Outlook '74

UNITED STATES DEPARTMENT OF AGRICULTURE
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OUTLOOK FOR WHEAT

Talk by Frank Gomme

at the 1974 National Agricultural Outlook Conference
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The 1973/74 wheat picture is highlighted by a record crop, near record disappearance, record prices, and prospects for the smallest stocks in over $2\frac{1}{2}$ decades.

Supply

Wheat supplies in 1973/74 at 2,142 million bushels are down from a year ago as sharply lower beginning stocks more than offset a record 1973 harvest. Farmers reaped a record 1,711 million bushels from 53.9 million acres. Harvested acreage surged 14% this year while yields dropped from the 32.7 bushel level of 1972. July 1 stocks totaled only 430 million bushels, smallest since 1967.

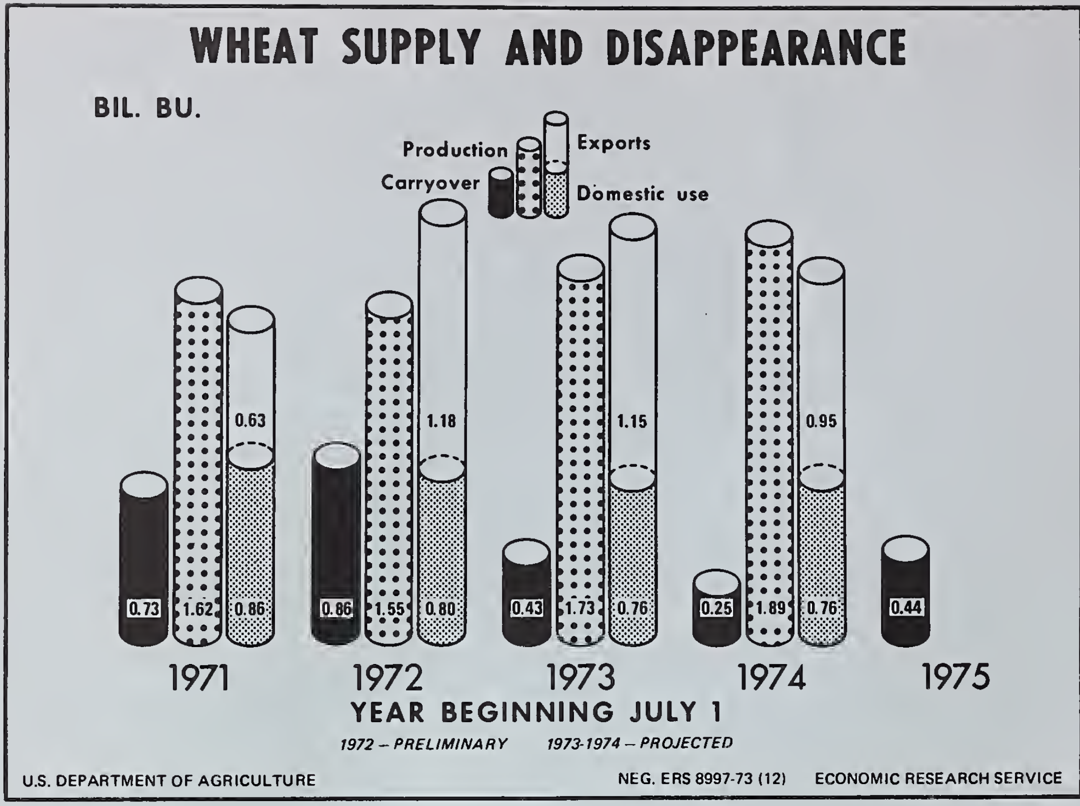
Disappearance

Wheat usage in 1973/74 appears to be pulling back slightly after reaching a record of nearly 2 billion bushels a year ago. High prices are cutting into wheat feeding and this decline more than offsets some pickup in food and seed use. U.S. exports for the 1973/74 marketing year are estimated at 1,175 million bushels, nearly up to last season's record. World import requirements remain strong this season.

This demand led to phenomenal early season sales and shipments. Exports, averaging 28 million bushels on a weekly basis, already total over 600 million bushels for the first 5 months of the crop year. At this level they already exceed any full-year export total during the 1950's and are rapidly approaching a level that was accepted as a good export year during the 1960's.

The pace of 1973/74 wheat shipments will slaken as the navigation season for the Great Lakes closes and exporters begin to ship new crop corn, sorghum, and soybeans. As of November 25, reported undelivered export sales totaled

(NOVEMBER ESTIMATES)



522 million bushels, and 187 million bushels were reported to unidentified destinations.

Disappearance for the season may total near last year's record of 1,979 million bushels. This exceeds the record 1973 crop of 1,711 million, so another sharp reduction in stocks is likely. Carryover by next summer may fall to around 210 million bushels, smallest since 1948.

