June 1970. Commercial exports were especially heavy during the first 6 months of 1970/71; food aid exports were rather low. While commercial exports will continue heavy during the remainder of this year, food aid shipments may pick up from that of the first half. But for all of 1970/71 food aid exports are not likely to be much different from those of 1969/70.

Even though the monthly farm price has declined from the \$1.45 per bushel in November, it is still likely to remain above year-earlier levels the rest of the 1970/71 marketing year. Price strength will be derived from the low level of January 1 "free" stock relative to anticipated requirements during January-June.

Total disappearance during January-June 1970 was almost identical to January 1 "free" stocks. Use totaled 649 million bushels; stocks were 659 million. The monthly farm price averaged several cents over the loan until June when it slipped to \$1.23 per bushel. Loan repayments were large enough to create a "free" carryover of 152 million bushels last summer.

During January-June 1971 the level of prices relative to the loan will be strongly affected by farmers decisions on resale wheat loans that are not being extended past this season. While farmers have faced this decision at times in the past it has not involved the quantities of wheat now under consideration. Some of the resale wheat has incurred large interest charges and likely will be delivered to CCC.

Despite an anticipated high level of feed grain prices relative to wheat prices during January-June 1971, wheat feeding is expected to expand only slightly from the 52 million bushels for this period a year ago. The tight "free" supply, and the resulting strength in wheat prices, could be the major factor keeping wheat out of feed markets in substantial quantities. For the entire 1970/71 marketing year wheat feeding may total about 235 million bushels, 10% above last year.

Total disappearance of about 1,570 million bushels, appears likely. Thus, the June 30, 1971 carryover may be sharply below the 885 million bushels of last June. At around 700 million bushels it would be the smallest since 1968 and the first decline since 1966/67. The decline would also be the sharpest reduction in carryover since 1963/64.

Exports of hard red wheats and white wheat rose sharply during July-December 1970 compared with the same period of 1969. Soft red and durum exports during the first half of 1970/71 were virtually the same as a year earlier.

For the entire 1970/71 marketing year, soft red exports are likely to be slightly below last year's 28 million bushels. Hard red spring exports as well as those of hard winter may exceed last year's respective totals of 91 million bushels and 33¹/₄ million. Spring wheat exports of around 100 million bushels appear likely while exports of hard winter could total upwards of 100 million bushels above 1969/70. Exports of durum may equal or exceed the 1969/70 total of 34 million bushels while white wheat exports may be off slightly from the 119 million last year.

Wheat prices have been above year-earlier levels in every region this season. Price strength has been particularly evidenced in the soft wheat areas. However, in the soft red wheat areas, corn prices continue to equal or exceed wheat prices. In the Pacific Northwest, barley is well below wheat in price. In all regions, prices have tended to level off or decline slightly following the sharp increases of last fall.

The January seeding intentions report indicated that spring wheat acreage may total 13 million acres, up nearly 2 million from last year. However, it is questionable that wheat producers were fully aware of the new program when they completed this intentions report since the program was announced in December and the intentions survey was made as of January 1. Thus, spring wheat acreage could expand further. The usual March intentions report will still be released in that month. Winter wheat seedings were down slightly from a year earlier. Many winter wheat producers were uncertain about the status of the legislation applicable to the 1971 crop and likely planted on the basis of legislation in effect at planting time. They seeded 1% less acreage than for the 1970 crop. Seedings of winter wheat for harvest in 1971 totaled only 38.1 million acres, the least since the 1957 crop. The percentage to be harvested for grain was placed at 85.9% compared with 87.1% for 1970.

Yield per seeded acre is estimated at 27.3 bushels, 1.8 bushels below the 1970 record, but still the second largest. Based on December 1 conditions, the prospective winter wheat crop was placed at 1,040 million bushels. At this level it would be 7% less than the 1970 crop and the smallest since 1965.

World wheat trade in 1970/71 may be second only to the 2.3 billion bushels of 1965/66. In that year, food aid shipments to India and Pakistan were far higher than they will be in 1970/71. Then the Soviet Union alone imported over 300 million bushels of wheat; this year it will probably take less than 50 million.

For the first time in recent history, grain supply and import requirements are now quite close together both for wheat and feed grains. This has obscured some traditionally sharp distinctions in trade, utilization, and price levels among the grains. Behind this year's market and price situation is an unusually coincidence of major developments that have either reduced supply or increased import demand. The overall impact on international supply and demand is an expansion in world wheat and coarse grain trade.

