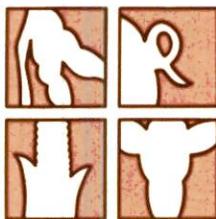




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

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WHEAT STOCKS CONTINUE TO DECLINE

Wheat inventories in the United States at the end of the marketing year (May 31) were at 902 million bushels in 1980. Those stocks grew to 1.905 billion bushels by 1986. Large crops and declining exports since 1982 accounted for the buildup in inventory. Production from 1980 through 1985 averaged 2.55 billion bushels, with the largest crop, 2.785 billion bushels, occurring in 1981. Exports peaked at 1.771 billion bushels during the 1981-1982 marketing year, but declined to 915 million bushels in the 1985-1986 marketing year. The use of wheat for all purposes during the 1985-1986 marketing year declined to 1.96 billion bushels, 20 percent less than the average of the previous five years.

The low prices resulting from the accumulating surpluses, and the lowering of the Commodity Credit Corporation (CCC) loan rate while maintaining the target price, resulted in increased participation in acreage reduction programs beginning in 1986. Wheat acreage on farms not participating in acreage set-aside programs also declined, and participation in the conservation reserve program idled about 5 million acres through the 1987 growing season. Harvested acreage of wheat declined by nearly 9 million acres in two years. Wheat production averaged about 2.1 billion bushels in 1986 and 1987, nearly 18 percent less than the average of the previous six years.

Wheat exports increased modestly during the 1986-1987 marketing year and are up sharply this year. The USDA projects that exports this year will reach 1.55 billion bushels, 70 percent above the low of two years ago and just 12 percent below the record annual exports. The rapid improvement in wheat exports can be attributed to the implementation of the Export Enhancement Program (EEP) and reduced wheat production outside of the United States.

The EEP subsidizes exports of U.S. agricultural commodities. Exporters receive generic commodity certificates for the subsidized portion of a sale. The program, implemented by the USDA in May 1985, has continued to receive congressional appropriations, and so far nearly 1.2 billion bushels of wheat have been sold under this program. The Soviet Union, China, and North Africa have been the largest recipients of EEP wheat.

Wheat production outside the United States peaked at 17.35 billion bushels in 1986. Production declined by about 1 billion bushels in 1987 due to much smaller crops in the Soviet Union, Australia, and Canada.

Declining production and expanding exports are expected to reduce U.S. wheat inventories to 1.281 billion bushels by May 31, 1988. If this occurs, stocks would be at their lowest level since 1982. Supplies of spring wheat and hard red winter wheat remain abundant, with ending stocks

expected to account for 7 months' supply at the current rate of use. Supplies of soft red winter wheat are tight, with ending stocks projected at only 45 million bushels, or about 1.5 months' supply.

What next? First, it appears that the decline in wheat acreage in the United States is slowing. The *Winter Wheat Seedings* report released in January placed 1987 seedings at 48.3 million acres, very close to figures from a year ago. Higher prices are also expected to encourage spring wheat seedings. The effect of the most recent conservation reserve sign-up is not known, but it probably attracted less wheat acreage than during previous periods. Second, wheat acreage and/or production is likely to expand in the Soviet Union, Australia, and Canada in 1988. Such an increase would slow the growth in U.S. exports.

Prospects for a continued decline in wheat inventories will be tied directly to the EEP. An aggressive subsidy program will be required to reduce stock levels further. A major cutback in that program would probably cause stocks to accumulate.



**Issued by Darrel Good
Extension Specialist
Prices and Outlook**

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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