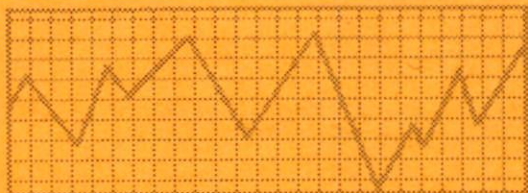




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WEEKLY OUTLOOK

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WILL WHEAT PRICES RECOVER?

Wheat prices are about \$1.50 per bushel lower than the highs reached in the spring of 1989. Prices have declined sharply since mid-May of this year. Prices declined as U.S. and world production prospects improved. In addition, stocks of wheat in the United States at the end of the 1989-90 marketing year (June 1, 1990) were larger than expected. Prices remain low due to a decline in export demand. Wheat is currently being priced as a feed grain in the United States as well as the rest of the world.

The U.S. wheat crop in 1990 was one-third larger than the 1989 crop, reflecting a modest increase in planted acreage, a sharp increase in harvested acreage, and near-record average yields. Planted acreage totaled 77.3 million, a 1 percent increase from the previous year and the largest acreage since 1984. Harvested acreage is estimated at 70 million acres, up 12.6 percent from last year, and the most since 1982. Harvested acreage accounted for 90.5 percent of planted acreage, compared to the average for the previous 7 years of 83.2 percent.

Only 7.07 million acres of wheat base were idled under annual acreage reduction programs in 1990. That is 390,000 more than indicated in May and 2.5 million less than idled in 1989. The initial 5 percent acreage reduction program was modified to allow producers to plant up to 105 percent of the base acreage. Of the nearly 67 million acres enrolled in the program, contracts were modified on 19 million acres to allow increased plantings. Wheat acreage is 11 million acres below the peak of 1981. An estimated 10.3 million acres of wheat base acreage has been enrolled in the conservation reserve program.

The U.S. average wheat yield is estimated at 38.7 bushels per acre, up from 32.8 bushels last year, and only 0.7 bushels below the record yield of 1983. Average yields for soft red winter wheat were down sharply, while yields for all other classes of wheat were up significantly.

The large world wheat crop reflects favorable growing conditions in Canada, China and the USSR. Combined production in those three countries is 10 percent larger than a year ago. The Argentine crop is expected to increase by nearly 13 percent, although that crop is a small percentage of world production.


Through the first 11 weeks of the 1990-91 marketing year, only 221 million bushels of U.S. wheat had been exported. That is 98 million bushels, or 31 percent, below the level of exports at the

same time last year. For the year, exports are projected at 1.175 billion bushels, only 5 percent less than during the 1989-90 marketing year. To reach the USDA projection wheat exports will need to average 23.3 million bushels per week for the rest of the year. That is about 1 million more than last year's average for the same period.

While the export pace remains sluggish, export sales have improved in recent weeks. A total of 400 million bushels of wheat have been sold for export during the current marketing year. That figure is 26 percent below sales of a year ago. The net increase in sales for the past 6 weeks totaled 153 million bushels, 12 percent more than during the same period last year. Buyers are responding to lower prices. Sales need to average about 19 million bushels per week to reach the USDA projection for the marketing year.

For the 1991 wheat crop, the USDA has indicated that the acreage reduction program will be increased from 5 percent to 10 to 20 percent. That increase, along with the lower price of wheat, will likely result in a decline of wheat acreage. Plantings could decline below the 1989 level, when a 10 percent acreage reduction program was in place. Harvested acreage as a percentage of planted acreage will also likely decline. Harvested acreage of wheat might be down as much as 3 million acres in 1991. A lower average yield might also be expected. While it is very early to make such projections, it appears that the 1991 wheat crop could be 200 to 250 million bushels smaller than the 1990 crop. More normal growing conditions would also result in smaller crops in the USSR and perhaps China.

For the time being, wheat prices will tend to follow corn prices. A continuation of good export sales and confirmation of reduced acreage this fall would allow wheat prices to move higher later in the year. The prospects for higher wheat prices would obviously improve if corn prices also move higher. By late winter or early spring, wheat prices might be 30 to 40 cents above current levels.



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