Harold Taylor

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OUTLOOK FOR WHEAT

[By Frank Gomme*]

This year's wheat outlook features a strong demand, continued high prices and the possibility of another drawdown in already small wheat stocks. Because of the high degree of uncertainty surrounding the wheat situation, production forecasts, and demand estimates have been discussed as ranges.

Wheat supplies shrink

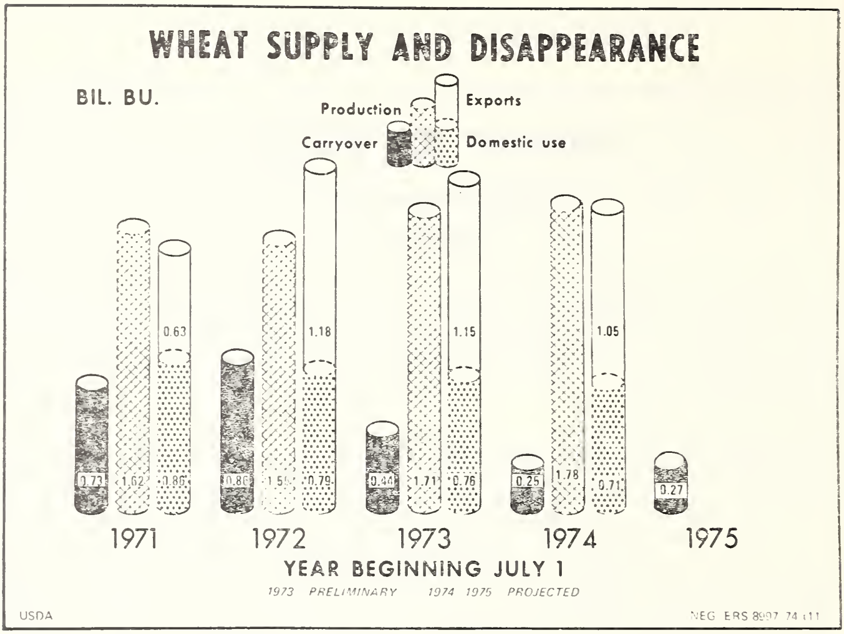
What once appeared to be a huge 1974 wheat crop in the making has turned out to be a record harvest of only modest proportions. The current crop estimate of 1,781 million bushels is 4 percent above last year's record crop, but well below earlier expectations. A 19 percent increase in harvested acreage was countered by sharply lower yields of 27.8 bushels per acre. Despite the record harvest, total wheat supplies will be 6 percent less than last year's 2,154 million bushels, since carryin stocks of 249 million were the smallest in more than 25 years.

Disappearance to tail off

The past 2 years have witnessed an unprecedented demand for U.S. wheat supplies. Both years registered total usage in excess of 1.9 billion bushels. But demand for U.S. wheat may ease some in 1974–75 both at home and abroad. This year's decline to 1.7–1.8 billion bushels usage reflects in part some resistance to price but more likely reflects the smaller supply.

High wheat prices relative to feed grains and fewer cattle on feed have depressed wheat feeding. Feeding held up pretty well in the Eastern United States where there were larger supplies of low quality wheat but apparently little wheat was used by cattle feeders in the Great Plains. Other domestic users of wheat, the milling industry and seed for next year's crop will take about the same amount in 1974–75 as they did a year ago. But with less fed, total domestic disappearance may fall around 6 percent below last year's 756 million bushels.

*Economic Research Service, U.S. Department of Agriculture.



U.S. wheat exports for 1974–75 are currently estimated at a range of 1.0–1.1 billion bushels and appear to be expanding. Last summer as wheat farmers were combining the 1974 crop, it appeared that the United States would do well to export a billion bushels, somewhat short of the preceding 2 years. But as the year progressed, crop conditions around the world worsened and the need for U.S. wheat appeared to be expanding. It now appears that export demand during the last 9 months of the crop year will be exceeded only by the rush to ship which occurred during the same period in 1972–73. That was when the bulk of the huge USSR wheat sale moved after November. This year the demand appears to be building from other sources. As of mid-November over 900 million bushels had been shipped or reported as outstanding sales. This contrasts sharply with a year ago when shipments plus outstanding sales totaled over 1.3 million bushels. Actual shipments for 1973–74 totaled 1,149 million bushels. The world's demand for wheat appears to be holding up well this year despite strong prices, so the primary restraint on our exports may be availability.

