Commodity Spotlight

Seasonal Rise Ahead for Wheat Prices

U.S. wheat production, spurred by favorable weather in the central Plains states, is rebounding in 1997 to the highest level in 5 years. U.S. exports in 1997/98 are expected up, although growth will be slow, with early-season competition from foreign exporters.

Total U.S. wheat production is forecast at 2.43 billion bushels, up 7 percent from 1996 and 8 percent above the first forecast in May. With larger beginning stocks and steady year-over-year imports, the U.S. wheat supply in the 1997/98 June-May marketing year is forecast to rise 8 percent, marking the first increase in 4 years.

Under the weight of larger supplies and lackluster early-season demand, futures prices for wheat sank to 3-year lows this summer after temporarily spiking in April following a freeze in the Southern Plains and Kansas. Cash wheat prices in Kansas City dropped $1.08 per bushel during the last 3 weeks of June as harvested area expanded and growing conditions improved in the central Plains. In addition, USDA's June 30 *Acreage* report confirmed what the market suspected—that farmers had planted more spring wheat than first anticipated.

However, relatively strong demand—both domestic and global—is expected to support U.S. wheat prices as the season progresses. Domestic food use continues to march steadily upward, while expanding global imports and reduced competition are expected to push up U.S. exports by 6 percent.

Unlike last season when prices peaked early, monthly-average prices received by farmers are expected to follow a more normal seasonal pattern in 1997/98, hitting seasonal lows from June through September as large old-crop supplies in Canada and Australia provide stiff export competition during the U.S. harvest.

Last year (1996/97), U.S. winter wheat production problems and strong export sales supported wheat prices early in the crop year. Prices tumbled through early fall as production prospects improved first for U.S. winter wheat and then for spring wheat in both the U.S. and Canada. Prices remained under pressure during the rest of the season as wheat production rose to record levels in the major Southern Hemisphere wheat exporting countries.

Prices are likely to climb gradually through the rest of this season, reflecting both the cost of storing grain and an expected slowdown in foreign competition in the second half of 1997/98. Spring wheat area intentions are down in Canada, area planted is expected to decline in Argentina, and reduced production is forecast in Australia.

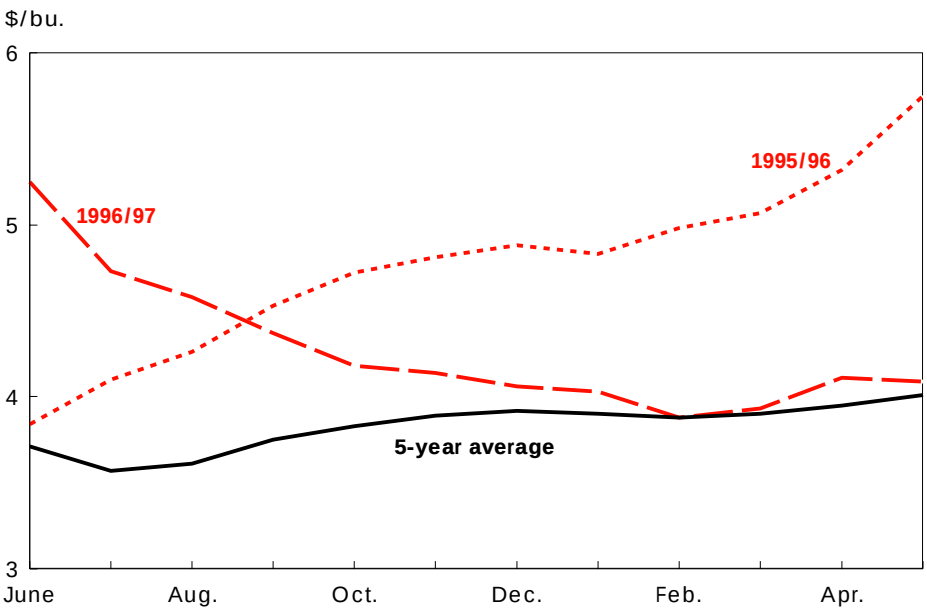
Domestic feed and residual use are projected to decline this season as expected larger corn supplies will likely weigh on corn prices this summer, making wheat feeding less attractive. Ending stocks are forecast to hit 650 million bushels, the highest since 1990/91.

The average price received by farmers for wheat in 1997/98 is forecast between $3.10 and $3.70 per bushel, down from $4.35 in 1996/97 and $4.55 in 1995/96. This would be the largest year-over-year drop since the $1.11-per-bushel decline in 1990/91 when bumper yields followed a 1989 drought in the Southern Plains.

