Commodity Spotlight

U.S. Rice Prices Remain Firm Despite Bumper Supplies

Relatively high prices at planting pulled up U.S. rice area more than 5 percent in 1998 from a year earlier to nearly 3.22 million acres, the second consecutive annual increase. The larger planted area will more than offset a drop in yield to produce the third-largest rice crop on record. Long grain rice (produced mostly in the South) accounts for virtually all of the area expansion; plantings of medium grain (produced mostly in California, Arkansas, and Louisiana) are down substantially.

In both 1997 and 1998, rice prices were relatively high at planting compared with historic rice prices as well as with prices for virtually all alternative crops—primarily soybeans. And while season-average farm prices for corn, wheat, and soybeans were projected last spring to decline in 1998/99, no price drop was projected for rice. In fact, while rice prices have declined only slightly, season-average prices for other grains and for soybeans have dropped substantially since 1996/97.

Producers' initial planting intentions as reported in the *Prospective Plantings* report, released in March, were for 3.06 million acres of rice. However, plantings were revised upward in the June 30 *Acreage* report to nearly 3.22 million acres as strong monthly cash prices continued for rice compared with declining prices during the spring for soybeans, wheat, and feed grains.

The major factor behind the relatively strong U.S. rice prices in 1997/98 was the record level of U.S. rough (unhulled) rice exports, mostly southern long grain. In 1997/98, the U.S. exported a record 26 million cwt of rough rice, more than double a year earlier. Much of this rapid expansion in U.S. rough rice exports is due to El Niño-related production difficulties in Latin America that reduced crops in several importing and exporting countries (*AO* August 1998). For 1998/99, rough rice exports are projected at 24 million cwt, down only slightly from the 1997/98 record.

When the 1996 farm bill was signed, many industry analysts believed U.S. rice plantings would contract since prices were expected to decline. Exports were projected to drop as well with the smaller production. However, world trade has been much larger than expected, raising U.S. prices and keeping U.S. area and exports substantially above the levels projected in 1996.

Rice is produced in Arkansas, California, Louisiana, Texas, Mississippi, and Missouri. Arkansas is the largest rice producing State, accounting for 48 percent of total production in 1998, followed by California. Florida grows a very small amount of rice (not included in production statistics), mostly in rotation with sugarcane.

Strong Prices Drive Area Expansion

While U.S. farm prices have declined since the fall of 1997, they have averaged nearly $9.45 per cwt—relatively high compared with historic rice prices. For example, from 1990/91 through 1994/95, U.S. rice prices averaged only $6.98 per cwt, with prices exceeding $9 in only four months. In February and March—when planting decisions were being made—U.S. monthly cash prices averaged more than $9.60 per cwt.

In fact, U.S. rice prices exceeded $9 per cwt from November 1995 through the end of 1997/98 market year, the longest period of sustained prices at this level since the late 1970's through the early 1980's. The average price during the first 2 months of the 1998/99 marketing year (August-July) was about $9.18 per cwt. The recent price weakness has primarily been due to declining long grain prices, largely a response to expectations of a record long grain crop.

Despite the large crop, U.S. farm prices are projected to remain relatively firm during the 1998/99 marketing year, given expectations of record domestic use, continued strong exports, and smaller ending stocks. The 1998/99 season-average farm price is forecast at $8.75 to $9.75 per cwt, compared with $9.64 for 1997/98. Until the start of 1998/99, virtually all of the price strength for the past 2 years had been for southern long grain rice.

Throughout 1997/98, prices for California medium grain rice remained at least $1.50 per cwt below prices in the South and showed no strength during the year. This was due largely to a record 1997 California crop and weak export demand for U.S. medium grain rice. However, substantially smaller 1998 medium grain

crops in both California and the South mean that total supplies of medium grain rice will be extremely tight in 1998/99. As a result of expected tight supplies in 1998/99 and recent sales to Japan, California medium grain milled prices have already risen several times since June.

In contrast to the relatively strong rough rice prices, prices for long grain milled rice declined during most of the 1997/98 market year and have continued dropping in 1998/99. In late September, milled prices in Houston dropped to $375 per ton—the lowest in nearly 3 years. Prices had been $408 per ton from early March through mid-August, compared with $463 per ton in early summer 1997. A steady decline in U.S. milled rice exports and a substantial price difference over Thai rice—the major competitor of the U.S. in certain international long grain milled rice markets—during most of the 1997/98 marketing year accounted for much of the drop in U.S. long grain milled prices that year.