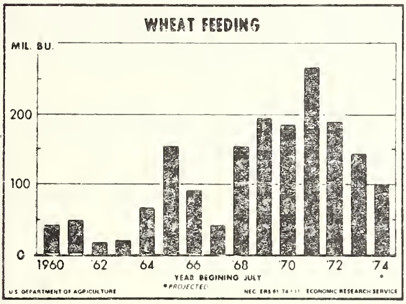
If these demand projections hold up, almost all of the 1974 wheat crop would be used with little left to add to stocks. In fact, at the higher demand level some additional drawdown in stocks would be necessary from this past summer's very low level of 249 million bushels.

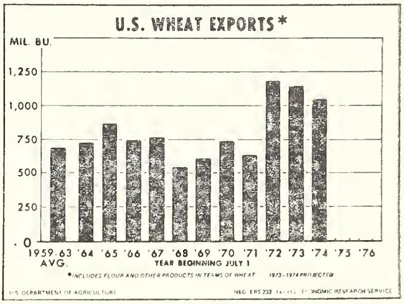
Wheat prices continue high

If contrasted with a year ago when wheat prices jumped by over $2 per bushel, movements during July–September 1974 could only be described as dull. Prices of old crop wheat dropped sharply last spring as disappearance fell short of expectations and a huge 1974 crop seemed likely. But as the season progressed, concern about new crop supplies of both wheat and feed grains resulted in new crop wheat quotes strengthening to around $4 a bushel in July. Prices continued to edge up seasonally in August and September as the quantity of wheat sold by farmers about balanced disappearance. However, the continued deterioration in world grain prospects in October boosted world import requirements, giving a kick to wheat prices. By mid-October, farm prices averaged $4.85 per bushel.

Wheat prices are expected to continue strong for the balance of the 1974–75 crop year and could average some 25 to 30 cents above last year's $4 per bushel, but the final outcome and the pattern during the remainder of the season hinges on a number of factors:

1. Conditions and prospects for the 1975 wheat crop, particularly winter wheat.
2. Export shipments. Unlike last year, USDA's export estimates have been running well above indicated sales, but export bookings have been rising rapidly in recent weeks. World conditions do point to significantly larger U.S. exports than earlier anticipated. However, the recently established voluntary reporting program should help provide a safeguard against any sudden surge in export demand which would unduly disrupt the U.S. market.
3. The pace of shipments. The delay in export orders and shipments will cause much heavier market activity both in covering future sales and purchasing cash wheat during the last 3 quarters (October–June) of the marketing year. This is somewhat contrary to last season when market activity was heaviest during the first and second quarters.





4. The transportation problems that plagued the wheat market the past 2 marketing years have not been as evident so far in 1974–75. Consequently, some of the extreme price movements which resulted from an uneven flow of wheat supplies in the past 2 years may not occur this year. However, in early November, delayed ship arrivals at the Gulf ports were backing up some wheat shipments.

Wheat by Class Highlights

Overall quality of the 1974 crop is below average with the spring wheats and SRW especially bothersome. With beginning wheat stocks at their lowest level in over 20 years, users will have to make do with the quality to be found in the 1974 crop; there is little else. Last year small SRW supplies, heavy export demand for HRW, and extremely high prices for durum forced the domestic wheat user to make adjustments. The milling and baking industry responded well to the challenge. The 1974–75 crop year may require even more ingenuity if the domestic industry is to maintain the quality of its products.