Output Rebounds In the Southern Plains

Weather conditions have been extremely favorable during the *winter wheat* growing season, with the exception of a mid-April freeze that hit portions of Texas,

Seasonal Wheat Prices in 1996/97 Peaked Early



Economic Research Service, USDA

Oklahoma, and Kansas. The freeze curtailed what many observers thought would be extraordinarily large crops. Although many fields sustained considerable damage, especially where there was no snow cover for protection, weather after the freeze was nearly ideal for the wheat plants to recover. Consequently, average yields and harvested areas are expected to be higher than last year in each of the freeze-damaged states, which together account for almost three-quarters of projected Hard Red Winter (HRW) wheat production in 1997.

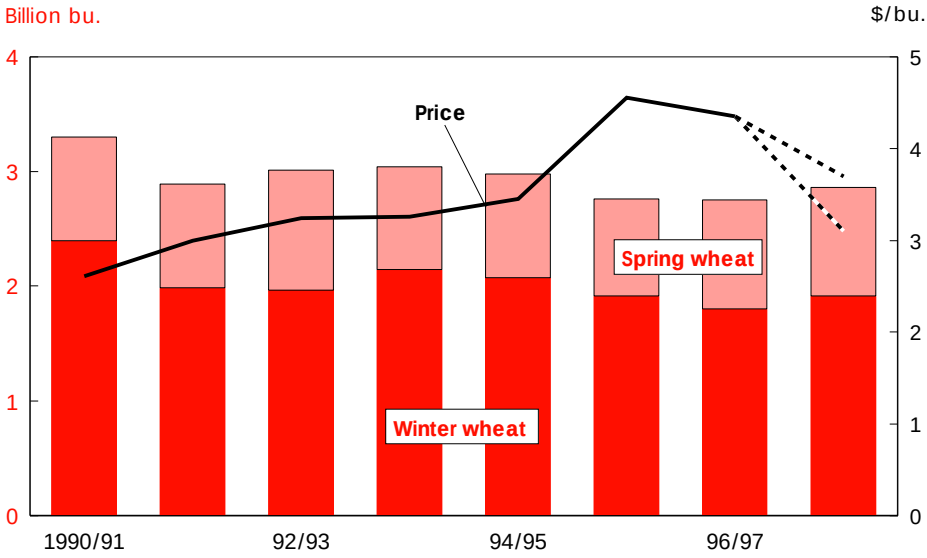
The revival in this year's crop is testimony to the resilience of the wheat plant. Based on conditions as of July 1, 1997, the U.S. winter wheat yield is forecast at a record 42.8 bushels per acre, up 3.5 bushels from the June 1 forecast, and up 5.6 bushels from last year.

Production prospects continued to improve through May and June, especially in Kansas and Oklahoma, with yield forecasts based on July 1 conditions up 10 bushels and 7 bushels per acre, respectively, from the first forecasts made in May. Total HRW output is forecast at 1,062 million bushels, up a robust 18 percent from the May forecast and up 39 percent from last year's drought-afflicted crop. HRW is used in a wide variety of products, particularly bread, and normally accounts for about 40 percent of the total U.S. wheat crop.

The winter wheat harvest has lagged behind the average pace in both the Southern and Northern Plains due to wet weather. Yields have reportedly been highly variable, reflecting pockets of freeze damage, but generally appear above average. However, protein content is reportedly below normal, so price premiums for higher protein spring wheat are rising.

Soft Red Winter (SRW) wheat production is forecast at 455 million bushels in 1997, up 33 million from last year. Higher average yields are expected to offset lower harvested acreage. Crop prospects have been excellent in Ohio and Illinois, two of the leading SRW producers. Incidences of scab and other diseases are reportedly much lower than last year. SRW exports

U.S. Wheat Prices to Fall as Supply Builds



Season-average farm price for all wheat. June-May marketing year. 1997/98 forecast.

Economic Research Service, USDA

are forecast to increase this year as a higher proportion of the crop is bid away from domestic feed buyers. SRW production normally accounts for about 18 percent of the U.S. wheat crop, and is used primarily for cakes, cookies, and pastries.

White Winter (WW) wheat production is forecast at 264 million bushels, down 10 percent from 1996 due to planting problems in both the Pacific Northwest and Michigan. Last fall, heavy rains in the Pacific Northwest slowed planting, while late field crop harvests in Michigan limited winter wheat seedings.

