Briefs

Field Crops

Weaker Price Prospects Dampen Expansion of U.S. Durum Acreage

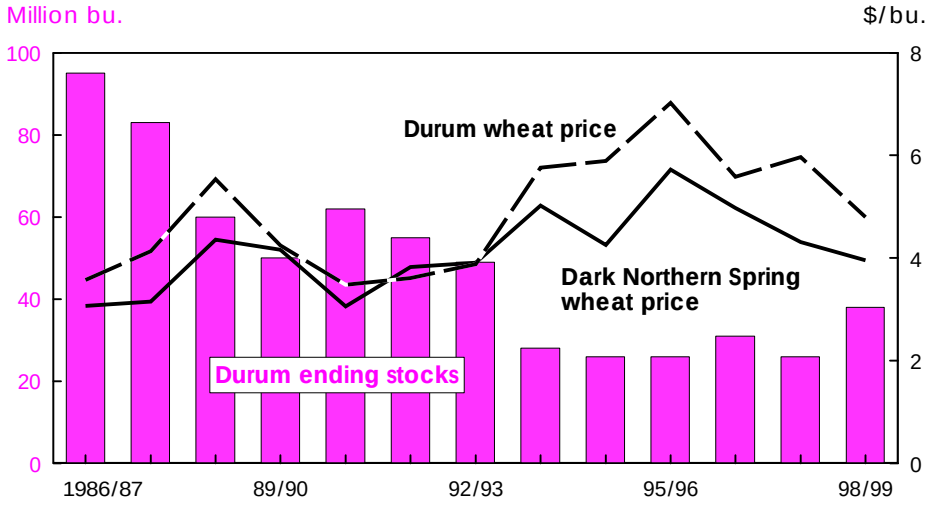
U.S. durum producers signaled in early 1998 that they would sharply increase area seeded to durum wheat, according to USDA's *Prospective Plantings* report released on March 31. Tight world durum supplies in 1997/98 led to rising U.S. and world prices for durum, while prices for other types of wheat declined. This market rarity resulted in producers expecting to plant 4.08 million acres of durum in 1998, up a prospective 25 percent from 1997 and the largest acreage since 1982. In addition, Statistics Canada reported that Canadian producers intended to expand acreage by 29 percent in 1998.

However, prospects of larger world supplies and lower prices implied by larger 1998 durum crops eventually led U.S. producers to modify their 1998 cropping plans. USDA's June 30 *Acreage* report confirmed that durum producers actually seeded only 3.7 million acres to durum this spring, up from 3.25 million acres in 1997. Harvested area is projected at 3.6 million acres, up 15 percent from 1997 and the highest since 1989.

The larger harvested area and generally favorable growing conditions in the Northern Plains this summer are pointing to a substantially larger U.S. durum crop in 1998. USDA's August 1 forecast indicates that farmers will harvest 126 million bushels in 1998, up 46 percent from last year's weather-reduced crop and the largest since 1982. U.S. durum yields are projected at 35.2 bushels per acre, up 27 percent from last year and the highest since 1992. North Dakota, Montana, South Dakota, and Minnesota will account for over 91 percent of the U.S. durum acreage harvested in 1998. With yields averaging about 29 bushels per acre, these States will account for about three-fourths of U.S. durum production.

Durum is also grown under irrigation in California and Arizona, where farmers expect to harvest about 319,000 acres (9 percent of the total in 1998). Yields of almost 103 bushels per acre push their share of production to about one-fourth of the U.S. total.

Durum Price Premium To Narrow in 1998/99 As U.S. Stocks Build



Prices for no. 1 Hard Amber Durum and no. 1 Dark Northern Spring (14 percent protein) at Minneapolis Grain Exchange. Dark Northern Spring can be substituted for durum in pasta. 1998/99 prices are averages for June and July 1998.

Economic Research Service, USDA

Prices for all classes of wheat have been declining during the summer of 1998 as the prospects for large supplies coincide with weak export demand. However, durum prices do not necessarily fluctuate in unison with other classes of wheat because there is very little substitution between durum and the other classes of wheat—e.g., hard red winter, soft red winter, and white wheats. Durum is usually ground into semolina, a granular product used in pasta.

