

Commodity Briefs



Field Crops

Durum Wheat Crop Dips in 1997

Fluctuating moisture conditions this year in the Northern Plains is wreaking havoc with U.S. production of durum wheat, the main ingredient for pasta. USDA's August 1 forecast indicates that farmers will harvest only 90 million bushels in 1997, down 22 percent from last year's large crop and the smallest in 4 years. As a result, U.S. durum imports are projected to rise in 1997/98, as are durum prices relative to other classes of wheat.

Extremely wet field conditions following spring storms and snowmelt slowed spring planting across much of North Dakota, which typically accounts for at least three-fourths of the U.S. durum crop. Just over one-third of North Dakota's durum planting was completed by mid-May, compared with an average of nearly half for this period during 1992-96. Dry weather allowed farmers to finish planting by early June, but lowered yield prospects when the dryness continued through the month.

The clouds opened again in July, bringing much-needed rain. Crop prospects improved somewhat, especially in the northern parts of the region where the crop matures later. However, the moist

(and cool) conditions have promoted development of disease in some areas, which can reduce both yield and quality. Compounding the impact of lower projected overall yields this year, U.S. farmers had planted 10 percent less durum area, in response to prices that were lower at planting time than a year earlier.

Durum is also grown under irrigation in the desert areas of California and Arizona, where farmers are expected to harvest a combined 21 million bushels in 1997. While yields in those states are near last year's levels, planted area is down in both states, especially in Arizona. The discovery of Karnal bunt fungus in durum wheat seed last year led to restrictions on planting and marketing to prevent its spread to other wheat growing regions.

Reflecting sharply lower production prospects, farm prices for durum rose

during June and July. In contrast, prices for other classes of wheat declined in mid-summer as the harvest of a bumper winter crop advanced up the Plains. Durum prices do not necessarily fluctuate in unison with other classes of wheat, because there is little substitution between durum and other classes—e.g., hard red winter, soft red winter, and white wheat, which are not well suited for pasta production. Durum is first ground into coarse flour (called semolina) and then usually processed into pasta.

Beginning stocks are higher than a year earlier, but not nearly enough to offset the expected smaller crop. The tight domestic supply situation will likely boost the season-average farm price for durum relative to other classes of wheat. The durum price premium (over the all-wheat price) may approach \$1 per bushel in 1997/98, more than double last year's level but

U.S. Field Crops—Market Outlook

	Area		Yield	Output	Total supply	Domestic use	Exports	Ending stocks	Farm price
	Planted	Harvested							
	—Mil. acres—		Bu/acre	—Mil. bu —				\$/bu	
Wheat									
1996/97	75.6	62.9	36.3	2,282	2,750	1,304	1,001	444	4.35
1997/98	70.8	63.5	39.9	2,531	3,070	1,275	1,100	695	3.05-3.65
Corn									
1996/97	79.5	73.1	127.1	9,293	9,731	6,990	1,800	941	2.70
1997/98	80.2	74.0	125.3	9,276	10,227	7,330	2,050	847	2.50-2.90
Sorghum									
1996/97	13.2	11.9	67.5	803	821	565	205	51	2.33
1997/98	10.3	9.5	66.2	629	681	425	195	61	2.25-2.65
Barley									
1996/97	7.2	6.8	58.5	397	533	392	31	110	2.75
1997/98	6.8	6.4	59.4	380	530	412	45	73	2.30-2.70
Oats									
1996/97	4.7	2.7	57.8	155	319	250	3	67	1.95
1997/98	5.3	3.2	58.1	187	354	285	3	66	1.50-1.90
Soybeans									
1996/97	64.2	63.4	37.6	2,382	2,576	1,571	880	125	7.38
1997/98	70.9	69.8	39.3	2,744	2,874	1,624	945	305	5.40-6.60
Rice									
			Lbs./acre		—Mil. cwt(rough equiv.)—				\$/cwt
1996/97	2.82	2.80	6,121	171.3	206.4	106.5	76.0	23.9	9.90
1997/98	3.07	3.04	5,994	182.0	215.9	109.9	82.0	24.0	9.25-10.25
Cotton									
			Lbs./acre		—Mil. bales —				c/lb.
1996/97	14.6	12.9	707	18.9	22.0	10.9	7.0	4.1	69.3
1997/98	13.9	13.4	637	17.8	21.9	11.0	7.1	3.8	*

Based on August 12, 1997 *World Agricultural Supply and Demand Estimates*.

*USDA is prohibited from publishing cotton price projections.

See table 17 for complete definition of terms and data for prior years.

