



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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IS WHEAT OVERPRICED?

A MAJOR QUESTION IN CURRENT GRAIN MARKETS IS, "Has the wheat market overpriced the drought damage to the U.S. winter wheat crop?" During February, the erratic market made price gains of 50 cents a bushel; and on March 4, was 40 cents higher than at the end of January.

Whether this runup overpriced the 1976 wheat crop remains to be seen, but the market will continue to have wide and unexpected swings for several reasons. First, the size of the wheat crops in the Southwest where hard red winter is grown will not be known for several weeks. Second, the world's continental climates, where much of the wheat and other grains are produced, are in a drought cycle; but the damage to specific areas and crops cannot be accurately predicted. Third, there still is much uncertainty about Russian purchases of more U.S. grains. Fourth, a "tight grain-supply psychology" definitely eased during December and January.

Several factors accounted for this less-urgent concern about world grain supplies. The 1975 world rice crop was a record. Australia and Argentina harvested large 1975 wheat crops, as did the U.S., Canada, and India. Except for Russia, the world supply of feed grains seemed adequate to meet a weak livestock feed demand. Finally, looking to 1976 crops, prospects for winter grains outside the United States were better than a year ago, and larger acreages of spring-sown feed grains were anticipated. In brief, the wheat market, with its sharp price gains, faces strong two-way pulls.

Unless exports recover sharply and soon, the June 30 carryover stocks of the U.S. wheat crop will be 500 to 600 million bushels, rather than the approximately 400 million now projected. Export shipments of 811 million bushels from July 1, 1975, through February 20, 1976, were 18 percent above a year earlier; whereas, official projections for the 1975-76 market year are 1,300 to 1,400 million, 25 and 35 percent, respectively, above 1974-75. At recent rates of shipment, 1975-76 exports will be nearer 1,200 million bushels. These potentially larger stocks of 100 to 200 million bushels, prospects for good winter wheat crops in the East-Central States, and moisture in the spring wheat area may more than offset the effects of short crops in the Southwest.

The USDA's December projection of the 1976 winter crop was 1,496 million bushels. The combined crops for the four states affected most by drought--Colorado, Kansas, Oklahoma, and Texas--added to 565 million bushels, or 38 percent, of the total winter wheat. The December estimates for these states were 128 million bushels below the 1975 wheat production, reflecting reductions of 42 percent for Texas, 30 percent for Oklahoma, and 7 percent for Kansas. Further reductions are likely, especially in Kansas, but the total cutback in the nation's winter wheat crop may be offset by increased carryover stocks. If so and if the U.S. spring wheat crop is 450 to 500 million bushels, wheat prices could sag significantly unless drought hits major grain crops in other areas of the world.

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