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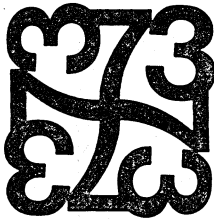
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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR WHEAT

Talk by James J. Naive
Economic and Statistical Analysis Division
at the 1973 National Agricultural Outlook Conference
Washington, D. C., 10:15 A.M., Thursday, February 22, 1973

Highlighting the 1972/73 wheat scene are prospects for record exports and disappearance, one of the sharpest stock drawdowns on record, and the highest farm wheat prices since 1947.

Supply

The 1972/73 wheat supply of 2,409 million bushels is the largest since 1962/63. It consists of the third largest crop of 1,545 million bushels and a carryover of 863 million. The 1972 harvest was 5% below the 1971 record; yield at 34.9 bushels per acre was down 4% and harvested acreage at 47.3 million was down 1%.

Disappearance

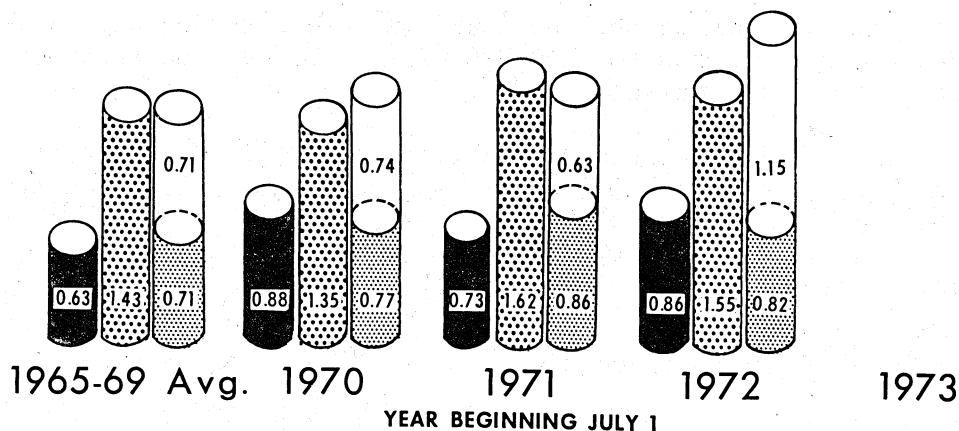
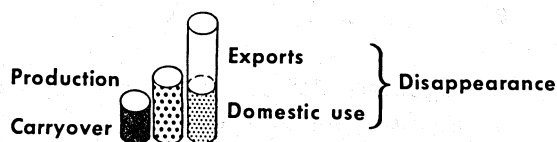
Wheat utilization in 1972/73 appears to be headed for a record 1,968 million bushels, 23% above the old record set back in 1965/66. Exports are the principal stimulus and will likely total around 1,150 million bushels, a third over the old record of 1965/66. Larger purchases by our regular customers, sales to the USSR of around 400 million bushels, and entry into the market by Peoples Republic of China have all helped swell the total.

Domestic use in 1972/73 is likely to slip 4% from last year's 855 million bushels as high wheat prices limit wheat feeding. Food use and seed will change little from a year ago.

Utilization during July-December 1972 totaled 1,016 million bushels, a fourth more than in 1971. Exports were principally responsible and at 503 million bushels were the largest for any June-December period. Food use was unchanged while seed use edged up with increased winter wheat plantings. Feed use at 192 million bushels was about the same as a year ago and surprisingly large in view of price developments.

WHEAT SUPPLY AND DISAPPEARANCE

BIL. BU.



1971 PRELIMINARY.

1972 PROJECTED.

U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 8997-73 (2) ECONOMIC RESEARCH SERVICE

The pace of disappearance for the rest of the season is expected to continue heavy with exports leading the way. Food, feed, and seed uses will probably ease off seasonally from July-December levels. In contrast, exports must surge if 650 million bushels are to be moved during the second half of the crop year.

With the heavy-demand, stocks will plunge to around 440 million bushels by summer. Cut by half, stocks would be the smallest since 1967. There is a strong likelihood that nearly all carryover will be "free" or held outside of the loan or government ownership.

Farm Prices

The runup in U.S. farm prices of wheat this season has been one of the sharpest on record. From \$1.32 per bushel in July, prices soared to \$2.38 in January, the highest for that month since 1947. For the remainder of the season, prices are expected to ease some and for the year may average 40 to 50 cents over the \$1.25 per bushel loan rate.