Economic Research Service, USDA

similar to 1995/96. Strong prices will attract more durum from Canada, with imports forecast to rise to 25 million bushels, just under the 1993/94 record. Tight U.S. durum supplies will encourage U.S. millers to bid aggressively for high-quality Canadian durum.

Most foreign durum producers are also expecting smaller 1997 crops, which will support durum prices in 1997/98. Mirroring conditions in North Dakota, yields and area are down in Canada—the world's largest durum producer. Italy and France are also expected to harvest smaller crops, and drought has sharply curtailed prospects in North Africa. Morocco, Tunisia, and Algeria are major producers and importers of durum; in this region, semolina is used primarily to make couscous.

Although U.S. durum exports have been running higher than a year earlier, the pace is expected to slow as the season progresses, due to tight domestic supplies. Domestic food use is forecast to remain relatively flat at 80 million bushels in 1997/98. Despite the projected lower output and larger imports, the U.S. is expected to maintain its status as a net exporter of durum (grain and products), with exports of 35 million bushels.

Dennis A. Shields (202) 219-0768
dshields@econ.ag.gov

For further information, contact:

Dennis Shields and James Barnes, domestic wheat; Ed Allen, world wheat and feed grains; Allen Baker and Pete Riley, domestic feed grains; Nathan Childs, rice; Scott Sanford and Mark Ash, oilseeds; George Duvalis, world oilseeds; Les Meyer, domestic cotton; Steve MacDonald, world cotton. All are at (202) 219-0840. **AO**

World Commodity Market Outlook

	Year	Production ¹	Exports ²	Consumption ^{1,3}	Carryover ¹
<i>Million tons</i>					
Wheat	1996/97	583.0	113.9	578.6	109.1
	1997/98	596.4	109.0	581.0	124.5
Corn	1996/97	590.7	68.1	570.5	86.3
	1997/98	572.1	70.6	587.6	70.8
Barley	1996/97	153.7	16.0	148.9	23.7
	1997/98	149.7	15.6	150.7	22.7
Rice	1996/97	380.7	18.7	376.6	54.6
	1997/98	379.3	19.2	380.5	53.4
Oilseeds ⁴	1996/97	257.3	46.5	216.8	16.5
	1997/98	275.0	49.8	222.3	22.7
Soybeans ⁴	1996/97	131.7	35.8	135.5	13.0
	1997/98	147.1	38.0	140.6	19.4
Soybean meal ⁴	1996/97	91.3	33.2	91.7	4.0
	1997/98	95.5	35.0	95.5	3.9
Soybean oil ⁴	1996/97	20.5	5.7	20.5	2.3
	1997/98	21.6	6.0	21.6	2.4
<i>Million bales</i>					
Cotton	1996/97	88.5	26.6	86.6	37.0
	1997/98	87.3	27.8	88.5	35.9

NA = Not available.

¹Aggregate of local marketing years. ²Wheat, July-June; coarse grains, October-September; cotton, August-July. Rice trade is for the second calendar year. All trade includes trade among countries of the former Soviet Union. All grain trade excludes intra-EU trade; oilseed and cotton trade include intra-EU trade. ³Crush only for soybeans and oilseeds. ⁴Brazil and Argentina adjusted to October-September.

Economic Research Service, USDA

Specialty Crops

New Markets Boost U.S. Tobacco Prospects

U.S. tobacco production is expected to reach 1.63 billion pounds in 1997, outpacing last year's output by nearly 7 percent and well above recent averages. Tobacco acreage expanded by about 8.5 percent in response to higher production quotas for *flue-cured* and *burley* tobacco.

Flue-cured and *burley* are the two major types of tobacco grown in the U.S., accounting for 95 percent of the crop. Both are used almost exclusively to produce cigarettes. In 1996, both types were adversely affected by disease and weather, resulting in tight supplies and high auction prices. As a result, the 1997 effective

quota for *flue-cured* tobacco—the amount growers can sell, adjusted for over- and undermarketings of the previous year—is up 8 percent to 1,019.4 million pounds, and the *burley* effective quota is up 22 percent to 880 million pounds.

U.S. tobacco is grown mostly in the Southeast, with six states producing the majority of the crop. North Carolina and Kentucky, the two largest producers, account for about 65 percent of total U.S. production. North Carolina is the major state producing *flue-cured*, which is distinguished by its curing under heat in an air-tight barn or container. Kentucky is the leading *burley* producer, followed by Tennessee. *Burley* leaf is cured by hanging the entire stalk of tobacco in a barn with openings that allow outside air to circulate among the leaves. It is more dependent on ambient temperature and humidity during the curing process than *flue-cured* tobacco.