Because high-protein Dark Northern Spring wheat can be substituted for durum in the production of certain pasta products, the price premium for durum is often evaluated by comparing No. 1 Dark Northern Spring wheat (with 14 percent protein) and Hard Amber Durum wheat at Minneapolis Grain Exchange, a major trading center for both types of wheat. The premium has widened since the mid-1990's, sharply so in 1997/98 as world supplies of durum tightened. In 1998/99, the premium is declining as supplies rebuild. Durum was in abundant supply during the 1989-92 marketing years and the price differential was generally small during those years.

Larger U.S. supplies and weaker prices will encourage U.S. millers to expand purchases of U.S. durum and reduce imports from Canada, the world's largest durum producer. Although domestic use of durum is forecast to rise in 1998/99, ending stocks are projected to increase 46 percent from last year.

Export prospects are dampened by projected larger crops in Italy, France, Canada, Syria, and North Africa. World durum production is projected at 30.8 million metric tons (1.14 billion bushels), up about 26 percent from 1997/98. Canada's output is projected at 6.3 million tons, up 30 percent from 1997/98. Production in the three major exporters (Canada, U.S., and the European Union) is projected to total 18.4 million tons in 1998, up 5 million tons from 1997.

The expanded exportable supplies in 1998/99 are expected to coincide with a downturn in global import needs since many importers are experiencing production increases this year. The weaker import demand will intensify competition

among the major exporters this year and reduce U.S. exports to a projected 45 million bushels (grain and products), down 15 percent from last year. Export sales have started slowly. As of August 13, accumulated export shipments plus outstanding export sales for the 1998/99 marketing year totaled only 13.1 million bushels, 43 percent below last year's pace. Despite the lower export projection, the U.S. will maintain its status as the world's second largest exporter behind Canada.

Mack N. Leath (202) 694-5302
mleath@econ.ag.gov AO

Livestock, Dairy, & Poultry

Dairy Markets Unsettled, Prices Erratic

Strong economic growth continues to bolster demand for dairy products, although the effects have been uneven. Strong milkfat demand, moderate skim solids demand, and sluggish milk production are expected to keep dairy markets unsettled and prices erratic during the remainder of 1998. Dairy prices are not likely to stabilize until substantial production gains are posted. Expansion in milk output may start accelerating by late 1998 or early 1999—if the recent declines in concentrate feed prices are combined with adequate supplies of dairy-quality forages.

Sales of milkfat have increased despite very high prices since mid-1997. Use of regular ice cream, fluid cream, and cream cheese have increased, while declines in butter sales have been quite modest. In addition, direct use of milkfat in processed foods appears brisk. Some of this strength probably still represents the momentum of increased sales built up by the very low milkfat prices of 1992-95. There also seems to be some return to traditional products after experimentation with lower-fat versions. Milkfat demand is projected to be fairly strong during the rest of 1998, although the high summer butter prices may start to trim growth in milkfat sales.

Demand for skim solids has not matched demand for fat. Fluid milk sales have run about 1 percent below a year earlier, without significant growth in even the lowfat milks. Use of products such as cottage cheese has slipped. In addition, use of nonfat dry milk and other forms of skim solids in processed foods apparently has eased, in part because of their relatively high prices during much of the 1990's. Skim solids sales may have been affected by eroding sales of nonfat or very lowfat foods that had used milk solids to maintain quality when the fat was removed. If not for the moderate growth in cheese sales, sales of skim solids probably would be below a year earlier.

Rapidly rising prices spurred dairy product users and retailers to increase their pipeline holdings during the second quarter of 1998. These pipeline stocks will be worked down in the second half of the year. However, wholesale price changes since early July indicate that pipeline stocks probably did not reach excessive levels. Low warehouse stocks have bolstered prices—warehouse holdings of butter were down sharply on July 1, while cheese stocks were 5 percent lower than a year earlier.

Sluggish milk production and very strong milkfat demand shot wholesale butter prices to record highs by the end of June, where they held through July. Although pipeline holdings of milkfat may have been sizable by early July, total inventories (including commercial warehouse stocks) probably were a little tight and sales evidently stayed brisk. The strength in butter prices pulled cheese prices up sharply, as cheese demand was too strong to allow very much milk to be drawn from cheese production into production of butter and nonfat dry milk. Between early May and mid-July, cheese prices rose about a third. Since then, cheese prices have been mixed.

