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Harold Taylor

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COMMODITY OUTLOOK

OUTLOOK FOR WHEAT

[By Frank Gomme, Commodity Economics Division,
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The wheat outlook features a record crop, prospects for record exports, and the fourth consecutive year of strong wheat prices. Farmers and the wheat industry are adapting to a world dominated by large exports, widely fluctuating crop prospects, exceptionally strong wheat prices and new levels of uncertainty. The past 3 years have also seen a switch from concern about wheat surpluses to worry about the adequacy of supplies. The only certain thing about the outlook is its uncertainty.

WHEAT SUPPLIES LARGEST SINCE THE EARLY 1960'S

What does the tenth largest seeded wheat acreage and the third highest yield on record add up to? A record 1975 U.S. wheat crop of 2,138 million bushels, 19 percent above the previous peak set only last year.

July 1 wheat stocks of 320 million bushels registered some recovery from the preceding summer's 26-year low. On the strength of the record crop, 1975/76 supplies rose to nearly 2.5 billion bushels, the largest since the "huge surpluses" of the early 1960's. At that time, stocks accounted for a large part of the wheat supply, while in 1975/76 stocks make up less than 15 percent of the total. In the earlier period a significant part of the total supply was owned by CCC or under price support loan. This year less than 1 percent of the supply is tied up.

DISAPPEARANCE SURGES

A slight recovery appears to be developing in the domestic use of wheat this year but the real news is on the export side.

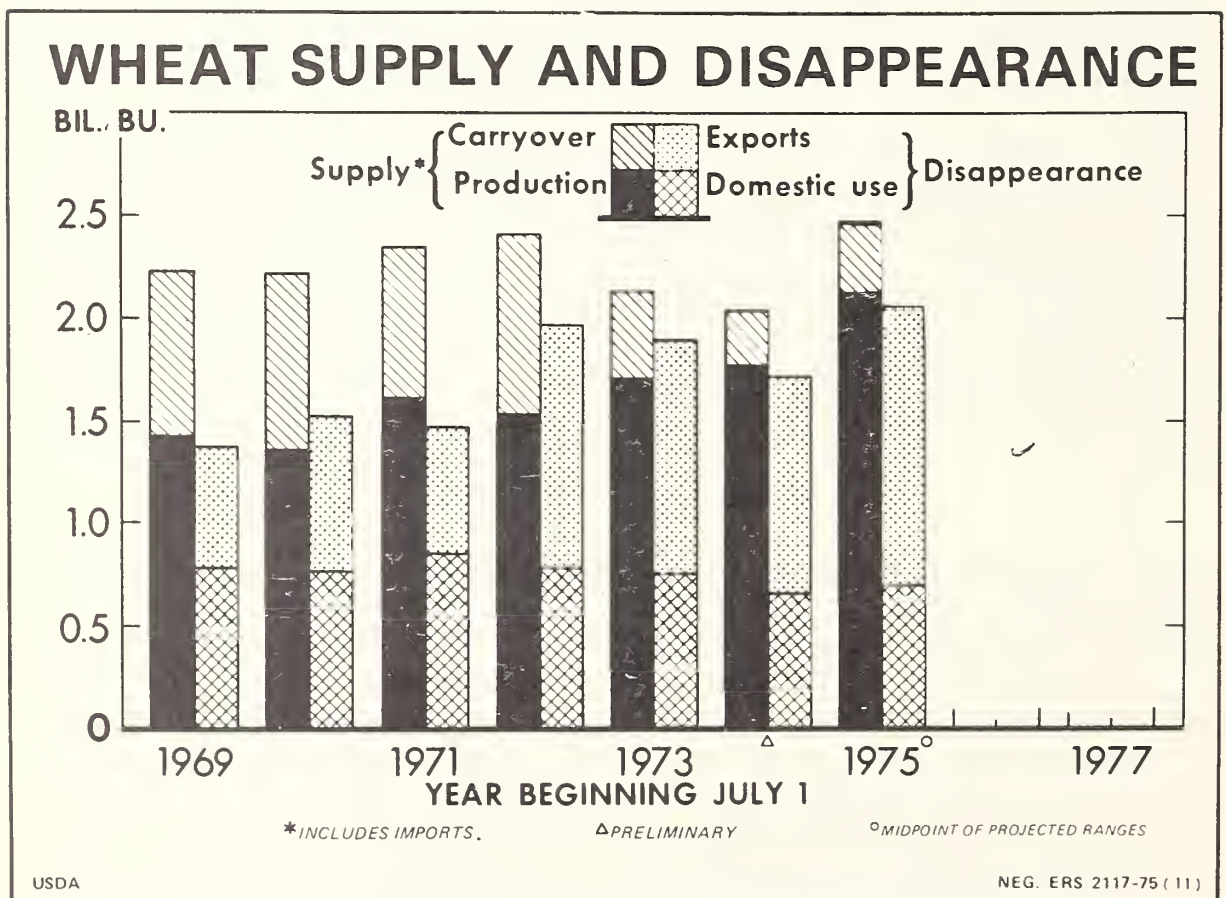
Exports in July-September rose to about 350 million bushels, a level exceeded only in 1973/74. But what about the rest of the year? Forward sales as of October 1 totaled only around 360 million bushels, the smallest for that date since the export reporting system was initiated in 1973. Despite the fact that world wheat trade is forecast to be record large this year, many countries appear to be in no hurry to buy but instead are choosing to make modest purchases while watching market developments. Also the United States had assured traditional customers that they will have access to our wheat supplies,