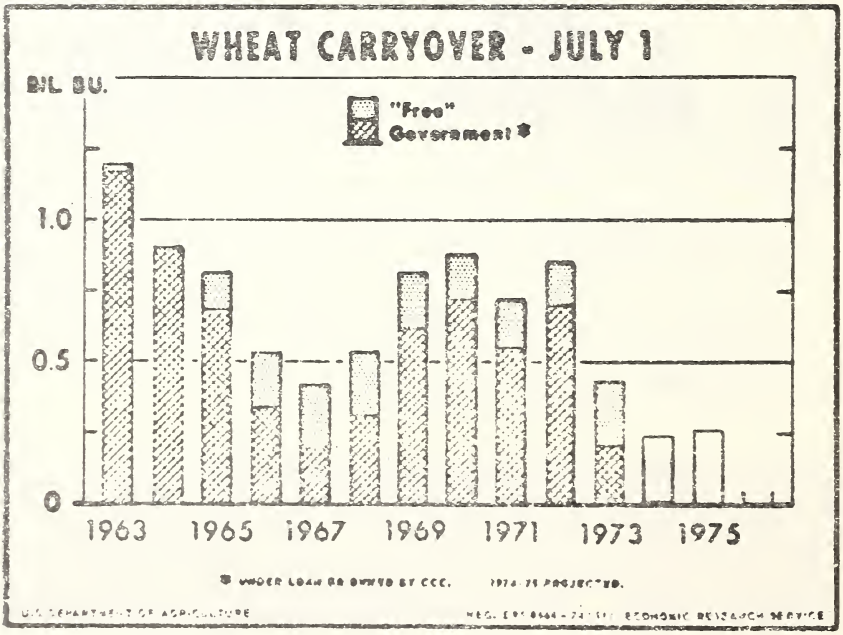
Hard Red Winter

Early hopes for a record HRW crop and an abundant supply have faded. Acreage was up sharply but weather and disease cut yields per acre and the crop totaled only 880 million bushels. Consequently, supplies are down about 13 percent from a year ago and the smallest in 20 years.

Total domestic demand for HRW will likely be the softest in a number of years. High wheat prices relative to sorghum and fewer cattle on feed have limited feeding. An increase in 1974–75 mill grind of HRW is expected now that HRS has regained its usual price premium over HRW. Export demand continues strong and shipments may close on 600 million bushels by June 30, 1975. Total usage could exceed 800 million bushels, absorbing most of the 1974 crop but adding some to stocks.

Soft Red Winter

SRW wheat supplies have recovered sharply from a year ago, but some problems may still exist. A wet spring resulted in a sharp increase in the amount of SRW grading garlicky. This creates some problems for the SRW milling industry, but the lower protein level of this year's crop is better for cookies, cakes, and related products. The heavy discounts for garlicky wheat forced some of this wheat into feed. The early season discounts also spurred export demand and by early July nearly 100 million bushels were posted as sold. It appears that more foreign sales are being made, and the total for the year may rise to 115 million bushels. It seems likely that the majority of the 1974 SRW crop will move into consumption, leaving stocks on July 1, 1975 again at minimum levels.



Hard Red Spring

Early optimism about 1974–75 HRS supplies was soon crushed. As weather plagued the crop from start to finish, prospects fell to only 284 million bushels. Carryover stocks were also off sharply. Consequently, total supplies of 353 million are only about two-thirds last year's level.

Because of limited supplies and despite some deterioration in quality, HRS prices have moved back to a premium over HRW. HRS mill grind is expected to return to a more normal level after 2 exceptionally heavy years. Import demand continues to expand, aided in part by crop problems in Canada and the overall shortage of protein wheat in the world this year. Because of the limited export availability in the United States, shipments may total 40 percent below last year's 228 million bushels. This reduced pace would still pull stocks down to around 40 million bushels, their lowest level in over a quarter century.

Durum

Adverse weather also hit the durum crop, cutting prospects and in many cases affecting quality. Weather curbed planting this spring and with yields held to their lowest level since 1970, the durum crop fell 8 percent short of the 1973 harvest. Stocks were also off from a year ago, so beginning supplies of 109 million bushels were 11 percent below last year's level.

Quality of the durum crop is lower with some of the same damage showing up in durum that is found in HRS. In addition, the color of the semolina is not quite up to standard this year. These factors may combine to cut domestic use somewhat from last year's high level. Last year was a good export year for durum with over 40 million bushels moving overseas. In comparison sales have lagged this year but new sales are expected and the total for the year could close on 40 million bushels. This would mean that the 1974 crop and expected disappearance are about in balance and stocks will hold at around 25 million bushels.