WW harvested area is forecast down 6 percent, and yields are expected down from last year's high levels in Washington, Oregon, and Idaho, which together account for about 90 percent of WW production. WW wheat, typically used for noodles, cakes, and cereal, normally accounts for about 11 percent of the U.S. crop.

From December 1996 to May 1997, farm prices for winter wheat broke from their historical pattern and rose above spring wheat prices as supplies of winter wheat tightened relative to Hard Red Spring supplies. This farm price relationship is expected to return to the more normal spring wheat price premium in 1997/98 as winter wheat output advances while spring wheat output declines.

Based on July 1, 1997 conditions, the *spring wheat* crop is forecast to decline 19 percent to 650 million bushels, despite higher-than-expected harvested area. Generally dry weather in the Northern Plains since mid-May resulted in below-average yield prospects. The first survey-based forecast indicates an average yield of 30.4 bushels per acre for "other spring" wheat (i.e., excluding durum), down nearly 5 bushels from 1996 and the lowest since 1989.

The spring wheat crop is not expected to decline to the extent observers expected earlier in the season. According to the June 30 *Acreage* report, farmers planted 22.4 million acres of spring wheat (including durum), up from the March forecast of 21 million. Area had been expected to drop back to the 1995 level after increasing sharply in 1996 due to strong spring wheat prices. However, another spring price runup—this year due mostly to the mid-April freeze in the Southern Plains and Kansas—apparently provided farmers sufficient incentive to increase plantings above their March intentions.

Delayed spring planting in the Northern Plains, where a large portion of the U.S. spring wheat crop is grown, contributed to April-May price fluctuations. Chilly temperatures, along with extremely wet field conditions following spring storms and snowmelt, especially in the Red River Valley, slowed spring wheat planting in the region. By May 11, farmers had planted only 33 percent of the spring wheat crop, compared with the 5-year average of 56 percent. But by early June, planting progress pulled even with the 5-year average as dry conditions persisted across the region beginning in mid-May.

Yield Growth Prospects Improving?

Yield growth is a crucial factor in future U.S. wheat supplies. A noticeable slowdown in growth of overall U.S. yields—some would call it a stall—has occurred in the last 15 years. Weak prices contributed to a financial squeeze for many wheat farmers during the 1980's. This, in turn, led to lower fertilizer expenditures and contributed to lackluster yield growth.

Because market prices have been much stronger in recent years and prospects for continued market strength are expected as world demand remains vibrant, average yields may be poised to resume growth. Although weather problems prevented a rise in yields in 1995 and 1996, cash expenditures for fertilizer on wheat ground have increased in recent years.

In 1997, the U.S. winter wheat yield is forecast at a record 42.8 bushels per acre, surpassing the 1983 record of 41.8 bushels. Wheat prices, while down sharply from last year's highs, are forecast to remain above the levels of the early 1990's through the turn of the century. Favorable returns would be expected to encourage increased fertilizer use, which could boost yields in the coming years.

Dennis A. Shields (202) 219-0768 and James N. Barnes (202) 219-0711
dshields@econ.ag.gov
jbarnes@econ.ag.gov

CRP: A Potential Supply Factor

The Conservation Reserve Program (CRP) exerts a potentially significant effect on land availability for wheat plantings. About 9 million acres of land currently in the CRP has a cropping history of wheat. On October 1, 1997, CRP contracts will expire on about 21.4 million acres (from all crops). However, about 11.7 million of these acres were accepted for new contracts during the 15th CRP sign-up in May, along with about 4.4 million acres of new land.

In addition, a sign-up is planned for this fall in which producers can enroll land for the 1998 crop year. Small amounts of acreage can also be added to the program on an ongoing basis under certain provisions—e.g., installation of filter strips. As a result, total CRP acreage is expected to decline by several million *less* than the 5.3-million difference resulting from the 15th sign-up. Consequently, U.S. wheat production is not expected to be substantially altered in the next few years.

Excluding the additional enrollments expected to occur in this fall's sign-up, land under CRP contract in the top 10 wheat states (based on harvested area) would decline just 3 million acres this fall. These states accounted for nearly 80 percent of U.S. harvested wheat acreage during the last 5 years. Total CRP acreage in the top five wheat states will be essentially unchanged at 11.3 million acres, with gains in North Dakota and South Dakota offsetting reductions in Kansas, Montana, and Oklahoma. Each of the remaining top 10 states will lose CRP area, especially Texas (down 1.02 million acres), Minnesota (down 770,000 acres), and Washington (down 613,000 acres).