which may have lessened the intensity of early season demand. The slowness in the export sales also reflects the fact that outside of the USSR world import demand for wheat is down.

U.S. export sales for the entire crop year are currently forecast in a range of 1.3–1.4 billion bushels. This would be a new record high and would account for almost 50 percent of the world's trade in wheat. However, a number of factors are contributing to some uncertainty surrounding our export prospects. So far this year, the USSR has purchased slightly over 4 million tons (154 million bushels of U.S. wheat. Their crop continued to deteriorate but it is still unknown how much additional wheat they will buy from the U.S. Recent post-moratorium sales to the USSR were exclusively corn. The two major Southern Hemisphere exporters, Argentina and Australia, are predicting greater export availabilities than earlier thought. And of course, the level of world wheat prices in the months ahead could affect the demand for wheat in many of the smaller importing countries.

Although the recovery in domestic use is far less spectacular than in exports, it has still been a pleasant surprise. Domestic mill grind during the early part of 1975/76 is running about 10 percent ahead of a year ago's pace. Is this the harbinger of a pickup in wheat food use or will the pace of grind drop later in the season?

The past 2 crop years have seen unusual fluctuations in mill grind because of inventory adjustments and sharp changes in wheat and flour prices. Higher wheat prices and interest rates have pushed up



the cost of carrying wheat and flour inventories. Consequently, mills and flour users have shaved inventories, reducing their ability to meet any unexpected surge in demand. As prices of raw materials (sugar, vegetable oil, and flour) eased, promotional sales and discounts and lower prices on wheat based foods became more common. Apparently consumers have responded to the economics of the marketplace and are buying more wheat products. Perhaps part of the increase may also be an attempt on the part of the flour milling and consuming industries to rebuild flour inventories. Even if the rate of grind falls off later in the year, food usage for the entire year could climb modestly to 530 million bushels.

Wheat feeding is up slightly from a year ago's levels but is still well below usage during earlier heavy feeding years. For the entire year wheat feeding should show some pickup from last year's level and may range between 75-100 million bushels, depending on the extent of the recovery of the feeding industry and how competitive wheat is with feed grains for the remainder of the year.

If demand for the remainder of the year comes up to expectations, the buildup in wheat stocks will be relatively modest. From 320 million bushels as of July 1, 1975, stocks could rise to 365-440 million by next summer.

