



# WEEKLY OUTLOOK

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## WHEAT PRICES COME UNDER PRESSURE AGAIN

WHEAT PRICES DURING THE 1979-80 CROP YEAR have been considerably higher than in the previous year, but have also been quite erratic. The crop year started with extremely strong export demand because of a small crop outside of the United States, particularly in Russia. Nearby futures were at a premium compared to the more-distant futures contracts. However, the price paid to Illinois producers generally reflected a much wider basis than the year before.

Futures prices dropped about 60 cents per bushel during July, recovered in August and September, declined in October, and then stabilized in November and December. Prices went down significantly following the Russian embargo, recovered dramatically, and then declined into March.

After announcing the Russian embargo, the government took a number of steps to support wheat prices. The loan rate was increased by 15 cents per bushel, thus raising the release and call levels on wheat in the farmer-owned reserve. In addition, the annual storage payments on wheat in the reserve were raised from 25 to 26.5 cents.

However, prices have declined below the pre-embargo level. During the first week of March, the Commodity Credit Corporation began the process of purchasing wheat. The CCC intends to buy up to 4 million tons (150 million bushels) to offset the impact of the Russian embargo. The USDA is seeking authority to use this wheat to establish a food-security reserve. The reserve would be used as a source of grain for foreign-assistance programs. If the reserve is not established, the CCC stocks can be applied to shipments under the P.L. 480 program. Otherwise, the wheat can be sold back into the market at no less than 150 percent of the loan rate.

The direction wheat prices take now will depend primarily on the development of the 1980 crop, both in the United States and in other major producing regions. Responding to higher wheat prices last fall, U.S. farmers seeded about 57 million

acres in winter wheat, an increase of 5 million acres. As revealed in the January planting intentions report, spring wheat producers plan to seed about 20.6 million acres, an increase of about 1 million acres.

Although the current winter wheat crop has encountered some adverse weather, the crop generally was in fair to good condition as of the first week in March. The year's yields are expected to be below last year's average of 34.2 bushels per acre. The U.S. average yield for the 4 years before 1979 was 30.8 bushels. Assuming that planting intentions materialize and that 87 percent of the planted acreage is harvested for grain, an average yield would produce 2.1 billion bushels of winter wheat in 1980, slightly smaller than last year's crop but about equal to the current rate of use.

Since a major portion of the U.S. wheat crop is exported, the size of the crop outside the United States has significant price implications. In 1979, that crop declined by about 10 percent from 1978. A rebound in world production during 1980 could reduce U.S. wheat exports, currently at a record level. Apparently, no major problems exist for the world crop, although the snow cover has been less than ideal in some areas of the Northern Hemisphere and Russia. The European winter wheat crop is in good shape.

Unlike corn and soybeans, wheat prices are running well above a year ago, even though carryover stocks are expected to increase. If the 1980 crops develop normally, further price increases could not be expected.

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