White Wheat

In sharp contrast to the other wheat classes, Mother Nature smiled on the white wheat producer this year. Planted acreage rose, yields held up well and a crop of 250 million bushels was harvested, 40 percent above last year's.

Domestic usage should hold at around last year's 60 million bushels. The greater availability for either export or carryover should spur exports. Current indications point to shipments 50 percent larger than last year's 122 million bushels. Added to the modest domestic demands, an export estimate this large would mean that most of the 1974 crop should be consumed, leaving stocks as of July 1, 1975 relatively unchanged at around 20 million.

Outlook for 1975–76

High wheat prices, an open ended wheat program, prospects for continued strong demand and good fall planting weather all point to a large 1975 wheat acreage. Most of these same factors were in evidence a year ago when farmers responded with a 19 percent increase in acreage for the 1974 crop. This pushed wheat acreage to its highest level in over 20 years.

However, no such increase can be expected for the 1975 crop. Strong prices for other crops, technological restrictions and practices, higher input prices and weather are factors which could limit further expansions in wheat acreage. Of these, weather may be the element supporting another increase in acreage this season. Weather was better than last year for seeding wheat in the Central and Southern Plains. The drought in the Western Corn Belt resulted in more corn harvested for silage than normal. Some of this acreage would add to the potential area that could be planted to winter wheat. On the other hand, persistent dry conditions in the Northwest may limit acreage expansion there. In late November, the condition of the winter wheat crop in most areas was generally good, although there were dry areas in the Northern Plains and the Pacific Northwest and excessive moisture in the Southwest.

Last spring the spring wheat producer was faced with falling prices and adverse planting weather. Actual 1974 seedings fell well below reported planting intentions. Dry conditions persist and the price outlook for next spring is still uncertain, but it would seem likely that spring wheat acreage would at least hold at the 1974 level. Given the above conditions, acreage planted to wheat for the 1975 crop may increase moderately over last year's 70 million bushels.

Yields may be subject to wider fluctuations due to weather and larger acreages. Last year saw yields per harvested acre drop to their lowest level since 1968. For the last 3 years yields have moved progressively lower as adverse weather hit one or more of the major producing areas. If weather is improved for the 1975 crop and yields return to more normal levels. the summer of 1975 could see harvesting yields of from 30 bushels per acre to a new record 35 bushels. This on top of a large acreage would produce a 1975 crop of 2 billion bushels or more. However, should the growing season again be as bad as last year's, the 1975 harvest would probably differ little from 1974's 1.8 billion bushels.

But what about demand? The heavy demand in 1972–73 surprised many. It was not expected to continue in 1973–74, but it did. Now 1974–75's demand appears almost as strong. And with world wheat stocks continuing to shrink and feed grain supplies likely to be tight next summer, demand for wheat in 1975–76 is again expected to be heavy.

Tightening feed grain supplies and some recovery in the livestock industry could result in heavy early season wheat feeding. This alone could push domestic use up to around 900 million bushels.

The increasing pressures of a growing world population and apparent continuing shifts to wheat type foods could hold the world import demand for U.S. wheat in 1975–76 near the high level of the preceding 3 years.

Wheat stocks on July 1, 1975, are expected to total around 270 million bushels. Using the above assumptions about crop size and domestic use, the quantity available for export or carryover given reasonably normal weather could range from around 1.3 billion bushels to well over 1.6 billion for the 1975–76 crop year. Both of these availabilities would permit us to meet export commitments with some cushion for stocks. However, if yields should plunge again, the absence of stocks to draw on, stronger prices, and shorter supplies would cut wheat feeding and probably stifle exports.

World Wheat Situation [1]

Outlook for the 1974 world wheat crop has worsened in recent months. World production is currently estimated at 352 million metric tons, or 4 percent below the record production in 1973. Estimated production for major exporters—the United States, Canada, Australia, and Argentina—at 79.4 million metric tons is down slightly from the 1973 harvest and substantially lower than August 1974 expectations of 85.3 million tons. Production estimates in some importing countries also dipped as the growing season progressed.