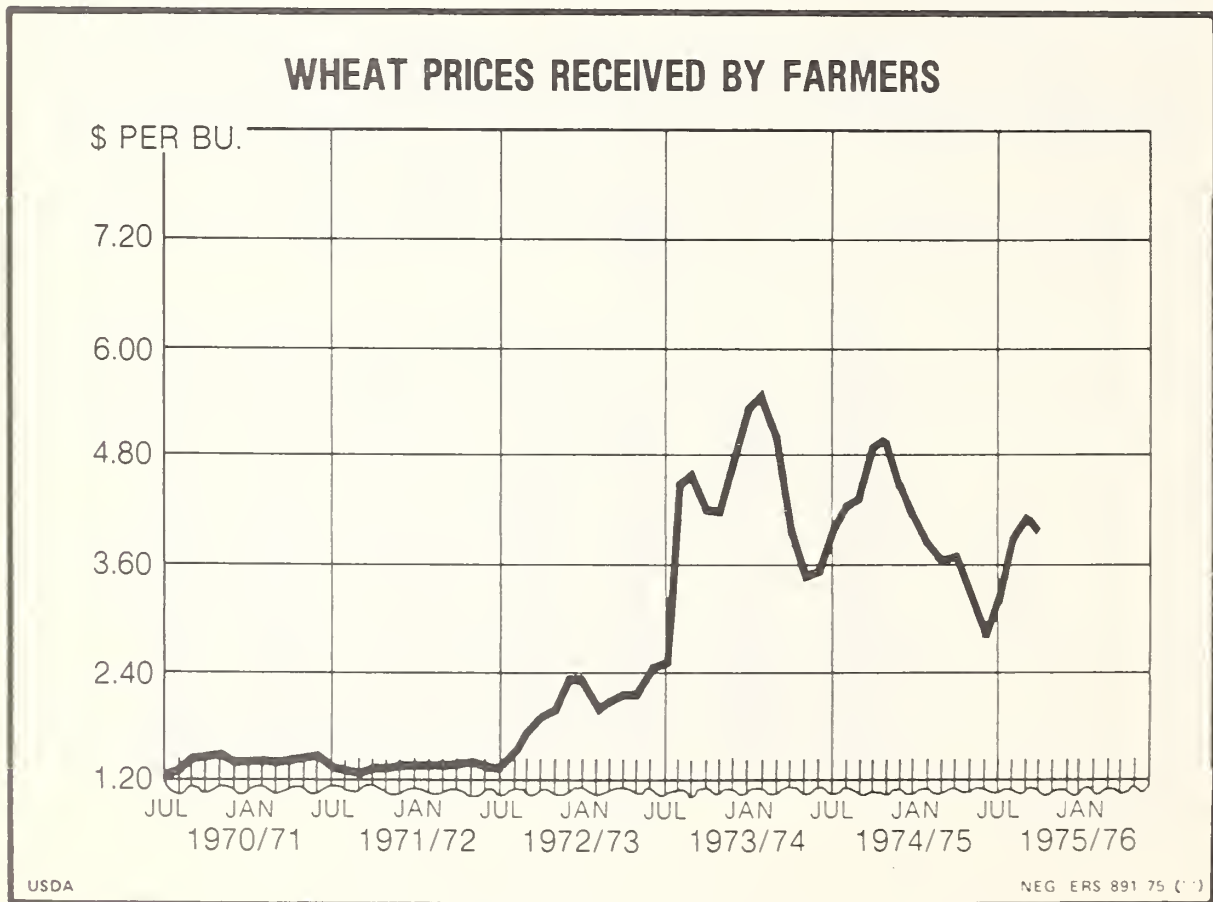