The 1972 crop is valued at a record \$2,575 million, nearly a fifth above 1971. Adding in government payments, gross income to growers totals a record \$3,430 million.

USDA Acts

High prices and vigorous demand encouraged CCC to sell around 230 million bushels of wheat during July-December 1972. Nearly all inventory may be marketed by year's end.

USDA recently announced that no loans will be extended beyond current maturity dates. These loans totaled 230 million bushels on December 31. Most of this should enter the market.

On January 1, USDA announced the elimination of the 86% mandatory set-aside requirements under the 1973 wheat program, except for producers who choose to participate in the voluntary set-aside. This action will result in larger wheat acreages and hopefully will assure an adequate supply of agricultural commodities to meet a growing market demand.

1973 Crop Prospects

The 1973 winter wheat crop was estimated at a record 1,278 million bushels in December. Seedings were up 1% and yields were indicated 6% higher. The crop could be somewhat larger as farmers adjust their acreage abandonment plans in response to the lifting of restrictions on wheat plantings. The March prospective plantings report may show a larger increase in spring wheat acreage than the 15% indicated in January. If yields are on trend, the 1973 wheat crop could be moderately above the 1,618 million bushel record of 1971.

WHEAT CLASSES

Hard Red Winter

Total supplies of hard red winter for 1972/73 at 1,234 million bushels were down fractionally from a year ago. The quality of the 1972 crop was somewhat below last year's.

HRW exports continue to move at a record pace. Yet, the pace must quicken if 710 million bushels are to be shipped by June 30. Domestic use is sharply below last year as high prices encouraged substitution of HRS for HRW in flour blends and other grains for wheat in the feed ration. By this summer, carryover will be more than halved and will total less than 200 million bushels, the smallest amount since 1952.

HRW prices literally soared this season, up almost 70% from their harvest-time lows in some areas. Farmers last fall seeded around 3% more HRW.

Table 1.--Wheat: Supply, distribution and prices, total and by class
July-June average 1965-69 and annual 1969-72 1/

Item and Year	Average 1965-69	1969/70	1970/71	1971/72 preliminary	1972/73 projected
----- Million bushels -----					
Beginning carryover	626	817	885	731	863
Production	1,426	1,443	1,351	1,618	1,545
Imports 2/	2	3	1	1	1
Total supply	2,054	2,263	2,237	2,350	2,409
Food 3/	515	521	519	526	525
Seed	66	57	63	64	68
Feed (residual) 4/	128	194	186	265	225
On farms where grown	(47)	(61)	(62)	(73)	
Domestic disappearance	709	772	768	855	818
Exports 2/	705	606	738	632	1,150
Total disappearance	1,414	1,378	1,506	1,487	1,968
Ending carryover	640	885	731	863	441
Privately owned--"Free"	(197)	(152)	(170)	(162)	
----- Dollars per bushel -----					
Price Support					
National average loan rate	1.25	1.25	1.25	1.25	1.25
Average certificate payment	.54	.65	.75	.54	.47
Season Average Price Received					
By non-participants	1.37	1.24	1.33	1.34	1.67
By program participants	1.91	1.89	2.08	1.88	2.14
----- Million bushels -----					
	Hard winter	Red winter	Hard spring 5/	Durum	White
----- Million bushels -----					
<u>1969/70</u>					
Beginning carryover	475	33	210	41	58
Production	785	186	190	108	174
Total supply	1,260	219	403	149	232
Domestic disappearance	350	168	136	35	83
Exports 2/	336	28	89	34	119
Total disappearance	686	196	225	69	202
<u>1970/71</u>					
Beginning carryover	574	23	178	80	30
Production	755	174	198	53	171
Total supply	1,329	197	377	133	201
Domestic disappearance	387	156	118	36	71
Exports 2/	450	26	113	39	110
Total disappearance	837	182	231	75	181
<u>1971/72 Preliminary</u>					
Beginning carryover	492	15	146	58	20
Production	747	212	366	92	201
Total supply	1,239	227	513	150	221
Domestic disappearance	432	166	133	37	87
Exports 2/	337	43	104	44	104
Total disappearance	769	209	237	81	191
<u>1972/73 Projected</u>					
Beginning carryover	470	18	276	69	30
Production	764	227	274	73	207
Total supply	1,234	245	551	142	237
Domestic disappearance	342	166	190	38	82
Exports 2/	710	70	180	50	140
Total disappearance	1,052	236	370	88	222
Carryover	182	9	181	54	15

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/ Used for food in the United States, U.S. territories, and by the military at home and abroad. 4/ Assumed to roughly approximate total amount used for feed, including mixed and processed feed, also includes negligible quantities used in distilled spirits and beer. 5/ Total supply of Hard spring includes imports.