Butter and cheese prices are expected to decline in autumn, particularly if milk production begins to expand in earnest. Although milkfat demand stays seasonally strong in autumn, demand actually peaks in summer when milkfat production is at its seasonal low. Late summer-early autumn supplies may be more than adequate for sales at recent prices. However, butter and cheese markets probably will stay relatively tight until late 1998.

Nonfat dry milk prices have stayed near the Federal support purchase price. Contributing to this situation have been demand weakness, large powder stocks, and butter prices high enough to keep milk going into joint production of butter and nonfat dry milk. Federal purchases of nonfat dry milk under the price support program continued in summer, despite seasonal production declines and the availability of new allocations under the Dairy Export Incentive Program (DEIP). Contracts under DEIP were sizable in July, but ample international supplies and demand weakness in Asia meant there was little reason for buyers to build stocks. Support purchases should diminish in coming months, as DEIP contracts absorb most of the seasonally smaller surplus.

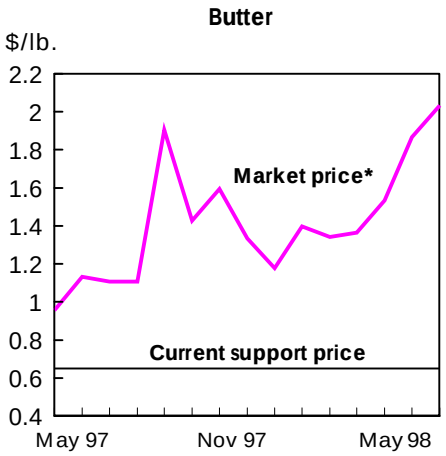
The roller coaster in farm milk prices is likely to continue. The Basic Formula Price (BFP)—which represents the value of milk for manufacturing and is the mover of most prices under the Federal milk marketing orders—rose counterseasonally in early 1998, reaching a February peak of $13.32 per cwt. The delayed seasonal collapse of cheese prices dropped the BFP to $10.88 in May, before surging butter and cheese prices brought it back up to $14.77 in July. If wholesale prices ease as expected, the fourth-quarter average may decline to levels similar to a year earlier.

The average price of all milk in the fourth quarter is projected to post a much smaller increase from a year earlier than it did the first three quarters. Even so, the 1998 average will be more than $1 per cwt above 1997's $13.34 and second only to the 1996 record. This year's higher milk prices and lower concentrate feed prices should start to stimulate milk production. Increased returns are expected to spur herd expansions by stronger producers, and milk-feed price ratios have reached levels normally associated with above-average growth in milk per cow. But acceleration in milk production is likely to be gradual for a number of reasons.

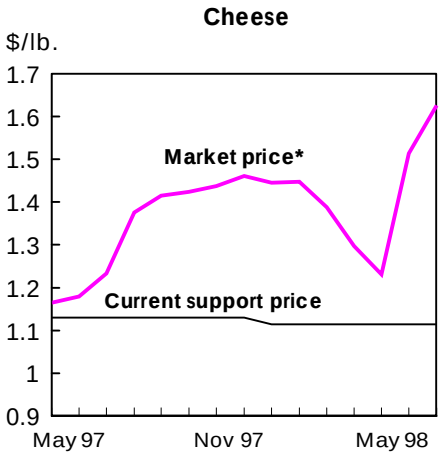
Adequate supplies of good forage remain a major concern. A promising start to the forage season was dimmed by rains that reduced the quality of first and second

Briefs

Butter, Cheese Prices Remain Well Above Support Prices . . .

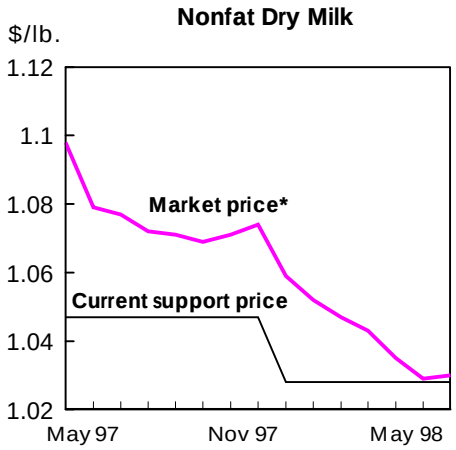


*Central States. Grade AA Chicago before June 1998.