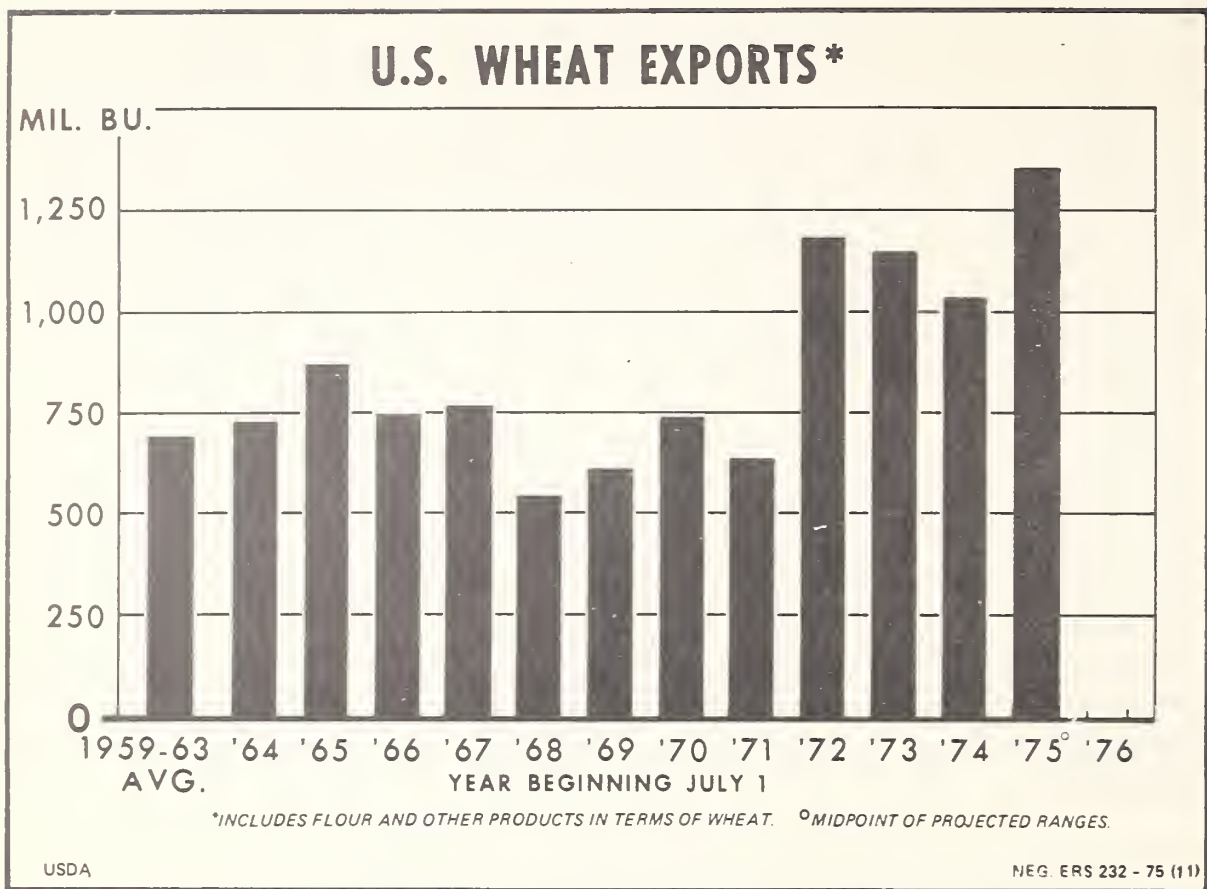
WHEAT PRICES STAGE RECOVERY