Domestic supplies of grain last year in Europe, including stocks carried from previous years, were the lowest since 1966--about 8 to 9 million tons below a year ago. Although Western Europe had a record corn crop, it was nowhere near enough to offset drops in output of other grains, mostly due to low yields.

Import requirements for grains by East European countries have increased. Reduced crops of all grains last season could result in wheat imports 2 million to 3 million tons above 1969/70. These countries normally import a large portion of their needs from the USSR, but purchases already completed by mid-season indicate that a portion of this year's increased needs will also be met by the United States and other Western sources.

Also of major impact on trader's buying plans has been the occurrence of corn leaf blight in the United States. This alone reduced by perhaps 10 million to 15 million tons the available total grain supply from which either U.S. or overseas users can draw. The disease's impact in 1970 leaves a degree of uncertainty about a possible recurrence in 1971.

Excluding trade among member countries of the European Community, which alone amounts to 2.5 million to 3 million tons, total world wheat import requirements this year are currently estimated at 55 million to 56 million metric tons. This represents an increase of 10% over last year, but is still below the 1965/66 record of 61.4 million tons, and is about the same as the two other previous high years of 1963/64 and 1966/67.

Western Europe will account for roughly 2 million tons of the projected increase of non-EC-grown wheat. Eastern Europe--mainly Yugoslavia and Romania--may account for another 2 million. Most notable among the smaller import changes, which account for the remaining trade increase of 1 million to 2 million tons, are increased purchases by Turkey and Japan.

Shipments by other wheat exporting countries will benefit from an estimated decline of 3 to 4 million tons in wheat exports by the European Community to third countries. EC export volume in 1969/70 reached a record level of over 7 million tons, approximately 12% of world wheat trade. Based on preliminary crop and marketing indications, net exports by the USSR probably will increase. Last year Soviet Union net exports totaled almost 5 million tons. Other small exporting countries, such as Spain, are also expected to show a total decline of about 500,000 tons in wheat shipments. Shipments by Argentina will be unusually low for the second consecutive year because of reduced domestic crops.

With smaller supplies and lower export shipments anticipated among these other countries, it is likely that the size of the combined overseas outlet for wheat from Canada, Australia, and the United States this year will probably be 11 million tons larger than during 1969/70. Approximately half of this expected increase will be from greater import needs and about half from reduced competition by other export sources.

How this increased market will be divided between these three countries will depend on their respective competitive positions in various markets. Although acting to reduce production this past year, all entered the current season with large stocks from previous crops.

World wheat production in 1970 is estimated at 285 million metric tons (10,500 million bushels), 1% below the 1969 crop on the basis of information currently available. The current crop is 4% above the 1964-68 average. World wheat area was down 5% for the year.

Canada produced 9.0 million tons of wheat in 1970, 52% below the previous year, as area was cut in half under Canada's Lower Inventory For Tomorrow Program. The United States had a 37.5 million-ton harvest, 6% below 1969, while area declined 7%. Yield was at a record level, up 1%. The South American wheat crop is placed at 7.8 million tons, 23% below the previous year. The Argentine harvest of 4.2 million tons was the lowest since 1960, as area was sharply reduced by early-season drought. Brazil's crop is estimated at a record 1.5 million tons, up 31% on increased area.

The West European outturn totaled 43.5 million tons, down 4%. The Economic Community harvested 29.4 million tons, 7% below 1969. The French and West German crops were off 11 and 6%, respectively. Spanish production declined 14%, while that of the United Kingdom was higher by 26%. The East European harvest was down 10%, at 22.9 million tons, with major declines in Hungary, Romania, and Yugoslavia. The USSR wheat crop is estimated at roughly 80 million tons, the second of record to the 85 million tons in 1966.

African wheat production was up 11% at 7.2 million tons. The Moroccan crop advanced 27% higher for the principal gain. The Asian wheat crop totaled 68.1 million tons, 3% above 1969. The principal gains were in Mainland China, India, and Pakistan. Australia produced 8.4 million tons of wheat, 22% below a year earlier, as areas were sharply reduced under a restrictive delivery quota system.