*Wisconsin assembly plant, 40-pound blocks.

. . . While Nonfat Dry Milk Price Falls Near Support Purchase Price



*Central States.

Economic Research Service, USDA

cuttings of hay across northern regions. Unless late cuttings are particularly good, lack of enough quality forage will continue to trim expansion in milk production. Also, high summer milk prices were a sudden reversal of a sharp decline in manufacturing values between February and May. Producers will not see the full effects of these higher prices in their milk checks until well into summer. Even then, producer response may be cautious because of the recent price volatility.

Year-over-year declines in milk cow numbers are expected to ease to only about 0.5 percent by late 1998, compared with drops of almost 1 percent in the first half of the year. Enough herd expansions are projected to come into production to largely offset the exodus of weaker farmers. For all of 1998, cow numbers are projected to decrease less than 1 percent.

Despite a favorable milk-feed price ratio, summer milk per cow probably will post a relatively small increase from a year earlier. Last year's summer output was quite strong because of generally favorable weather, while 1998 has seen problems with heat. Autumn gains could exceed 2 percent, a truer representation of the underlying expansion in milk per cow. The 1998 total is projected to be almost 2 percent above last year.

Autumn and winter milk output is projected to rise considerably more than 1 percent from a year earlier. Possibly more important, milk production is expected to be on a firm expansion course for the first time in several years. The major threat to this growth remains the possibility of continued problems with forage quality. Annual 1998 production is projected to be nearly 1 percent above the 156.6 billion pounds of 1997.

Jim Miller (202) 694-5184
jjmiller@econ.ag.gov **AO**

September Releases—USDA's Agricultural Statistics Board

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

September

2 *Broiler Hatchery*
3 *Dairy Products*
Egg Products
4 *Cheddar Cheese Prices (8:30 a.m.)*
Poultry Slaughter
8 *Crop Progress (after 4 p.m.)*
9 *Broiler Hatchery*
10 *Vegetables*
11 *Cheddar Cheese Prices (8:30 a.m.)*
Cotton Ginnings (8:30 a.m.)
Crop Production (8:30 a.m.)
14 *Crop Progress (after 4 p.m.)*
15 *Milk Production*
16 *Broiler Hatchery*
Turkey Hatchery
18 *Cheddar Cheese Prices (8:30 a.m.)*
Cattle on Feed
Cold Storage
Hop Stocks
21 *Crop Progress (after 4 p.m.)*
22 *Chickens and Eggs*
Potatoes
23 *Broiler Hatchery*
Catfish Processing
Citrus Fruits
25 *Cheddar Cheese Prices (8:30 a.m.)*
Cotton Ginnings (8:30 a.m.)
Hogs and Pigs
Livestock Slaughter
28 *Peanut Stocks and Processing*
Crop Progress (after 4 p.m.)
29 *Agricultural Prices*
Trout Production
30 *Grain Stocks (8:30 a.m.)*
Small Grains Summary (8:30 a.m.)
Broiler Hatchery

Specialty Crops

U.S. Apple Production Up, Prices Down

USDA has forecast the 1998 apple crop to be 11.3 billion pounds, up 9 percent from a year ago. Larger expected crops in all apple-growing States in the Western U.S., except California, will offset production declines in the Central and Eastern regions and help increase availability of domestic apples during the 1998/99 marketing season.

Although increased production will likely put downward pressure on fresh-market grower prices, generally good-size fruit from this year's apple crop, as well as a smaller pear crop—which tends to compete with apples in the fall—will help keep fresh-apple prices strong for growers. In 1997/98, a 6-percent decline in fresh-market production helped raise the season-average grower price for fresh-market apples to 22.2 cents a pound, up 7 percent from the previous year.

Washington will produce more than half of all U.S. apples in 1998, and traditionally is the largest producer for both the fresh and processed market. Washington's 1998 apple harvest is forecast at 6.1 billion pounds, 22 percent larger than last year and the largest so far. Apple orchards in the State bloomed heavily following a smaller crop in 1997. Weather was also very favorable for much of the Northwest, especially during the stages of pollination, fruit set, and early-season growth. The potential crop size also grew as production increased on maturing trees that began bearing earlier in the 1990's.