Early last summer the marketplace, facing a record 1975 wheat crop matched against only a modest 1975/76 demand, pushed new crop wheat quotes to below \$3 per bushel. But the return of the USSR to our wheat market and some deterioration in world crop prospects elsewhere quickly added over a dollar a bushel. In mid-September and mid-October, wheat averaged over \$4 at the farm. Wheat prices at the farm were averaging below \$4 in early November. Prices are expected to continue strong for the remainder of the year but the absolute level will depend on the following factors:

(1) The pace of export commitments. Although export shipments were heavy during July-September, forward sales are lagging. These sales must pick up sharply if the projected exports are to be obtained. The longer these sales take to materialize, the less their influence on the marketplace, although they would still tend to moderate the normal late season price decline for old crop wheat.

(2) Farmers' marketing strategies. Farmers have influenced market prices through "orderly marketing". As prices rise to some "trigger" level, it appears that farmers' marketings step up quickly. But as prices drop off, growers retrench and await another rise.

(3) Many farmers receiving good returns for the portion of their crop sold to date may postpone further sales until the new tax year starts. This could tend to have a bearish impact on the market price after January 1.



(4) 1976 crop developments. After the 1975 crop experience, most market watchers will keep a close check on the developments of the 1976 world winter wheat crop. Some warning signs are already up in the United States and USSR as parts of the major winter wheat areas have been dry.

Wheat prices likely will continue to fluctuate in the area of \$4 a bushel in the near term. If the pace of sales picks up appreciably and exports seem headed toward the top side of the range, prices could strengthen some. This would probably result in a season average to farmers not too much different from the \$4 per bushel level of the past 2 years. However, if export sales drag, the early season lows combined with some weakness in prices for the second half of the crop year would push the season average closer to \$3.50–\$3.75 per bushel.

SHIFTS IN PRODUCER MARKETING PATTERNS

There appears to be some evidence that farmers' marketing strategies have changed markedly. The lack of use of the loan program is one sign. Changes in the loan program which allow participants to keep their grain under loan 12 months after placements permit more flexibility than previous maturity provisions. On the other hand, charging loan participants interest rates at the cost of money to CCC (currently 7.5 percent) has lessened the program's attractiveness as an alternative source of credit.

Another important factor has been the market situation—relatively tight supplies and widely fluctuating prices. There has been much discussion devoted to the "orderly marketing" of grain. Some reports indicated that growers were shifting marketings from harvest, the period of usual seasonal price lows, to later in the year in an attempt to take advantage of market impacts from post-harvest foreign purchases. Also, growers are setting price objectives and are holding until the market triggers sales. A recent report provides clues to changes in the farmers' marketing patterns.

The winter wheat harvest in Nebraska usually begins around July 1 with the heaviest cutting falling in the first half of the month. Traditionally a fourth or more of the crop has been marketed in July. August and September are also big sales months, reflecting farmers' marketing after commercial storage privileges have been exhausted.

But patterns have decidedly changed in recent years. Less wheat is being sold in July and more during August–October. After October, sales resume a fairly normal pattern. It appears that growers are looking back at the previous year's experience and are sellings on sharp price changes. Marketings in early 1974/75 were especially strung out.

Whether the 1975/76 sales pattern is similar to that of the 1960's, or more recent years, is hard to determine at this time. Prices have strengthened from harvest lows much as they did in the 1972/73 and 1973/74 crop years. This suggests that farmers may have sold moderate quantities at harvest and then made additional sizable sales in August and September as prices rose. If history is repeated, marketings will return to a more normal pattern now, with a possible bulge in January as farmers take advantage of the new tax year.

It is likely that the changes in marketing patterns for Nebraska have been mirrored in most of the major wheat States. The timing varies by the start of harvest or the amount of storage available, but it seems clear that U.S. wheat producers have changed their marketing habits.

OUTLOOK FOR WINTER WHEAT

A number of factors will influence the acreage seeded to wheat for harvest in 1976. They include:

(1) The third consecutive year of a wheat program with no planting restrictions.

(2) A national allotment set at 61.6 million acres, up 8 million from a year ago. This is not a limit on plantings but a basis for making payments if needed.

(3) No conserving base requirements for 1976 corps.

(4) A generally improved supply situation for fertilizer and pesticides.

(5) The level of wheat prices relative to other grains and relative to the cost of production.

Winter wheat producers were observing a strong wheat market during the August–October planting decision period, although returns to wheat in some areas may not have been as favorable as they were during the fall of 1974.

Winter wheat seedings were generally completed by early November. Dry weather held up seedings in some areas and early stands were spotty in many areas. The winter wheat area has seen a 30-percent increase in planted acreage since 1972. Thus, any increase in 1976 planted area would likely be small.