The following basic provisions are included in the 1971 Wheat Program:

1. The national wheat allotment is changed to a domestic allotment totaling 19.7 million acres. This is the acreage that, on the basis of the estimated national yield, will produce enough wheat for domestic food use. Wheat certificates will be issued to participating farmers in an amount equivalent to estimated domestic food use. In determining the domestic allotment, domestic food use may not be less than 535 million bushels. This is equivalent to 43% of the total acreage allotment for the 1970 crop.
2. The domestic allotment is used to determine the acreage to be set aside on each farm and the total of domestic marketing certificates a producer may receive under the wheat program. The domestic allotment does not limit the wheat acreage that may be planted.
3. A producer may qualify for program benefits by setting aside the acreage specified for his farm and maintaining his conserving base. He can then produce any crop that he chooses on the remaining acres except those governed by quotas--peanuts, rice, tobacco, extra-long staple cotton, and sugar when proportionate shares are in effect.
4. The maximum set-aside requirement under the 1971 wheat program will be an acreage between 60 and 75%, but not to exceed 75% of the domestic allotment. The final percentage will be determined and announced prior to signup.
5. Additional diversion of acreage for payment will not be made available in 1971.

6. Producers are no longer required to plant wheat in order to qualify for program benefits. However, those who fail to plant at least 90% of their domestic allotment or an authorized substitute may have their 1972 allotments reduced as much as 20%. If no wheat is planted for 3 consecutive years, the entire allotment can be lost.
7. The face value of domestic certificates will be set at the difference between 100% of parity and the national average market price received by farmers during the first 5 months of the marketing year (beginning on July 1, 1971). In the past the value of the certificates has been the difference between 100% parity and the national average loan rate.
8. Preliminary payments to farmers will be made as soon as practicable after July 1, 1971. These will be equal to 75% of the estimate of the total payments to be made. The balance of the payment, if any, will be made after December 1. If the estimated preliminary payment is found to be too high, no refund by producers will be required.
9. Payments are limited to a maximum of \$55,000 per person. The limitation applies to direct payments only, of which marketing certificates payments constitute the bulk. The limitation does not apply to loans or CCC purchases.
10. The loan level will be \$1.25 per bushel, national average. It was set, as in the past, at a level deemed appropriate considering the world market price of wheat, feed value of wheat in relation to other feed grains, and the price support level for feed grains.
11. The new program includes no excess wheat provision which required producers to store their grain if they overproduce. However, excess wheat stored under prior programs may be released to the extent production in any year is less than 3 times the domestic allotment times the farm yields.

Table 1.--Wheat: Supply, distribution and prices,
average 1964-68 and annual 1967-1970

Item	Year beginning July				
	Average 1964-68	1967	1968	1969 <u>1/</u>	1970 projected
----- Million bushels -----					
<u>Supply</u>					
Beginning carryover	643.6	425.0	539.4	818.6	885
Production	1,401.9	1,522.4	1,576.2	1,460.2	1,378
Imports <u>2/</u>	1.2	.9	1.1	3.2	1
Total supply	<u>2,046.7</u>	<u>1,948.3</u>	<u>2,116.7</u>	<u>2,282.0</u>	<u>2,264</u>
<u>Domestic disappearance</u>					
Food <u>3/</u>	513.1	519.2	519.7	520.2	525
Seed	67.8	71.5	61.3	55.4	60
Industry	.1	.1	.1	.5	---
Feed (residual) <u>4/</u>	110.2	57.0	172.8	215.1	235
On farms where grown	(42.7)	(42.9)	(60.8)	(63.7)	---
Total	<u>691.2</u>	<u>647.8</u>	<u>753.9</u>	<u>791.2</u>	<u>820</u>
<u>Available for Export and Carryover</u>	1,355.5	1,300.5	1,362.8	1,490.8	1,444
<u>Exports <u>2/</u></u>	<u>728.4</u>	<u>761.1</u>	<u>544.2</u>	<u>606.1</u>	<u>725-750</u>
Total disappearance	<u>1,419.6</u>	<u>1,408.9</u>	<u>1,298.1</u>	<u>1,397.3</u>	<u>1,545-1,570</u>
<u>Ending carryover</u>	627.1	539.4	818.6	884.7	694-719
Privately owned--"Free"	(194.5)	(216.2)	(202.9)	(152.2)	
----- Dollars per bushel -----					
<u>Price Support</u>					
National average loan rate	1.26	1.25	1.25	1.25	1.25
Average certificate payment	.50	.48	.55	.65	.75
<u>Season Average Price Received</u>					
By non-participants	1.39	1.39	1.24	1.24	1.36
By program participants	1.89	1.87	1.79	1.89	2.11

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.

4/ Assumed to roughly approximate total amount used for feed, including amount used in mixed and processed feed.