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Bruce R. Weber, Senior Agricultural Program Specialist
Analysis Division
Agricultural Stabilization and Conservation Service
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1981/82 Situation - A Year of Records

The 1981 U.S. wheat crop was a record 2.75 billion bushels, up 16 percent from last year. This huge crop was brought about because of a 10 percent increase in planted acreage (an all-time high of 88.8 million acres, Table I), a nearly 14 percent increase in harvested acreage and a near record yield of 34.1 bushels per acre, about 1 bushel higher than in 1980.

The 1981 U.S. wheat crop developed through a variety of conditions--from drought at planting; late spring freezes; to excessive rains during harvest--but the hardiness of the wheat plant prevailed. Total 1981/82 marketing year supplies at 3.74 billion bushels is 14 percent above last year's all-time record.

Planting of the 1981 winter wheat crop took place under dry soil conditions in the Plains which slowed good plant development needed before winter dormancy. Reseeding was necessary in many areas. However, a relatively mild winter prevented winterkill and widespread spring rains restored soil moisture. Good spring growing conditions continued until a mid-May freeze caused considerable losses in the West Central Great Plains. The yield in Kansas, hardest hit by this freeze, was nearly 30 percent lower than in 1980, with production down 115 million bushels. Thus overall yields were down slightly from a year earlier but with a record harvested acreage of 58.5 million acres the first 2-billion bushel winter wheat crop (2.06 billion) was produced. Although the freeze prevented a record Hard Red Winter harvest, the tremendous expansion of Soft Red Winter wheat acreage, particularly in the Southeast, resulted in a banner outturn. Continued ideal growing conditions in the Pacific Northwest (PNW) again produced a record white wheat crop.

Spring wheat planting got off to an early start with considerable concern about dry soil conditions in major Durum and Other Spring Wheat growing areas. However, beneficial rains in late May and early June greatly improved prospects. Also timely summer rains in the Northcentral Plains, culminated in producing record 1981 Durum and Hard Spring crops. Average yields bounced back nearly 10 bushels for Durum and 6 bushels for Other Spring Wheat after last year's drought.

Good harvest weather in the Northern Plains also improved the quality of the crop over that of 1980 which suffered extensive sprout damage. Overall the quality of the 1981 wheat crop is higher than a year ago due to the improvement in Durum and Hard Red Spring. Soft red wheat quality was somewhat disappointing because of higher protein levels; but the quality of the white wheat crop rated the best in several years.

A number of interesting developments have occured during the past 4 years regarding the acreage and production of wheat in the U.S.. The following table illustrates the regional changes that have occured:

Region	Harvested Wheat Acreage			Production			Average Yield
	1978	1981	%Change	1978	1981	%Change	
	---Million Acres--			---Million Bushels--			-Bu/Ac-
(1) Northeast	.8	1.5	+87.5	30.9	65.0	+110.5	40.9
(2) Southeast	1.3	6.9	+430.8	45.2	281.8	+523.5	37.8
(3) Corn Belt	3.6	7.8	+116.7	136.0	344.1	+153.0	44.1
(4) Southern Plains	20.5	28.2	+36.9	559.1	745.9	+33.4	30.1
(5) Northern Plains	23.1	28.0	+21.2	680.6	842.2	+23.7	27.6
(6) Northwest	5.5	5.9	+7.3	255.5	326.1	+27.6	50.2
(7) Southwest	1.4	2.4	+71.4	67.8	145.0	+113.9	55.3
U.S. Total	56.5	80.7	+43.8	1775.5	2749.8	+54.9	33.4

(1) Delaware, Maryland, New Jersey, New York, Pennsylvania, West Virginia, Michigan.
(2) Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Tennessee, Virginia.
(3) Illinois, Indiana, Iowa, Missouri, Ohio, Wisconsin.
(4) Colorado, Kansas, Oklahoma, Texas.
(5) Minnesota, Montana, Nebraska, North Dakota, South Dakota, Wyoming.
(6) Idaho, Oregon, Washington.
(7) Arizona, California, Nevada, New Mexico, Utah.