This decline in crop conditions has placed the world's wheat supply for 1974–75 under last season's tight level and has increased import demand. In spite of high grain prices and unfavorable economic indicators—slowing economic growth and foreign exchange shortages—wheat demand is expected to remain strong.

As 1974 crop prospects dimmed, estimates of 1974–75 world wheat trade have been raised and are now set at 71 million tons compared to 68 million last year and the record 73 million tons in 1972–73. The pattern of trade is expected to differ from a year ago as the Soviet Union imports less but shipments to South Asia, and the Middle East rise.

Pressures on supplies continue and it now appears that world wheat stocks will suffer another decline by the summer of 1975. This results from the fact that exporters are continuing to dip into stocks in an attempt to meet the world's growing demand for wheat.

TABLE 1.—WHEAT: SUPPLY, DISTRIBUTION AND PRICES, TOTAL AND BY CLASS JULY–JUNE AVERAGE 1965–69 AND ANNUAL 1972–75 [1]

Item and year	Average 1965–69	1972–73	1973–74 preliminary	1974–75 projected	1975–76 projected
Million bushels:					
Beginning carryover	626	863	[2] 439	249	244–294
Production	1, 426	1, 545	1, 711	1, 781	
Imports [3]	2	1	4	2	
Total supply	2, 054	2, 409	2, 154	2, 032	
Food [4]	515	528	528	530–530	
Seed	66	67	83	83–83	
Feed (residual) [5]	128	189	145	75–125	
On farms where grown	(46)	(47)	(28)		
Domestic disappearance	709	784	756	688–738	
Exports [3]	705	1, 186	1, 149	1, 100–1, 000	
Total disappearance	1, 414	1,970	1, 905	1, 788–1, 738	
Ending carryover	640	439	249	244–294	
Privately owned—"Free"	(194)	(227)	(230)		
Per bushel:					
Price support:					
National average loan rate	$1. 25	$1. 25	$1. 25	$1. 37	
Average certificate payment	. 54	. 47	. 21		
Season average price received:					
By nonparticipants	1. 37	1. 76	4. 00		
By program participants	1. 91	2. 23	4. 21		

See footnotes at end of table.

[1] All units are metric unless noted otherwise.

TABLE 1.—WHEAT: SUPPLY, DISTRIBUTION AND PRICES, TOTAL AND BY CLASS JULY-JUNE AVERAGE 1965-69 AND ANNUAL 1972-75 [1]—Continued

Item and year	Average 1965-69	1972-73	1973-74 preliminary	1974-75 projected	1975-76 projected
	Hard winter	Red winter	Hard spring [6]	Durum [6]	White [6]
Million bushels:					
Average 1965-69:					
Beginning carryover	358	19	180	43	26
Production	728	214	207	82	195
Total supply	1,086	233	389	125	221
Domestic disappearance	329	149	123	41	67
Exports [3]	391	63	89	38	124
Total disappearance	720	212	212	79	191
1972-73:					
Beginning carryover	471	18	275	69	30
Production	761	226	276	73	209
Total supply	1,232	244	552	142	239
Domestic disappearance	326	168	181	40	69
Exports [3]	704	68	198	65	151
Total disappearance	1,030	236	379	105	220
1973-74:					
Beginning carryover	202	8	173	37	19
Production	959	157	331	85	179
Total supply	1,161	165	506	123	199
Domestic disappearance	302	133	210	51	60
Exports [3]	732	25	228	42	122
Total disappearance	1,034	158	438	93	182
1974-75:					
Beginning carryover	127	7	68	30	17
Production	880	289	284	78	250
Total supply	1,007	296	353	109	267
Domestic disappearance	272	166	169	44	62
Exports [3]	570	115	140	40	185
Total disappearance	842	281	309	84	247
Carryover	165	15	44	25	20

[1] Data by class, except production, are approximations. Projected disappearance figures should be regarded as midpoint of estimated ranges.
[2] Excludes grain in transit, the volume of which was abnormally large as of the survey date.
[3] Imports and exports includes flour and other products in terms of wheat.
[4] Used for food in the United States, U.S. territories, and by the military at home and abroad.
[5] Residual; approximates feed use and includes negligible quantities used for distilled spirits and beer.
[6] Total supply includes imports.