The spring wheat producer has a number of months to study the market before he must make his final planting decision. Last spring he was faced with a declining market at planting time but still planted almost as much as the large 1974 acreage. His actions this next spring will depend on the price outlook and the weather. Although the outlook is uncertain at this time, it would seem unlikely that spring wheat planting would vary much from the 1975 level. In summary, planted acreage for all wheat in 1976 should total quite near this year's 74.4 million acres.

WORLD WHEAT SITUATION

The 1975 world wheat crop, currently estimated at close to the 1974 level of 350 million tons, is well below early season expectations. The USSR has accounted for most of the decline with the current estimate of 75 million tons, over a third below the original level planned for the 1975 crop. Bumper crops in Canada, the United States, Argentina and a good harvest in Australia are holding up the world's exportable supplies. This is matched against a world demand for wheat in 1975/76 which is off outside of the Soviet Union. World trade in wheat for 1975/76 is projected at 75 million tons, about a tenth above a year ago.

WHEAT BY CLASS

The scenario for the wheat classes this year is generally one of abundant supplies, some recovery in demand, especially on the export side, below average quality again for the hard protein wheats, and minimum increases in stocks.

HARD WINTER

A record shattering harvest of 1,050 million bushels is pushing total supplies above 1.2 billion bushels. The early concern about the large supplies of yellow hard have been resolved by industry adjustments and the past harvest flow of hard and dark hard winter to the marketplace. Domestic use may fall somewhat below last year's 300 million bushels. Large sales to the USSR along with heavy purchases by other customers should push exports to a high of around 700 million bushels. But year ending stocks may still be roughly a fourth above the July 1, 1975 level of 180 million bushels.

HARD SPRING

This year's crop of 336 million bushels is 15 percent larger than last year's harvest but the average protein content is down again. The availability of the higher protein springs appear to be particularly affected this year. Mill demand for HRS appears strong because of the below average protein of the HRW crop. Exportable supplies are quite large but another strong export year is expected to limit any buildup in stocks.

RED WINTER

Possibly the largest SRW acreage on record plus good per acre yields pushed this year's SRW crop to a record shattering 347 million bushels. The record supplies have pushed market prices of SRW below those for most other wheat classes. Feed use is up this year and an apparent recovery in the consumption of wheat foods, particularly sweet baked goods, suggest a stronger mill grind this year. Import demand has been strong, reflecting the price spread between SRW and the other classes. Most of this year's record crop is expected to have moved into consumption by year's end, limiting any buildup in stocks.