Two Billion Bushel Export Season Within Sight

Prospects for a slight reduction in world production outside of the U.S., and increased world trade has fostered the forecast of a dramatic 1981/82 expansion in the U.S. exports (Table 1). With more than adequate supplies to meet this blooming demand, overseas shipments of U.S. wheat are projected to be a record 1.9 billion bushels (51.7 million metric tons). This level may even approach 2.0 billion bushels if crop developments in the Southern Hemisphere continue to deteriorate. The 1.9 billion bushel projection is a fourth larger than last season's record loadings and means the U.S. will be the supplier of nearly half the 1981/82 total global wheat trade.

World importers will buy nearly 70 percent of the record 1981 U.S. wheat crop. Current export committments (outstanding grain sales plus shipments) represent nearly 60 percent of the season's total projected volume. Weekly loadings during June-September have been at a record pace and will have to continue at about 35 million bushels to season's end. The key to achieving the 390 million bushel increase in U.S. exports over last year may be in avoiding any serious logistical disruptions both here and abroad. China will likely remain our single largest customer while purchases by the Soviet Union, India, Brazil, Iran and Morocco are expected to be significantly larger.

Domestic Use Likely A Record

Domestic use in the U.S. is expected to be at a record level reflecting a continued growth in food use and a fourfold increase in wheat feeding (Table 1).

Food use of wheat (wheat ground for flour less flour exports) during the June-September period was slightly ahead of last year. The impact of relatively low stable prices and large supplies has been offset by the high cost of carrying inventory so millers and bakers have been operating "hand-to-mouth" during this period of record high interest rates. However, mill grind may soon show a rebound if price rises cause millers and bakers to replenish inventories in anticipation of further rises.

Durum grind and use is expected to be up from last year as large supplies and substantially lower prices should prompt pasta manufactures to include optimally larger portions of Durum in their product formula.

The October 1 Stocks Report confirmed the forecast that short early season feed grain supplies and the large supplies of low priced wheat during the June-September quarter would likely mean substantial expansion in wheat feeding over last year. Apparent feed disappearance for this period was about 190 million bushels, the largest ever. Because of the residual nature of computing feed use, this large disappearance may be subject to later adjustments. For this reason, the full season projected feed-use residual is estimated at 200 million bushels.

Extremely large harvesttime supplies in the Southeast and greatly depressed wheat prices encouraged the large poultry industry to substitute wheat for feed grains. But this early summer price advantage has eroded as the banner 1981 feed grain harvest became evident. With strengthening wheat prices and seasonally low feed grain prices, wheat feeding this fall and the remainder of the year will likely be curbed.

Wheat Prices Decline

The huge 1981 wheat harvest, high interest rates, lack of speculative capital in commodity markets, the general state of the economy, record feed grain production prospects and the high cost of carrying inventory have contributed to a 6 percent decline in wheat prices during the June-September

period from the same period last year. However, as projected carryover levels decline and free stocks tighten, farm prices are expected to advance to above the $4.00 mark and may approach the lower $4.48 reserve trigger price during the latter part of 1981/82 marketing year.

Free stocks of wheat on June 1, 1982, may be below 250 million bushels as farmer-owned reserve stocks are expected to be at or above 475 million bushels at season's end along with over 185 million bushels of wheat owned by CCC. This would be the lowest "free stocks" position since June 1, 1974, when total stocks were only 340 million bushels. This situation should result in good movement of wheat prices over the next several months. The magnitude of this situation is further intensified when the stocks position by class of wheat is reviewed. The following table illustrates this situation:

Item	Hard Red Winter	Hard Red Spring	Soft Red Winter	Durum	White	Total
Production	1104	259	658	182	339	2750
Carryover, June 1, 1982	382	322	30	107	67	908
Reserve Stocks	235	161	10	19	50	475
CCC Inventory	129	39	8	--	9	185
Free Stocks	18	122	12	88	8	248

Ending stocks for 1981/82 are projected to decline to near 900 million bushels, almost 100 million below last year. Wheat prices for the season are expected to range from $3.80 to $3.95, slightly less than last year's $3.96 per bushel (Table 1).