Soft Red Winter

Supplies of soft red winter at 245 million bushels were the largest since 1968/69. Average protein content of the crop was off somewhat, but generally satisfactory for the production of the various soft wheat flours.

Disappearance continues heavy. Good export movement during July-December and the usual mill demand point to relatively tight supplies for the rest of the year. Second half disappearance is expected to slump as high prices and short supplies limit feeding and exports. Stocks by the summer of 1973 will fall to less than 10 million bushels.

SRW prices at the farm have zoomed since July; farm prices in Ohio were \$2.52 in December compared to \$1.29 per bushel in July. Wet weather at planting time reduced SRW acreage and the 1973 crop may fall 10 to 15% from the 1972 level.

Hard Red Spring

Supplies for 1972/73 at 551 million bushels are up 7% as larger stocks offset the reduced crop. Protein content of the 1972 crop is off slightly and the supply of high proteins is somewhat less.

Demand continues strong. Record exports of 180 million bushels still appear likely and domestic use will surge to 190 million bushels as higher prices of competing wheats have buoyed mill demand for HRS. Carryover is currently placed at about 180 million bushels, down a third from last summer's stocks.

The price rise for HRS has not been as sharp as for other major classes. Currently up almost 50% from their season's lows, prices may weaken as the large stocks of wheat currently under loan move into the market. The elimination of required set-aside should result in a fairly large increase in 1973 HRS seedings.

Durum

Durum supplies for 1972/73 at 142 million bushels were down slightly as the reduced crop more than offset the second largest stocks on record. The presence of blackpoint, a fungus disease, has created problems for users of this year's durum crop.

Domestic use should total around 38 million bushels. Durum exports have been moving well and should reach the 50 million bushel estimate for the year. Despite heavy usage, stocks will fall only slightly and will remain ample.

Durum prices like all other classes have moved up. But like HRS prices, they have not been as strong as prices for HRW, SRW and White. Prices at Minneapolis have risen from around \$1.80 per bushel in early August to \$2.55 in January. Durum production in 1973 is likely to jump as producers expand acreage in view of good prices and the lack of restrictions on plantings.

White Wheat

A larger crop and increased stocks resulted in a 1972/73 white wheat supply of 237 million bushels, up 7%. The crop was generally higher in quality than in 1971.

Disappearance during July-December 1972 was sharply above the previous season's, when West Coast ports were closed. Exports totaled 79 million bushels through December 1972 indicating that the season's estimate of 142 million should easily be reached. Usage during the second half of the year should continue strong. Year ending stocks are expected to fall to around 15 million bushels, with most areas carrying only pipeline stocks.

White wheat prices at Portland have increased about 75% since harvest. This runup is greater than for any other class and can be attributed to very strong commercial demand. Acreage seeded to winter white wheat rose only 4%. With lower yields anticipated, production may approximate last year's level.

WORLD WHEAT OUTLOOK 1/

World wheat production in 1972 fell 6% to 304 million metric tons. Most of this decline is due to around a 20 million ton short-fall in the USSR crop.

Argentina and Australia have just harvested contrasting crops, nearly offsetting in size. In Argentina, favorable growing conditions and increased plantings yielded a crop of 8 million metric tons, nearly 50% larger than a year ago. Export availability from this crop is estimated at 3.8 million tons.

Australia's wheat crop was plagued by dry weather from start to finish, plummeting yields below 14 bushels per acre and dropping the harvest a third to 5.9 million tons. Carryover at the end of the Australian marketing year will be down to minimum pipeline levels.

A successful harvest of wheat, rice, and coarse grains in India relies on favorable monsoon rains which commence in May and June. Last year's monsoons were erratic, and the resulting 7 million ton drop in the 1972/73 grain crop shorted food grain supplies, bringing on the need for imports. However, production of wheat at 26.5 million metric tons hit its sixth consecutive record last spring. The extent of India's food import need is still uncertain, but wheat has traditionally been the grain filling most of the gap.