This level would indicate an extremely tight supply situation until new crop wheat becomes available. Normally by July 1 a substantial portion of the new winter wheat crop in the Southern Plains and the Southeast is available for marketing. However, new crop supplies of white wheat in the Northwest and spring wheat are usually not available for another month.

Prices

Heavy early season export sales, processor demand, and transportation bottlenecks which still restrict potential marketable supplies were responsible for a rapid price runup. In mid-September farm prices crested at a record $4.62 per bushel. Pressured by reports of generally larger than anticipated world grain supplies, the announcement by the Soviet Union of a record grain crop, and export uncertainties emanating from the Middle East conflict, prices receded slightly in October and November.

Prices should remain high for the remainder of the year and fluctuations will hinge on the fulfillment of forecasts for a record world harvest, prospects for the 1974 U.S. grain crops, and the ultimate level of U.S. wheat exports.

OUTLOOK FOR 1974/75

Current high wheat prices, prospects for another strong demand year, along with no planting restrictions are expected to result in a 10 to 15% expansion in wheat plantings. Wet weather in the Plains has delayed plantings and necessitated some reseeding of winter wheat. The delayed seeding and the inability to use sufficient fertilizer may tend to lower yields. However, the early condition of the winter wheat crop is good. Late fall rains broke the long drought in the Pacific Northwest and most stands of wheat are currently in good condition. Wheat acreage in the Eastern wheat belt is reported to be substantially higher and conditions are indicated as good to excellent in most areas.

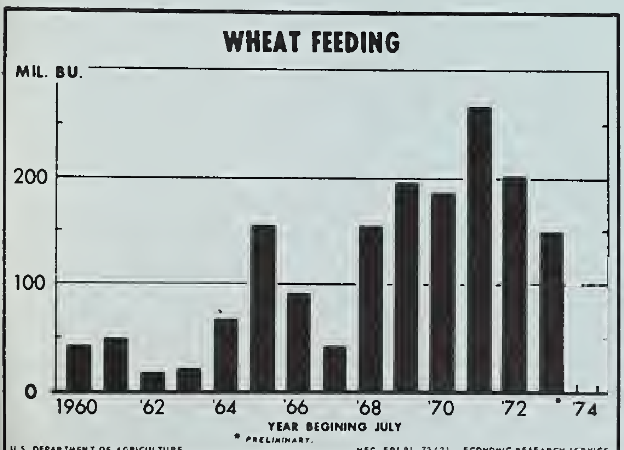
Assuming world grain supplies return to more normal levels, total U.S. wheat disappearance in 1974/75 could be down substantially. Projected exports at 950 million bushels would be down around a fifth from this year.

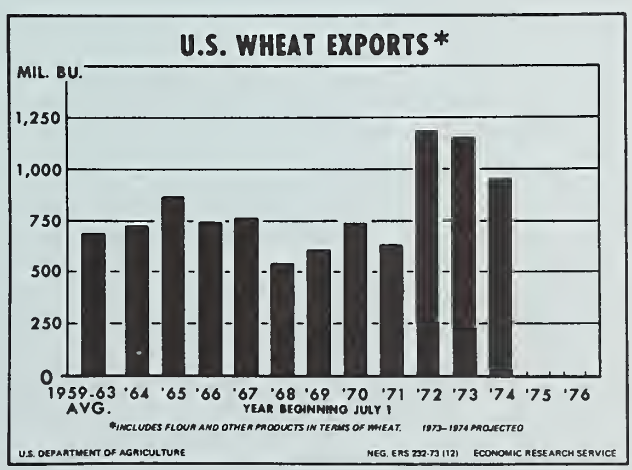
If yields are on trend, the 1974 U.S. wheat crop could reach a record 1.9 billion bushels, substantially above estimated disappearance. Thus, carryout in the summer of 1975 would increase around 200 million bushels to 416 million. Should this occur, prices would likely soften considerably but still remain quite high in relation to the levels of the late sixties and early seventies.

WHEAT CLASSES

Hard Red Winter

HRW wheat supplies at the beginning of the 1973/74 crop year were the smallest since 1968. This occurred in spite of a record harvest of 959





million bushels. In the face of this year's smaller supply, demand continues strong. Reports to date indicate that exports could exceed last year's record 700 million bushels.

Domestic use is likely to continue near last year's 332 million bushels, as the lower prices for HRS relative to HRW encourage continued substitution and the sharp climb in wheat prices discourages wheat feeding. By the summer of 1974, HRW stocks may plummet to less than 100 million bushels, the least in 22 years. However, new crop wheat will be available in May and June to supplement these low stocks.