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This year's *flue-cured* crop is relatively good, though the quality will likely be slightly below the crops of the last 2 years. A mild winter followed by a prolonged cool, damp spring curtailed early plant development, and very hot weather in July caused additional stress to the crop. Wet weather during planting increased concerns among growers about the risk of damage from blue mold, a fungus which attacks tobacco leaves, although reports suggest little damage has occurred. The hot, dry weather which has limited the spread of blue mold, however, has itself become a threat to the growing crop. Yields in North Carolina and other *flue-cured* producing states are expected to be about 2 percent lower than in 1996, and are slightly lower than the 10-year average.

Burley faced similar growing conditions. A long, cool, wet spring delayed planting and left tobacco plants with minimal root systems. Then in July, severe drought caused considerable stress to the vulnerable crop.

The 1997 *flue-cured* tobacco marketing season opened in Florida and Georgia on July 22, followed shortly by market openings in South Carolina and the Border Belt of North Carolina and Virginia. Prices through the third week of the season were about 3 percent lower than last year. *Burley* auctions will open in *burley*-growing states in November and continue through February.

The U.S. is the second-largest tobacco producing country behind China, and alternates with Brazil as the largest exporter, depending on yearly crop conditions in the two countries. The U.S. is also the largest importer of tobacco leaf, exporting high-quality *flue-cured* and *burley* leaf and importing cheaper, lower quality leaf to blend with domestic tobacco to reduce cigarette production costs. U.S. imports also include types of tobacco not grown domestically.

U.S. exports of unmanufactured tobacco leaf in 1996 advanced 5 percent over a year earlier to 486 million pounds declared weight, the highest since 1992. Japan and the European Union (EU) are the major destinations for U.S. leaf,

although exports to other Pacific Rim nations are increasing. Importing countries use high-quality U.S. tobacco to improve their cigarette blends and enhance the cigarette flavor. In 1996, exports to Asia and Africa declined, while shipments to Europe advanced 21 percent as a result of increased European cigarette production.

Leaf imports for consumption to the U.S. surged 59 percent in 1996 after declining the previous year. Stocks of imported leaf were being replenished after a tariff-rate quota replaced a 25-percent limit on foreign tobacco content in U.S.-produced cigarettes in 1996. Imports in 1996 reached 668 million pounds, a gain of 59 percent. Oriental tobacco, a type of leaf not grown in the U.S., makes up about 14 percent of a typical U.S. cigarette. Manufacturers also use cheaper imported *flue-cured* and *burley* leaf in cigarettes, especially lower priced cigarettes known as discount brands.

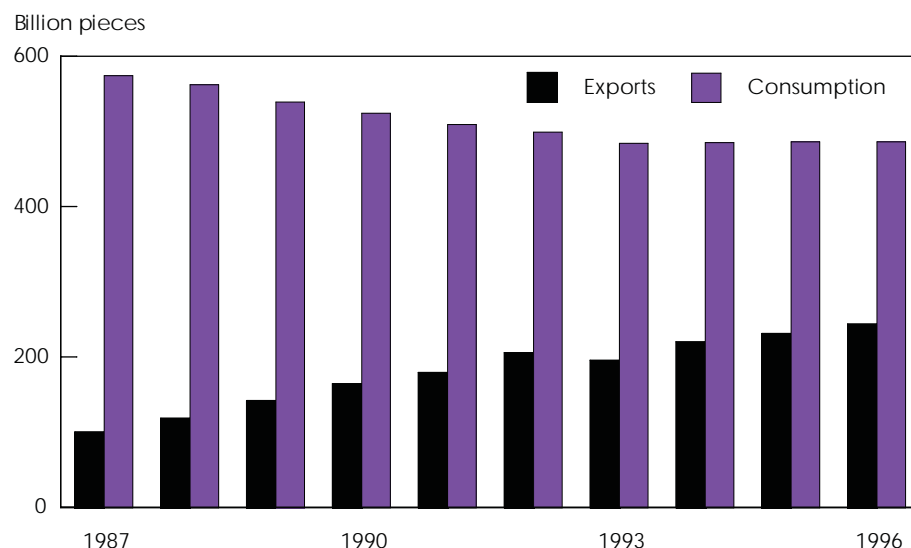
The U.S. cigarette industry is the second largest in the world, behind China. About two-thirds of the cigarettes produced in the U.S. are consumed here, and the remaining third are exported. The major markets for U.S. cigarettes are the EU and Japan, and new markets are opening

around the Pacific Rim and in the Newly Independent States of the former Soviet Union.