Higher Rice Acreage To Offset Lower Yield in 1998/99

	1995/96	1996/97	1997/98	1998/99
			Million acres	
Planted area	3.12	2.82	3.06	3.22
Harvested area	3.09	2.80	3.03	3.19
			Lbs./acre	
Yield	5,621	6,121	5,896	5,696
			*Million cwt**	
Production	173.9	171.3	178.9	181.5
Total supply	212.6	206.3	215.3	219.2
Domestic use	104.6	100.7	102.4	108.9
Exports	83.0	78.4	85.2	84.0
Total use	187.6	179.1	187.6	192.9
Ending stocks	25.0	27.2	27.7	26.3
			$/cwt	
Farm price	9.15	9.96	9.64	8.75-9.75

Marketing year beginning August. 1998/99 forecast.
*Rough-rice equivalent.

Economic Research Service, USDA

Record Long Grain Plantings Offset Lower Yields

Long grain plantings accounted for virtually all of this year's acreage expansion and are projected to rise 10 percent to a record 2.5 million acres. All of the increase is in the South, where nearly all long grain rice is produced. Medium grain plantings are projected to drop almost 10 percent to 689,000 acres, the smallest since 1989. This decline is split evenly between the South and California.

In the South, long grain plantings rose 225,000 acres—or 10 percent—to almost 2.5 million acres. In contrast, medium grain area in the South dropped 35,000 acres—or 13 percent—from 1997 to 237,000 acres. Medium grain plantings account for less than 9 percent of total southern rice plantings in 1998, the smallest share on record.

Generally higher prices at planting for high-quality long grain rice than for medium grain account for most of the shift in southern acreage from medium to long grain. In addition, some disease problems with medium grain varieties in Louisiana in the mid-1990's have contributed to several years of declining medium grain plantings in the State. Low prices at planting and an extremely wet spring that hindered field work and severely delayed plantings accounted for most of the decline in California medium grain acreage.

This year's strong expansion in southern long grain acreage—with Arkansas accounting for the bulk—is also due to the high expected profitability of rice compared with alternative crops—mostly soybeans—given price expectations at planting. For many rice producers, strong prices and high yields (compared with most alternative crops) more than offset the higher costs of rice production. Rice has much higher chemical, custom operations, fuel, fertilizer, and fixed costs than most other field crops.

In contrast to the area expansions in the South, California rice plantings dropped 32,000 acres to 480,000, the smallest acreage in half a decade. All of the decrease was for medium grain.

The national average yield for all rice is forecast at 5,696 pounds per acre, down more than 3 percent from last year and the lowest since 1995. The smaller projected yield is due primarily to expectations of lower yields in California resulting from the late plantings, and severe heat and dryness in most of the South this summer.

The decline is also due partly to a shift in share of total planted acreage from the higher yielding California medium grain rice to the lower yielding southern long grain. California yields are typically a third or more higher than for southern rice, primarily a result of the varieties grown and the climate.

The 1998 U.S. rice crop is projected at 181.5 million cwt, up more than 1 percent from 1997. This is the second year in a row of increasing rice production, as the drop in average yield is more than offset by larger planted area. The long grain crop is projected to rise nearly 10 percent to a near-record 133.2 million cwt, while the medium grain crop is projected to drop more than 16 percent to 46.7 million cwt, the lowest since 1989.

U.S. rice supplies are projected to be 219.2 million cwt, up nearly 2 percent from 1997/98 and second only to the 1994/95 record of 230.9 million cwt. Slightly larger beginning stocks, greater imports, and a bigger crop account for the larger projected supplies.

Food Use To Grow More Slowly, While Exports Remain Strong

Since 1990/91, total domestic use of rice, which has nearly doubled in the past 15 years, has grown an average of more than 3 percent annually. However, this rate has slowed in the past 2 years, and USDA's long-term forecasts (released February 1998) indicated that total domestic use will grow at a little over 2 percent a year over the next 10 years.