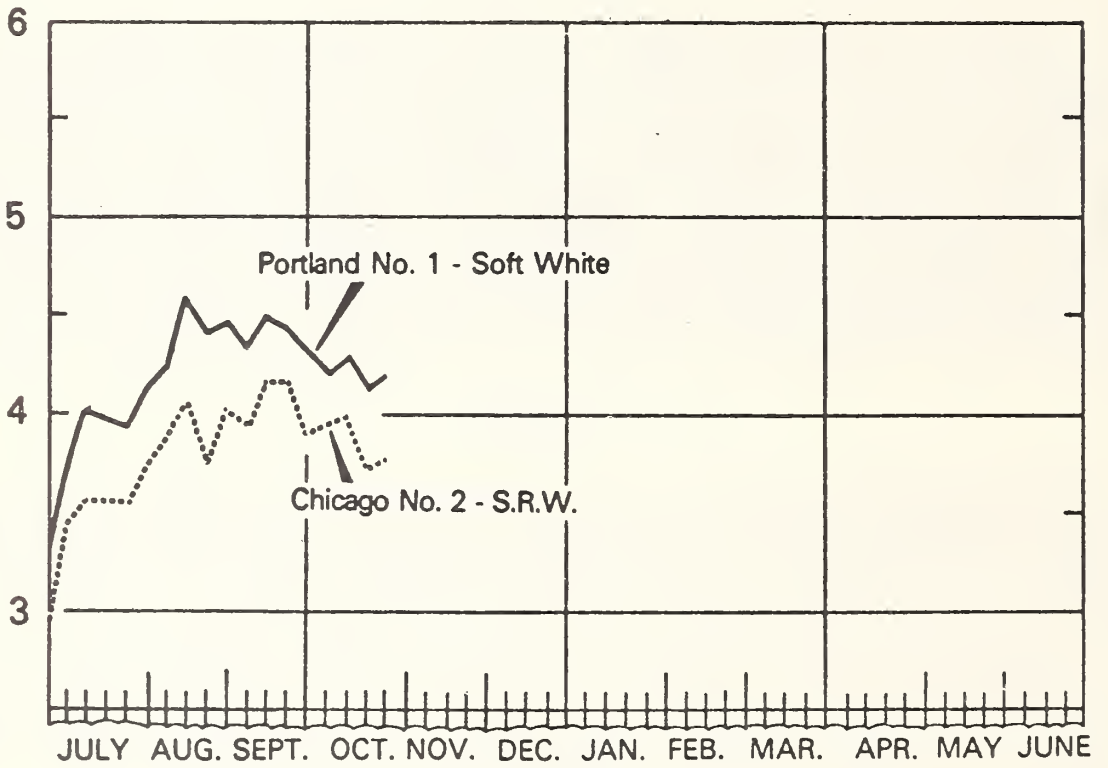
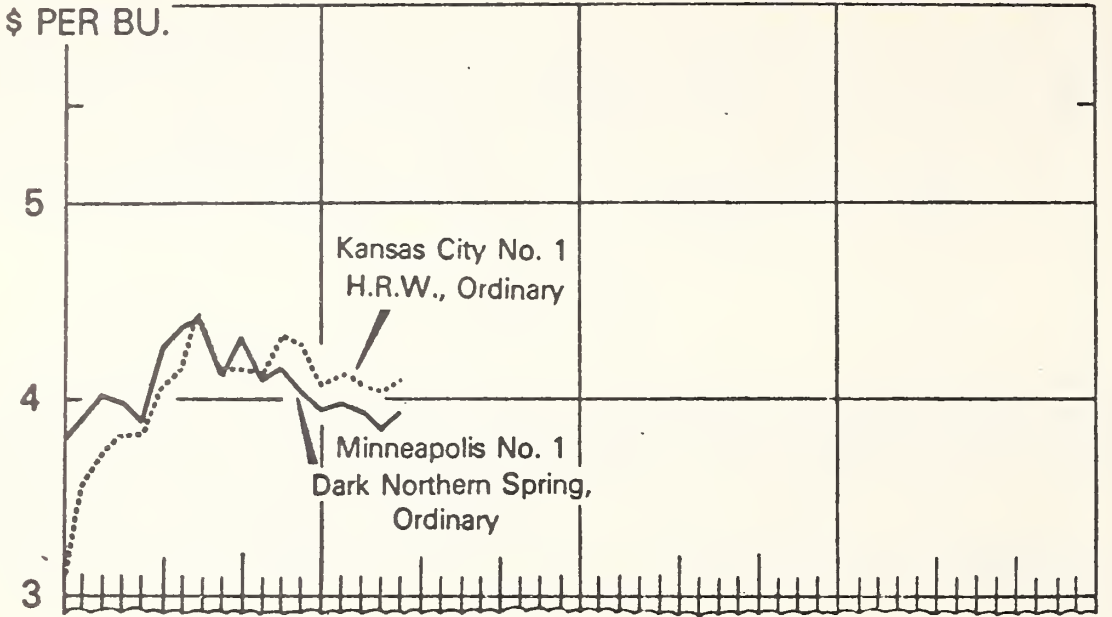
DURUM

The record 1975 durum crop, estimated at 121 million bushels, is over 50 percent larger than last year's weather stricken harvest. This comes in the face of a questionable demand. Durum mill grind continues to lag, reflecting the wide price spreads between semolina and the competing hard wheat flours. The early export pace has been good but prospective shipments for the year are not too much above last year's 50 million bushels. Consequently, 1976 year ending stocks may climb to around 40 million bushels, double this summer's level.