Another 740,000 acres of former CRP acreage would become available for planting in the six next-highest wheat producing states, which account for another 10 percent of wheat production. If the entire net CRP decline of 3.74 million acres (excluding fall sign-up acres) is planted to wheat (an extreme assumption) and average yields by state prevail, additional U.S. wheat production would total about 150 million bushels, or 7 percent of 1996 output.

U.S. Wheat Exports To Rise in 1997/98

U.S. wheat exports are expected to grow modestly in 1997/98, up 6 percent, while world trade is expected to expand by 3 percent. Unlike in 1996/97, U.S. exports will face increased competition early in the year, easing in the latter part of the year.

In the summer of 1997, Canada, Australia, and to some extent Argentina, are marketing larger old-crop supplies in competition with U.S. new-crop winter wheat. Transportation and logistical problems this past winter reduced Canada's exports in 1996/97, leaving a large part of the 1996 bumper crop to move later than usual, stretching into the new crop year. However, as the 1997/98 season progresses, U.S. exports will likely face reduced competition as production is expected down in all the major exporting countries. Increased U.S. wheat supplies and lower prices are expected to maintain the pace of U.S. exports after the summer.

Combined production in 1997/98 by the major foreign wheat exporters—Canada, the European Union (EU), Australia, and Argentina—is projected to drop by 13 million tons or 8 percent. Wheat prices have declined, especially compared with oilseeds, and wheat area is expected to decline in Canada and Argentina. Australia may maintain wheat area following a very successful year in 1996/97,

but record yields are unlikely to be repeated, leaving production prospects down 5 million tons.

In the EU, wheat area is up because the set-aside area was reduced from 10 percent to 5 percent, and growing conditions in Northern Europe have been generally favorable. However, yields are down from last year's record levels, and forecast EU production is down marginally.

While the major foreign exporters are expected to reduce wheat production in 1997/98, the rest of the world is expected to boost production by 13 million tons, offsetting the decline. Production is forecast up sharply in China, Eastern Europe, and the Newly Independent States (NIS—the former Soviet Union minus the Baltic states), mainly because favorable growing conditions are expected to boost yields in these areas. However, other regions have had problems. Drought struck North Africa, devastating production prospects in Morocco, Algeria, and Tunisia. Unfavorable weather in the Middle East is expected to reduce wheat production in Iran and Iraq.

For the major importers, production prospects directly affect demand. North Africa and the Middle East will turn to world markets to maintain wheat consumption, boosting import demand. On the other hand, large wheat production in China, NIS, and Eastern Europe will limit imports to some extent while increasing stocks and consumption.

World wheat consumption is forecast down fractionally in 1997/98, mostly because of reduced wheat feed use, especially in the U.S., Canada, and South Korea. Wheat feeding is often the result of quality problems stemming from weather-related damage to crops, usually occurring at harvest (for example, as occurred in Canada in 1996/97 when late crop development delayed the harvest and exposed the wheat to an early snowfall). It is too early to quantify such quality problems.

Reduced world wheat consumption and increased beginning stocks more than offset the slight decline in global production, and wheat ending stocks are projected up almost 10 percent in 1997/98, with much of the stock buildup in the U.S. and China. While prospects for increased world wheat ending stocks contribute to lower price prospects in 1997/98, the global stocks-to-use ratio remains fairly tight at 21 percent, limiting price declines in the U.S. and world markets.

Ed Allen (202) 219-0831
ewallen@econ.ag.gov AO

August Releases—USDA's Agricultural Statistics Board

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

August

1 *Cheddar Cheese Prices*
Egg Products
4 *Crop Progress (after 4 pm)*
Dairy Products
5 *Poultry Slaughter*
6 *Broiler Hatchery*
8 *Cheddar Cheese Prices*
11 *Crop Progress (after 4 pm)*
12 *Cotton Ginnings (8:30 am)*
Crop Production (8:30 am)
13 *Broiler Hatchery*
Turkey Hatchery
14 *Milk Production*
15 *Cattle on Feed*
Farm Labor
Cheddar Cheese Prices
Mushrooms
18 *Crop Progress (after 4 pm)*
20 *Cranberries*
Broiler Hatchery
Cold Storage
22 *Catfish Processing*
Cheddar Cheese Prices
Chickens & Eggs
Livestock Slaughter
25 *Crop Progress (after 4 pm)*
26 *Turkeys*
27 *Broiler Hatchery*
Peanut Stocks & Processing
29 *Agricultural Prices*
Cheddar Cheese Prices
Rice Stocks (8:30 am)