ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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WHEAT PRICES REMAIN STRONG

IN ITS SEPTEMBER 1 ESTIMATES ON CROP PRODUCTION, the USDA placed the 1978 wheat crop at 1.788 billion bushels. This estimate is 29 million bushels less than the August 1 estimate and 238 million bushels less than last year's crop. Compared to 1977-78 winter wheat production declined 18.5 percent, Durum production was up 58 percent, and other spring wheat output was about unchanged.

Within the winter wheat class, the estimate on soft wheat production is down about 40 percent from last year. This sharp reduction resulted from a large acreage cut in Illinois, Indiana, Missouri, and Ohio. A reduced acreage, in turn, reflected the low prices and poor planting conditions last fall and the participation in the set-aside program. Because of the relatively small supply of soft red winter wheat, soft wheat prices have been at a premium compared to hard wheat prices. These premium prices will lead to a reduction in the use of soft wheat for feed, amd may result in some substitution of other wheat classes in soft flour blends.

In the latest agricultural supply-demand estimates, the USDA is projecting another large carryover for wheat at the end of the 1978-79 marketing year. At 1.12 billion bushels, ending stocks would be only 4 percent smaller than last year.

The use of wheat for feed this year is expected to total 100 million bushels, about half of the almost 200 million bushels used last year. Even so, the estimate on feed use may be too high, given the large supply of corn and the high price of wheat relative to corn.

Unlike the slow start last year, the export rate for wheat was very rapid during the first 3 months of this marketing year. At the current pace, exports could total 1.35 billion bushels--well above the USDA's estimate of 1.1 billion bushels. What happens in wheat exports will depend on the size of the crop in the Southern Hemisphere and on the strength of world demand. However, the increasing world demand for feed grains has not been paralleled by increases in the demand for wheat and other food grains.

Despite large beginning supplies and expectations of big carryover stocks, wheat prices have been substantially higher than those of a year ago. In recent weeks, the wheat market has been inverted (nearby prices above those for future delivery),

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which is characteristic of a small crop. Wheat supplies are not short, however. The higher market prices reflect the smaller U.S. crop, participation in the USDA's grain reserve program, a tight pattern of farmer holdings, and a strong export demand.

IMPLICATIONS. The inverted wheat market and the expectation of large ending stocks make a bullish case for wheat prices a little difficult. Those who expect high wheat prices point to possible increases in export demand, participation in the reserve program, and the likelihood of another acreage reduction next year.

Examining the recent history of wheat carryover stocks and the relationship of market price to the loan rate indicates that a carryover stock of less than 600 million bushels is required to raise market prices significantly above the loan rate. This occurred in the early 1970's but the market price returned to the loan rate last year. The Chicago price is currently $1 a bushel above the loan rate.

Wheat prices may be relatively strong during the September-December period due to limited export supplies in the Southern Hemisphere and tight holdings by U.S. farmers. Significant price strength in wheat is not expected because supplies are large and the market price is well above the loan rate. Declining prices into the winter and spring are possible if Southern Hemisphere crops are large.

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