Dry weather in European USSR delayed fall seeding by about 3 weeks. Winter wheat seedings were about a sixth below the planned 55 million acres. This underplanted area will primarily be seeded to barley in the spring. Assuming a normal level of winter kill, winter wheat acreage for harvest would slightly exceed the 1972 level. And if yields are average, production would be up substantially.

1/ All units are metric unless noted otherwise. One metric ton of wheat is equivalent to 36.74 bushels.

In anticipation of continued strong export demand, Canadian wheat disappearance in 1973/74 is expected to decline only slightly from last year's 765 million bushels. With wheat carryover next summer down to the lowest level since 1952, it is expected that the 1973 area will show a sizeable increase. Assuming normal weather in 1973, acreage would have to increase at least a fifth from 1972's 21.4 million acres in order to cover expected disappearance. Yields could be below average since with a larger area seeded, a smaller percentage would be seeded on fallow land.

Huge Soviet purchases along with larger imports by the Peoples Republic of China point to a prospective record 1972/73 world wheat trade. It is estimated at 69 million metric tons, 10% above the previous 1965/66 high. Recent demand developments in Asia have added fuel to the already heated wheat economy. Trade perhaps could expand even more, save for the constraints of distribution systems and limited exportable supplies.

The combination of strong demand vying for limited supplies has contributed to one of the sharpest advances for world prices in many years. By the end of December, prices had increased nearly a dollar a bushel from early-season levels.

Future Directions

With our wheat economy experiencing a record shattering performance in 1972/73, attention has been turned to long-term prospects. Will the boom continue on through the 1970's or will it be short lived? Are there permanent shifts in world demand? Will wheat feeding continue to expand?

In looking at long-term prospects we have used the same underlying assumptions stated in Culver's paper, "Possible Directions for Farm Production, Prices, and Income." A population growth rate of about 1.2% per year; a real GNP growth rate of 4% per year; farm policies geared to market expansion, production adjustments to meet market requirements, and supportive measures for prices and income. On the foreign side, upon which much of the outlook is contingent, the enlarged European Community (including the United Kingdom, Ireland, and Denmark) will continue its protectionist orientation within the framework of the Common Agricultural Policy; and wheat production in the Soviet Union will be back on trend and the USSR will at least be on a net self-sufficiency level for wheat.

The downtrend in per capita wheat consumption has moderated in recent years and this moderation is expected to continue. But it still means some reduction in per capita consumption. Nevertheless, total food usage will continue to rise along with population growth.

Feeding appears to be the domestic demand component with the brightest growth prospects. This of course implies that supply-demand will be structured so that wheat prices will be competitive for feeding, particularly in the feed grain-deficit cattle feeding regions of the Central and Southern Plains. Where wheat feeding is now in the 200 to 250 million bushel range, it could easily range between 300 to 350 million bushels in 10 to 15 years. This would simply follow the expected growth in cattle feedlot operations.

But the biggest demand uncertainty is exports, especially in view of this season's unusual sequence of events that sent world imports soaring. There are several regions with promising market growth--Asia, Central America, and eastern South America. But the potential of these areas is not nearly great enough to fill the void that will be created should the USSR cease its massive wheat purchases. Assuming this is true, it is inevitable that exports will drop sharply from the 1972/73 level. But they will be running moderately above other recent averages.

Thus, total wheat disappearance is expected to rise at a moderate rate from the period around 1970, but the level is not likely to be as high as 2.0 billion bushels estimated for 1972/73.

Further improvements in cultural practices, varietal developments, and input usage will continue to spur wheat yields. This growth could account for most of the projected increase in disappearance, leaving acres harvested about the same as the 1969-71 average.

Wheat: U.S. supply, distribution and acreage, average 1969-71, and projected, 1985/86

Item	1969-71 average	1985/86
	- - - - Million bushels - - - -	
<u>Supply and Distribution</u>		
Carryover	811	600
Production	1,471	1,795
Imports	1	---
Total Supply	2,283	2,395
Domestic disappearance	798	995
Exports	659	800
Total Disappearance	1,457	1,795
Ending carryover	826	600
Food per capita (pounds)	152	143
<u>Acreage and Yield</u>		
Harvested acreage (Mil. acres)	46.1	45.8
Yield per harvested acre (Bushels)	31.8	39.2