WHITE WHEAT

Despite a shaky start and a weather plagued harvest, the 1975 white wheat crop yielded a record 282 million bushels. Domestic use appears to be recovering after last year's slump with both feed use and mill grind expected to be higher. The strong tone of this year's world import market would seem to indicate that white wheat exports could well exceed last year's 200 million bushels, thus limiting any buildup in wheat stocks this year.

CASH WHEAT PRICES, 1975/76*



* THURSDAY PRICE.

TABLE 1.—WHEAT: SUPPLY, DISTRIBUTION, AND PRICES, TOTAL AND BY CLASS JULY-JUNE AVERAGE 1965-69 AND ANNUAL 1972-75¹

Item and year	Average 1965-69	1972-73	1973-74 preliminary	1974-75 forecast	1975-76 projected
Million bushels:					
Beginning carryover.....	626	863	³ 438	247	320
Production.....	1, 426	1, 545	1, 705	1, 793	2, 138
Imports ²	2	1	4	2	1
Total supply.....	2, 054	2, 409	2, 147	2, 042	2, 459
Food ⁴	515	528	528	525	530
Seed.....	65	67	84	87	87
Feed (residual) ⁵	128	190	140	71	102-77
On farms where grown.....	(46)	(47)	(31)	(34)
Domestic disappearance.....	* 709	785	752	683	719-694
Exports ²	705	1, 186	1, 148	1, 039	1, 300-1, 400
Total disappearance.....	1, 414	1, 971	1, 900	1, 722	2, 019-2, 094
Ending carryover.....	640	438	247	320	440-365
Privately owned—Free.....	(194)	(227)	(228)	(318)
Dollars per bushel:					
Price support:					
National average loan rate.....	1. 25	1. 25	1. 25	1. 37	1. 37
Average certificate payment.....	. 54	. 47	. 21
Season average price received:					
By nonparticipants.....	1. 37	1. 76	3. 95	4. 04
By program participants ⁶	1. 91	2. 23	4. 16	4. 04
	Hard winter (million bushels)	Red winter (million bushels)	Hard spring ⁷ (million bushels)	Durum ⁷ (million bushels)	White ⁷ (million bushels)
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.....	327	168	181	40	59
Exports ²	704	68	198	65	151
Total disappearance.....	1, 031	236	379	105	220
1973-74					
Beginning carryover.....	201	8	173	37	19
Production.....	957	159	328	79	182
Total supply.....	1, 158	167	503	117	202
Domestic disappearance.....	301	133	209	47	62
Exports ²	731	25	228	42	122
Total disappearance.....	1, 032	158	437	89	184
1974-75					
Beginning carryover.....	126	9	66	28	18
Production.....	879	290	290	79	255
Total supply.....	1, 005	299	357	108	273
Domestic disappearance.....	304	137	159	38	45
Exports ²	518	144	130	49	198
Total disappearance.....	822	281	289	87	243
1975-76					
Beginning carryover.....	183	18	68	21	30
Production.....	1, 052	347	336	121	282
Total supply.....	1, 235	365	405	142	312

See footnotes at end of table, p. 136.

TABLE 1.—WHEAT: SUPPLY, DISTRIBUTION, AND PRICES, TOTAL AND BY CLASS JULY-JUNE AVERAGE 1965-69 AND ANNUAL 1972-75¹—Continued

	Hard winter (million bushels)	Red winter (million bushels)	Hard spring ⁷ (million bushels)	Durum ⁷ (million bushels)	White ⁷ (million bushels)
Domestic disappearance.....	274	164	169	40	60
Exports ²	735	175	160	60	220
Total disappearance.....	1,009	339	329	100	280
Carryover.....	226	26	76	42	32

¹ Data by class, except production, are approximations. Projected disappearance figures should be regarded as midpoint of estimated ranges.

² Imports and exports include flour and other products in terms of wheat.

³ Excludes grain in transit, the volume of which was abnormally large as of the survey date.

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 Does not include set-aside or disaster payments.

⁷ Total supply includes imports.

* Note: Totals may not add due to rounding.