



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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JUNE WHEAT SITUATION

JUNE 1 MARKS THE BEGINNING OF A NEW CROP YEAR FOR WHEAT. There is little reason to doubt that the new crop season will show an improvement in the profit picture for the nation's wheat producers. Of course, given the extremely low wheat prices in the 1977-78 crop year, the situation could hardly be expected to worsen for these farmers.

A number of important factors have contributed to the improved outlook for wheat prices. High export shipments, the government grain program, and wet weather last fall have combined to reduce the size of the prospective wheat carryover a year from now. To date, wheat prices have increased about \$1.00 per bushel from last year as world demand has expanded in the face of shrinking U.S. supplies.

WHEAT EXPORTS. As the 1977-78 wheat crop year developed, a number of producing countries ran into problems. Canada, Australia, and Argentina, all important wheat exporters, experienced reduced crops last year. Several important wheat importers, including the People's Republic of China and Russia, saw their crops reduced by drought. The net result was a sharp increase in worldwide shipments of wheat last year. Some of this increased export business came to the United States.

In the year ahead it is rather likely that U.S. wheat exports will surpass last year's. Canada, Australia, and Argentina reduced their combined carryover supplies by 4.3 million metric tons, or 25 percent, going into the 1978-79 year. U.S. wheat stocks will take on increased importance if any of the major wheat trading countries run into production setbacks in 1978-79.

GOVERNMENT PROGRAM. As a result of the low prices last year, the government took three major steps to increase wheat prices.

A 20 percent set-aside requirement was placed on participants in the 1978 wheat program. This has reduced acreage and resulted in a 14-percent drop in the prospective size of the U.S. winter wheat crop that was planted last fall.

The target price for wheat was increased from \$3.05 to \$3.40 per bushel. The government target price does not directly affect market prices, but this increase does have the effect of increasing direct government payments to wheat farmers.

Finally, the government lifted the 330-million-bushel limit on the farmer-owned wheat reserve program. To date, about 375 million bushels of wheat have been pledged

for this program. Since grain in the reserve is not available until the national average of wheat prices reaches \$3.15 per bushel, the program has had the effect of isolating wheat stocks from the market and thus boosting market prices.

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