1981 Program At A Glance

The 1981 program is essentially unchanged from 1980. Basic program features include:

1) No set-aside requirement.
2) Target Price - $3.81 per bushel.
3) Loan Rates - $3.20-Regular loan and $3.50-Reserve loan.
4) Reserve Program - Direct entry of 1981 crop grain authorized.
(Reserve program provisions will be discussed in more detail later.)

Average prices received by farmers during the first five months of the 1981/82 marketing year (June-October) are projected to be below the target price of $3.81, therefore, deficiency payments are expected for the first time since the 1978 crop. Official prices to date indicate a deficiency payment rate of 12 to 16 cents. Deficiency payments are equal to about $27 million for each cent of exposure. All producers who reported their 1981 wheat acreage to the local ASCS office and filed an application for payment are eligible to receive a deficiency payment. These payments will be made shortly after December 1.

Loan activity for the 1981 crop has been heavy because of the depressed price situation. As of October 21, total quantity under loan was 280 million bushels compared to 331 million bushels for the entire 1980 crop. Total 1981-crop loan volume will likely exceed 500 million bushels, the highest since the 1977 crop. Reserve entries from the 1981 crop at 76 million bushels (as of 10/21/81) are below expectations.

Farmer-Owned Wheat Reserve Program (FOWR)

A restructured and simplified FOWR was announced on July 23. Provisions of the new FOWR are:

--Direct entry of 1981 crop wheat authorized.
--Outstanding 1980 crop loans may be placed into the new FOWR or entry can continue into Reserve III through December 31, 1981.
--Wheat Reserves, I, II and III can convert into new FOWR (Reserve IV) Total length of reserve contract cannot exceed 5 years.
--Reserve contract is for 3 years.
--Reserve trigger price for Reserve IV is $4.65 per bushel. Reserve grain can be marketed without penalty whenever the national 5-day moving average price reaches the $4.65 trigger price.
--Interest at the current CCC rate will be charged for the first year of Reserve IV contracts; waived the second and third years.
--Annual storage payments of 26.5 cents per bushel are paid in advance.
--Storage earning stops and the current CCC rate at interest begins whenever a second consecutive release announcement is made.
--The call price is also $4.65, but this provision will only be invoked under extreme emergency.
--The penalty for early redemption of reserve contracts is equal to one-half of the current CCC rate of interest from the date the contract was approved or the last date release was allowed. In addition to standard redemption values all storage payments paid must be repaid.
--The FOWR includes 1976 through 1981 crops of wheat. Reserve quantities as of October 21 were at 442 million bushels, the highest ever. The breakdown by crop year is as follows:

1976	1977	1978	1979	1980	1981
Million Bushels					
58.5	56.4	19.8	34.4	197.0	75.9

Four different FOWR contracts exist with differing release and call levels. The applicable levels are as follows:

Trigger Levels	Reserve I	Reserve II	Reserve III	Reserve IV
Release	$4.48	$4.80	$4.48	$4.65
Call	$5.60	$5.92	$5.60	$4.65

Outlook For 1982 Wheat Crop

Last year's record wheat plantings (88.8 million acres) are not likely to be duplicated for the 1982 crop because of the announced 15 percent "reduced acreage" program. However, the winter wheat area has good to excellent soil

moisture conditions and this may induce producers to sow nearly as much acreage as in 1981. Wet fields and the late soybean harvest may reduce plantings in the northern soft red wheat "double cropping" region. But seedings in the Southeast will likely increase. Favorable planting conditions coupled with reduced white wheat stocks in the Far West may also mean plantings comparable to a year ago. Although spring wheat planting remains months away, prospects for weaker 1981/82 price levels and large carryover stocks of Hard Red Spring and Durum wheat may mean reduced plantings in order to meet the "reduced acreage" program requirments.

The lack of any strong crop alternative, particularly in the Plains and the PNW should tend to maintain acreage in the shortrun. This is also true in feed grain and oilseed areas where increased supplies and lower prices do not make corn and soybeans strong acreage competitors. The success and expansion of double cropping (wheat/soybeans) in 1981 will likely increase again in 1982.