Although domestic cigarette consumption has been virtually constant for the past 4 years, cigarette exports have continued to rise, pushing U.S. cigarette output to a record 755 billion pieces in 1996. U.S. cigarettes have achieved a high level of popularity worldwide, and demand is increasing as the number of smokers expands and higher incomes enable consumers to purchase more expensive foreign cigarettes. About a third of U.S.-produced tobacco is used in exported cigarettes, and increased exports have boosted purchases at U.S. auction warehouses.

Per capita cigarette consumption in the U.S. has been falling for two decades, although population growth has limited the overall decline in consumption. During the past 10 years, cigarette consumption declined 15 percent—from 575 to 487 billion cigarettes, while per capita consumption fell 22 percent—from 3,047 to 2,390 cigarettes per person. Increased awareness and publicity about links between smoking and disease, restrictions on permissible smoking areas, and increasing cigarette prices have led to lower U.S. demand for cigarettes.

Cigarette Exports Rise As Domestic Consumption Levels Off



Economic Research Service, USDA

Tobacco Program: Quotas & Price Support

Flue-cured and *burley* marketings are restricted by the tobacco program, which limits the quantity of leaf that may be marketed without a penalty and sets a support price for each grade and type of tobacco. The purpose of the program is to ensure a stable market and reduce fluctuations in grower income.

The basic tobacco quota for *flue-cured* and *burley* is based on the quantity of leaf cigarette manufacturers indicate they will purchase, the previous 3 years' exports, and the amount of reserve stocks on hand. The basic quota is adjusted by previous years' over- and undermarketings to calculate the effective quota, the actual amount growers can market. The national quota is allocated among quota owners according to the proportion of the total quota they own.

The support price or loan rate for each type and grade of tobacco is set by adjusting the previous year's loan rate by the cost-of-production index and changes in the 5-year moving average of prices. Costs of operating the price support program are borne by the growers and buyers of tobacco leaf through an assessment levied on each pound of tobacco sold.

The cigarette industry and tobacco producers continue to face numerous challenges. The recent Federal budget agreement signed into law included a cigarette tax increase—beginning at 10 cents per pack in 2000 and rising to 15 cents in 2002—which will have a further dampening effect on consumption. As cigarette consumption continues to fall, demand for domestically produced leaf will become more dependent on the export market.

State attorneys general and U.S. cigarette manufacturers completed negotiations on a comprehensive settlement of litigation on liability for cigarette-related illnesses on June 20 of this year. The agreement requires congressional approval and will face intense scrutiny.

In its current form, the proposed agreement would require cigarette manufacturers to pay up to \$368 billion over 25 years to settle lawsuits and reimburse states for smoking-related Medicaid expenses. The settlement also contains provisions that restrict forms of advertising, hold cigarette manufacturers responsible for reducing teen smoking, and require cigarette companies to fund smoking cessation programs. The agreement's provisions would

likely lead to a 25-50-cent increase in the retail price of cigarettes.

In exchange, manufacturers would receive immunity from future punitive damage claims resulting from past actions. The final form of the settlement and thus its impact on the industry will not be known until Congress approves legislation codifying the agreement.

Thomas Capehart, Jr. (202) 219-0890
thomasc@econ.ag.gov

For further information, contact:

Linda Calvin, Susan Pollack, and Agnes Perez, fruit; Gary Lucier, vegetables; Ron Lord, sweeteners; Doyle Johnson, tree nuts and greenhouse/nursery; Tom Capehart, tobacco; Lewrene Glaser, industrial crops. All are at (202) 219-0840. **AO**

September Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

September

- 2 *Crop Progress (after 4 pm)*
- 3 *Broiler Hatchery*
Egg Products
- 4 *Dairy Products*
Poultry Slaughter
- 8 *Crop Progress (after 4 pm)*
- 10 *Broiler Hatchery*
Vegetables
- 11 *Turkey Hatchery*
- 12 *Cotton Ginnings (8:30 am)*
Crop Production (8:30 am)
- 15 *Milk Production*
Crop Progress (after 4 pm)
- 17 *Broiler Hatchery*
- 18 *Hop Stocks*
- 19 *Cattle On Feed*
Cold Storage
- 22 *Chickens & Eggs*
Potatoes
Crop Progress (after 4 pm)
- 23 *Catfish Processing*
Citrus Fruits
- 24 *Broiler Hatchery*
- 25 *Cotton Ginnings (8:30 am)*
- 26 *Hogs & Pigs*
Livestock Slaughter
Peanut Stocks & Processing
Trout Production
- 29 *Agricultural Prices*
Crop Progress (after 4 pm)
- 30 *Grain Stocks (8:30 am)*
Small Grains Summary
(8:30 am)