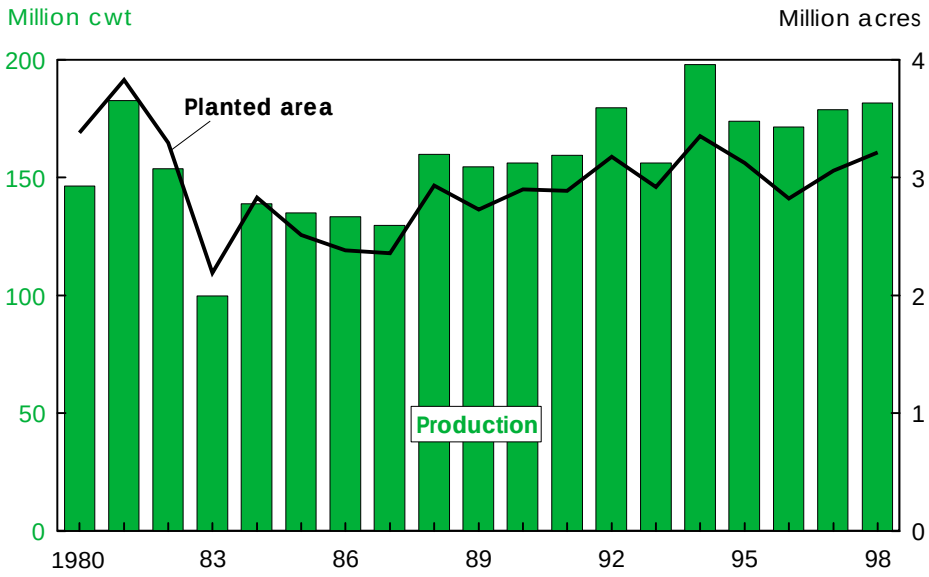
While changing culinary preferences of the U.S. population toward grain-based foods have spurred some of the growth, much of the expanded food use of rice has been due to large increases in the Asian and Hispanic segments of the U.S. population during the last two decades. A large and growing share of this consumption, however, has been supplied by imports of the preferred aromatic rices such as Thai jasmine and basmati from India and Pakistan. Projected total rice imports of 10 million cwt are expected to account for 12 percent of food use.

Total U.S. rice use, including exports as well as domestic use, is forecast at 192.9 million cwt in 1998/99, up 4 percent from a year earlier. Total domestic use (comprised of food use, beer, and seed) is projected at a record 103.4 million cwt, up nearly 2 percent from a year earlier. Food use accounts for all of the expansion, projected at a record 84 million cwt, up 2 million from 1997/98.

U.S. exports are projected at 84 million cwt in 1998/99, down slightly from a year earlier. Rough rice exports, while projected to drop 2 million cwt from last year's record to 24 million, would still be the second highest ever. Large purchases of U.S. rough rice by Brazil last spring for shipment in 1998/99 are behind the robust U.S. rough rice export forecast.

While U.S. rough rice exports have generally been increasing this decade, last year's record and this year's projected near-record shipments are due largely to El Niño-related production difficulties in much of Latin America. Rice crops in both importing and exporting countries in the region were reduced, magnifying the impact on U.S. exports.

U.S. Rice Plantings and Production Up for Second Consecutive Year



Rough-rice basis. 1998/99 preliminary.
Economic Research Service, USDA

Latin American countries generally prefer to import rough as opposed to milled or brown rice. The U.S. is the only major rice exporting country that allows rough rice exports. (Most exporters prefer to ship milled rice to capture value added.) Thus, the U.S. was in a prime position to export large amounts of rough rice when crop shortfalls hit Latin America.

To encourage rough rice imports, nearly all Latin American rice importing countries place a lower tariff on rough than on milled, semi-milled, and brown rice. Mexico and five Central American countries (Costa Rica, Guatemala, Honduras, El Salvador, and Nicaragua) effectively ban imports of Asian rice for phytosanitary reasons. The bans are strongly promoted by local milling associations, as milled rice from Asia can underprice most domestic rice in Central America.