So it appears the major incentive to adjust acreage downward is the "reduced acreage" program. Generally, because of the lateness of the reduced acreage program announcement, the stratergy of the winter wheat producers seems to be to seed acreage already prepared and delay their participation decision until next spring. By then, the post winter crop conditions and the 1982/83 price outlook will be more clear. Therefore, one could conclude that the December Winter Wheat Seedings Report could be as high or higher than last year's 65.8 million acres.

The ultimate program provisons of the 1982 wheat crop will weigh heavily on the level of paritcipation in the reduced acreage program. Early reactions would indicate participation will likely be well below past programs.

1982 Wheat Program - Up In The Air At This Time

The Food and Agriculture Act of 1977 expires with the 1981 crop of wheat. Therefore, Congress and the Administration have been deeply involved during the past several months hammering out new farm legislation for the next 4 years. One major element that has prolonged the legislative debate is that for the first time farm legislation is being developed under strict budget constraints. To date both the Senate and House have passed their version of a new farm bill. Many differences exist between the two bills that must now be ironed out in Conference. Such action will likely take place during the first week of November. Depending on whether an acceptable farm bill can be worked out, passage does not seem likely much before mid-November.

The following is a brief summary of the major provisions of both farm bills (Senate: S. 884 and House: H.R. 3603).

1. LOANS AND PURCHASES.

H.R. 3603 - 1982 crop at not less than $3.55 per bushel adjusted for the 1983 through 1985 crops by the same percentage increase as is used to adjust the target price. (Based on current projections, loans would increase approximately 10 percent each year.)

S. 884 - Minimum level at not less than $3.50 for the 1982 through 1985 crops.

2. TARGET PRICES.

H.R. 3603 - $4.20 for the 1982 crop and adjusted by the change in a moving two-year average cost of production per acre for each of the 1983 through 1985 crops. (Based on current projections, target prices would increase approximatley 10 percent each year.)

S. 884 - Minimum levels - $4.00-1982; $4.20-1983; $4.40-1984; $4.60-1985. May adjusted annually be the change in a moving two-year average cost of production per acre.

3. DISASTER PROGRAM PROVISIONS.

H.R. 3603 - Continues authority through 1985 crops except disaster program is not available in counties where FCIC is applicable.

S. 884 - Same as H.R. 3603 except the Secretary may make disaster payments if losses cause (1) an economic emergency; (2) other disaster assistance is insufficent to alleviate the loss and (3) additional assistance is needed to alleviate the economic emergency.

4. SET-ASIDE AND ACREAGE LIMITATIONS.

H.R. 3603 - Mandates a minimum 15 percent set-aside whenever the previous year's carryover exceeds 6.0 percent of that year's world consumption of wheat. Loan rates shall be increased 5 precent whenever set-aside is applicable. Producers may at their option set-aside 30 percent and in such case the loan rate shall be increased by 15 percent. Announcement must be made by not later than August 1. Limits the amount of cropland idled in summerfallow areas to not more than 60 percent. Mandates grazing and haying of set-aside acreage. Extends normal crop acreage (NCA) provisions for wheat and feed grains.

S. 884 - Secretary may impose a "reduced acreage" program whenever supplies are determined excessive. The reduced acreage percentage shall be reduced from the previous year's wheat acreage planted for harvest or may be from the previous two year average. Other adjustments are authorized. Program benefit eligibility tied to compliance with reduced acreage program.

5. LAND DIVERSION.

H.R. 3603 - Extends provisions of current law through 1985.

S. 884 - Extends provisions of current law through 1985 crop except authorizes Secretary to tie program benefits to compliance with land diversion.

Contigent upon passage of new fam legislation, the Secretary announced on September 3 his intentions to implement a 15 percent "reduced acreage" program for the 1982 crop of wheat. This action was taken to offset the effects of record supplies and depressed wheat prices.

Preliminary provisions of this program are:

--Program benefits such as loans, entry into FOWR and target price protection will be tied to participation.
--Reduced acreage must be devoted to approved conservation uses.
--Participants must reduce the 1982 wheat planted for harvest by 15 percent from an established wheat base. Generally the wheat base will be the 1981-crop wheat planted for harvest.
--Grazing of reduced acreage will be permitted except during the six principal growing months.
--Offsetting compliance will apply; but cross compliance will not.