Meanwhile, relatively cooler temperatures and above-normal rainfall in California have slowed development of its 1998 apple crop by about 2 weeks, just as weather has delayed many California summer fruits. California's apple crop is forecast at 915 million pounds, down 5 percent from a year ago but still about average.

Orchard blooms were generally good throughout Michigan, the largest apple-producing State in the Central region, and weather was mostly favorable, especially during pollination. However, production there is forecast at 1 billion pounds in 1998, down 5 percent. Smaller crops are expected in many States in the Eastern region as well, including New York and Pennsylvania, the two largest producers in this region. While orchard blooms in these States generally suggested average-to-large-size crops, hail and wind damage later in the season have reduced crop size potential.

Over 50 percent of U.S. apple production is for the fresh market. Fresh-market apple supplies for fall 1998 are expected to increase from a year ago, especially given the expected record crop in Washington and still a relatively large crop in California, where over 70 percent and over 30 percent of the apple crops are for the fresh market.

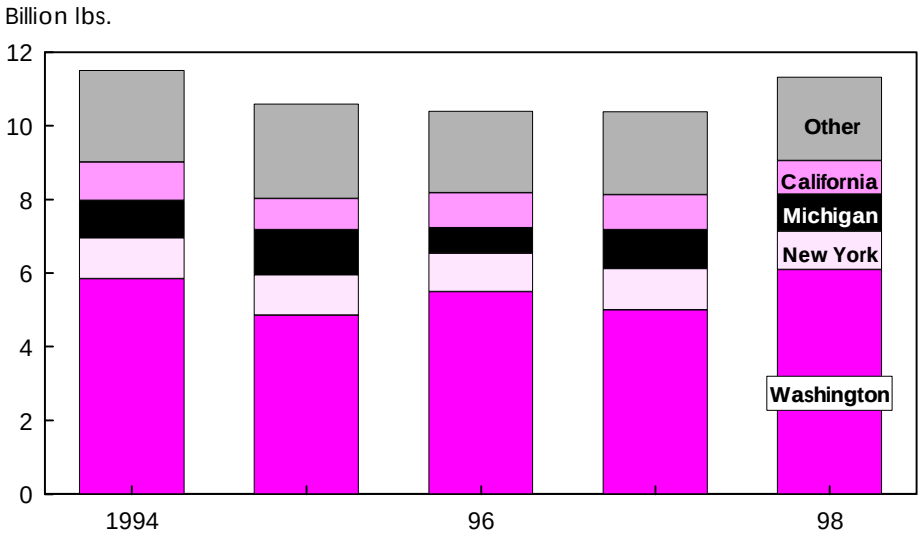
Increased fresh-market supplies, mostly of good exportable quality will help promote U.S. fresh apple exports in 1998/99. However, the Asian financial crisis has taken a toll—the stronger U.S. dollar relative to other currencies, particularly in Southeast and East Asia, will likely continue to dampen export prospects in these markets. During August 1997-May 1998, exports to the largest market in Asia for U.S. apples—Taiwan—fell nearly 10 percent over a year earlier. Similarly, exports to other important Asian markets such as Indonesia, Thailand, the Philippines, and Malaysia declined 50-58 percent.

Some of the decline in exports to Asia was offset by gains in exports to Canada, the second largest foreign market for U.S. apples. Exports to Canada increased 7 percent from August 1997 to May 1998. In contrast, exports to Mexico, another important market for U.S. apples, fell about 39 percent, attributed mainly to its decision in September 1997 to impose an antidumping duty of 101.1 percent on imports of U.S. Golden and Red Delicious varieties. Export prospects to Mexico this season could return to more normal levels with the March 1998 agreement between the U.S. apple industry and Mexican commerce officials to suspend the antidumping investigation.

Supplies of processing apples from the Central and Eastern regions during the 1998/99 marketing year will be limited by overall reduced production in these regions. However, large supplies from Washington and California, where about 44 percent of processing apples are produced, should help keep overall supplies at normal levels. Large stocks of processing apples entering the new season will also offset smaller Eastern supplies.

Agnes Perez (202) 694-5255
acperez@econ.ag.gov AO

Large Washington Apple Crop Expected in 1998



1998 forecasts.
Economic Research Service, USDA