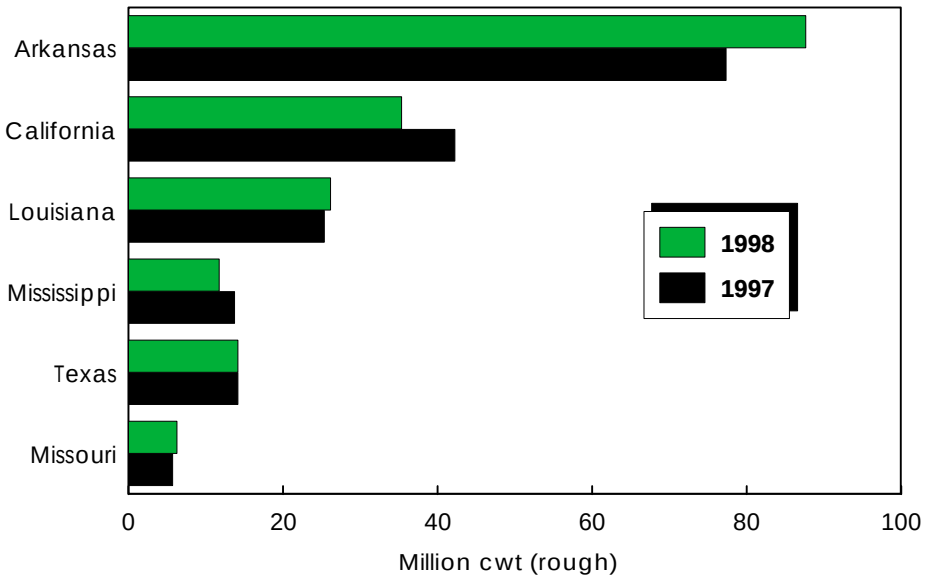
U.S. exports of milled rice are projected to rise nearly 800,000 cwt to 60 million, the first increase since 1994/95. Stiff price competition from Asian exporters in certain high-income markets—mainly the European Union, the Middle East, and South Africa—is a principal reason for the decline in U.S. milled rice exports in recent years. This year's expected increase in milled exports is due to larger projected supplies and slightly lower expected prices.

Latin America, the Middle East, Europe, and Japan are expected to remain important markets for U.S. rice. Latin America is the largest market for U.S. rice exports, taking a record 46 percent on a milled-equivalent basis, nearly all southern long grain. Canada remains a steady U.S. long grain market, with U.S. exports expanding slightly. In recent years the U.S. has lost market share in South Africa and the Middle East, a result of lower priced Asian rice.

U.S. ending stocks are projected at 26.3 million cwt in 1998/99, down almost 5 percent from a year earlier. Stocks as a share of total use are forecast at 13.6 percent, down from 14.7 percent a year earlier and the lowest since 1995/96. Among grain types there are substantial differences in stocks. Expected tight supplies of medium grain rice have terminated the price premium enjoyed by producers of long grain milled rice in the U.S. since August 1996. Combined medium/short grain stocks are projected at 8.8 million cwt, the lowest since 1980/81. In contrast, long grain ending stocks are projected at 16.5 million cwt, the largest since 1992/93.

Commodity Spotlight

Arkansas Accounts for Almost Half of U.S. Rice Production in 1998



1998 projected.

Economic Research Service, USDA

For the 1998/99 crop year, relatively strong world trade and an extremely tight global stocks-to-use ratio will likely limit any major drop in international trading prices. World rice trade in calendar year 1999 is projected at just over 20.4 million tons. While down 4.5 million tons from the 1998 record, trade would still be the third highest on record. However, weak currencies across most of Asia will continue to place downward pressure on international prices.

Internationally traded prices for long grain rice have dropped more than 5 percent since mid-September, due to a lack of new purchases. However, prices are still well above year-earlier levels. Prices had dropped steadily in summer and fall 1997 in response to devaluation of the Thai currency in July. Thailand is the largest rice exporting country, followed by Vietnam. In late 1997, Indonesia and the Philippines began to purchase massive quantities of rice, as both importers faced severe shortfalls in their 1997/98 crops. International prices rose modestly throughout the first half of 1998 in response to record world demand. However, the substantial currency devaluations across much of Asia, and the region's severe financial and economic turmoil, have limited price increases to modest amounts.

Global rice production in 1998/99 is projected to drop more than 2 percent from the 1997/98 record of 385.4 million tons (milled-equivalent basis), a result of weaker crops in several major Asian rice producing countries, particularly China and India. With consumption projected to rise slightly to a record 385.1 million tons, ending stocks will drop nearly 17 percent to 43.4 million tons, the smallest since 1982/83. The stocks-to-use ratio is projected at 11.3 percent, the lowest since 1972/73.

While the global stocks-to-use ratio is projected to be extremely low, several factors indicate that any impact on world trading prices will be small. First, because the bulk of the reduction in stocks is projected to occur in China and India—two exporters—there will be little impact on import demand. Both countries had large stocks going into 1998/99, a result of record 1997/98 crops. Also, while crops in Japan and South Korea are projected smaller in 1998/99, no impact on trade volumes is likely because minimum import levels for both of these countries are fixed by the World Trade Organization and purchases above minimum levels are unlikely given expected stock levels.

Finally, large crops are projected for Thailand, Vietnam, and Pakistan—all major Asian rice exporting countries—and production is projected to rebound in both exporting and importing countries in South American. For the U.S., the larger expected crops in South America will likely limit U.S. rough rice exports and price strength in 1999.

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