The level of participation in the "reduced acreage" program depends on a number of factors such as final target levels, loan rates, and expected farm prices. Our initial estimates based on past program performance was that participation might be as high as 50 percent. However, we now believe this level may be more in the range of 25 to 35 percent.

TABLE 1

Wheat: Summary of Supplies, Utilization and Price 1950-1981

Item	1950-59 Ave.	1950-69 Ave.	1970-79 Ave.	1980/81	1981/82
Acreage (Mil.Ac.)					
Planted	65.1	56.3	65.6	80.4	88.8
Harvested	56.2	50.2	58.4	70.9	80.7
Yield/Harvested Ac. (Bu/Ac)	19.5	26.4	31.2	33.4	34.1
Supply (Mil.Bu)					
Production	1095	1324	1824	2370	2750
Total Supply	1962	2374	2630	3274	3743
Utilization (Mil.Bu)					
Domestic	630	655	781	773	932
Export	388	712	1054	1510	1900
Total	1018	1367	1835	2283	2832
Ending Stocks	944	980	795	991	908
Prices ($/bu)					
Farm Price	$1.97	$1.54	$2.86	$3.96	$3.80-3.95
Stocks/Use Ratio (%)	92.73	71.69	43.32	43.41	32.06

Acreage, Yields, and Production at Record Levels

Rice production in 1981 will be at a record level for the second consecutive year. Based on October 1 estimates, production will reach 178.8 million hundredweight (5.8 million tons milled basis), 12 percent increase over the 1980 record level of 145.1 million (4.8 million tons milled basis). This production is based on record harvested acreage of 3.77 million acres and a record yield of 4788 pounds per acre.

All producing States except Texas increased plantings, but the major increases occurred in two States. Arkansas acreage increased by 17 percent to 1.52 million acres and Mississippi increased by 36 percent to 340 thousand acres.

The 4788 pound yield is up nearly 9 percent from last year and is the highest yield since the 1976 record of 4663 pounds. Yields increased in all producing States due to excellant weather conditions and varietal improvements. California yields again will be far ahead of the Southern States average. For 1981, the California yield of 6800 pounds is 54 percent greater than the Southern average yield of 4410 pounds.

Based on carry-in stocks of 16.5 million hundredweights and imports of .1 million, total rice supplies for 1981/82 will reach 195.4 million hundredweights (6.4 million tons, milled basis), 14 percent above the 1980/81 supply and a record level.

Export Demand Reduced For 1981/82

Rice exports for 1981/82 are estimated at 79.0 million hundredweight (2.6 million tons, milled basis). This level represents a 14 percent decline from 1980/81 record exports of 91.4 million hundredweights (3.0 million tons, milled basis). The decline is based on reduced exports to South Korea and the favorable crop prospects in several other key rice importing countries.

Domestic Use Steadily Increasing

Domestic food consumption and industrial use of rice in 1981/82 are estimated to reach 56.5 million hundredweight (1.86 million tons, milled basis). This represents an increase of 3.6 percent over 1980/81 domestic use, and indicates that rice use continues to expand in line with population growth. Use of rice by brewers, estimated at 11.8 million hundredweight, will recover from reduced use in 1980/81 when brewers rice was in short supply due to sizeable brown rice sales.

Ending Stocks To Soften Prices

The coincidence of a record supply and reduced exports is expected to result in a record year end carryover level of 56.4 million hundredweight (1.85 million tons, milled basis). As a result, rough rice prices are expected

to fall from last year's season average price of $12.00 per hundredweight to a range of $9.00-$11.00. Prices for the first five months of this marketing year are expected to average below the 1981 target price of $10.68 per hundreweight. As a result, deficiency payments are expected to be made to eligible producers.

Rice Outlook Workshop

A separate workshop on the rice outlook and situation has been scheduled for next month. This Rice Outlook Workshop will be held December 9th at Texas A & M University in College Station Texas. (Rudder Tower, Room 510, 8 am to 5 pm.