Soft Red Winter

Beginning supplies of SRW at 165 million bushels were the smallest since 1957. Adverse weather plagued the 1973 crop from start to finish.

Domestic users of SRW in 1973/74 are faced with some questions about the adequacy of supplies as a result of heavy early season export sales. Rapidly rising prices have rationed supplies among the many users. Export demand has weakened and may total only a third of last year's 68 million bushels.

Although stocks will be drawn down to bare pipeline levels by the summer of 1974, early new crop wheat will be available in some areas in late May and early June.

Hard Red Spring

This fall saw the wrap-up of a large, high-quality HRS harvest. This helped to offset the effects of last year's sharp reduction in carryover.

However, early 1973/74 indications point to another year of heavy exports and a vigorous demand for blending domestically. Thus, supplies will likely continue to tighten and carryover stocks will fall again. In contrast to the winter wheats, HRS supplies must stretch into August before new crop supplies become readily available.

Durum

A good 1973 harvest partially offset sharply reduced stocks, resulting in 1973/74 supplies only about 20 million bushels below last year's 142 million.

The 1973/74 crop year for durum thus far has been highlighted by a scare that apparent export demand was so strong that supplies for domestic milling could be in deficit. In addition, the general price increases for competing foods heated up the domestic demand for durum. This set the stage for a most dramatic market performance. In the July-August period, durum prices nearly tripled, soaring to over $9.00 per bushel. Prices have retreated some but concern still persists about adequacy of supplies.

White Wheat

A weather-plagued crop and sharply reduced stocks plunged white wheat supplies for 1973/74 to their lowest level since the early 1960's.

The smaller supplies and higher prices will likely cut into domestic use again this year. White wheat exports are also likely to drop from last year's total of 151 million bushels. With the smaller crop about offsetting the slump in usage, stocks in the summer of 1974 may be down substantially from the 19 million bushels of last summer.

Concern about new crop supplies held white wheat prices at Portland over $3 per bushel even during harvest. In August, prices climbed to over $5. Since then, white wheat has been the only class to consistently average around $5 per bushel.

WORLD WHEAT OUTLOOK 1/

The 1973 world wheat crop, benefiting from an expanded area and generally favorable growing conditions, may total a record 358 million metric tons, 27 million above last year.

Most of the increase centers in the USSR, the United States, Australia, Canada, and the People's Republic of China. However, recent reports indicate some deterioration in Australian crop prospects. Argentina's production is estimated to be down about 1.4 million tons. Crops will also be smaller in Western Europe, North Africa and West Asia.

Highlighting the production situation was the announcement that the Soviet Union harvested a record 215 million tons of total grain this year. This is 15% larger than the old 1970 record. Preliminary estimates suggest a wheat crop of around 105 million tons, 5% above the 1966 record and about a fifth above last year's crop.

Despite the record crop, world import demand for 1973/74 is expected to continue around last year's record 71.0 million tons. Since the traditional exporting countries account for a good portion of this year's production spurt, the strength in import requirements is due to crop shortfalls or demand growth in the importing countries.

The rapid ascent of U.S. wheat prices in July and August was quickly and fully reflected in similar movements in world markets. Prices have moderated but in November they were still averaging in excess of $5 per bushel, double the year-ago levels.

1/ All units are metric unless noted otherwise.

Wheat: Supply, disappearance, acreage and prices, annual 1971-74

Item	Year beginning July			
	1971	1972 (Preliminary)	1973 (Projected)	1974 (Projected)
	Supply and Disappearance (Million bushels)			
Supply				
Carryover July 1	731	863	430	212
Production	1,618	1,545	1,711	1,894
Imports 1/	1	1	1	1
Total	2,350	2,409	2,142	2,107
Disappearance				
Food 2/	526	526	528	530
Seed	63	66	77	76
Feed 3/	266	203	150	135
Domestic Disappearance	855	795	755	741
Exports 1/	632	1,184	1,175	950
Total Disappearance	1,487	1,979	1,930	1,691
Carryover June 30	863	430	212	416
	Acreage and Yield (Million Acres)			
Acreage Allotment	19.7	19.7	18.5	55.0
Acreage Planted	53.8	54.9	59.0	---
Acreage Harvested	47.7	47.2	53.9	---
	(Bushels)			
Yield per harvested acre	33.9	32.7	31.8	---
	Price (Dollars)			
Price per bushel				
Loan rate	1.25	1.25	1.25	1.37
Received by farmers	1.34	1.76	3.82	---
Average payment to participants	.54	.47	.21	---

1/ Imports and exports include flour and other products in terms of wheat.
2/ Used for food in the United States, U.S. territories and by the military at home and abroad.
3/ Residual; approximates feed use and includes negligible quantities used for distilled spirits and beer.