

WEEKLY OUTLOOK

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SOYBEAN AND WHEAT PRICE PROSPECTS

Sluggish exports and an 80 million boost in the November soybean production estimate caused USDA analysts to drop their price estimate to a range of \$5.35-\$6.35 per bushel for the year, compared to \$5.70 last year. Record world soybean production and a decline in the U.S. share of world trade led to the USDA forecast of relatively low prices. Ample supplies and competition from the 1990 South American crop have contributed to lower prices since harvest.

World oilseed production rose to a record 211 million tons last year. Increases in European, Soviet, and Canadian oilseed production more than made up for the small decline in world soybean output. Demand for oilseed products has been very strong, setting new records for oil and meal last year. World protein use topped 121 million tons. World vegetable oil production is forecast to rise 3 percent while consumption is expected to rise only 1 percent. Soybean oil use as a percentage of all vegetable oil will decline due to gains in palm, rapeseed, and cottonseed oils.

U.S. soybean acreage, at 57.7 million, declined 5 percent in 1990, after modest year-to-year gains the past 2 years. Rigidities in the 1985 farm program and better profit prospects for crops with target prices and deficiency payments contributed to the lower acreage. Improved yields (at 33.7 bushels per acre) resulted in only a one percent reduction in production, at 1.904 billion bushels.

The domestic demand for soybean products is strong. Domestic meal use is forecast at 22.8 million tons, up one percent from last year. Domestic soybean oil consumption is expected to set a record of 12 billion pounds. Oil supplies will be slightly tighter than last year, because of reduced carryin stocks.

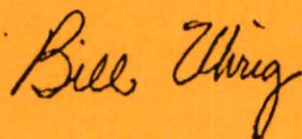
Brazil may reduce soybean acreage by 10 percent or more in 1991 due to low prices, tight credit policies, and reduced government incentives. U.S. soybean acreage may gain 1.5 to 2 million acres due to new provisions in the 1990 farm bill. Most of the gains are likely to come from planting soybeans on 0-92 acreage in the northern plains states. The new farm program provides a soybean marketing loan of \$5.02, minus a 2 percent origination fee. The most important change in the new legislation is the inclusion of flexibility provisions that make it easier for U.S. soybean producers to expand production, if the market calls for it.

U.S. wheat prices are projected to average between \$2.55-\$2.75 per bushel for 1990-91, compared to \$3.72 for the past 2 years. The lower prices are a direct result of surplus production and increased competition in the export markets. 1990 will be remembered as a year of records. World wheat production, at 593 million tons, is up 11 percent from last year. Wheat consumption is forecast to expand by only 6 percent, resulting in an increase of nearly 25 percent in ending stocks--the sharpest increase since the mid-1970s. The world stock-to-use ratio will rebound from the drought-induced lows, but remain well below the highs of the mid-1880's.

Foreign wheat production is projected to be 518 million tons, up 8 percent. The largest gains occurred in the Soviet Union, Canada, and China. Large crops in both importing and exporting countries is leading to a contraction in trade. Export prices have plummeted since last June, but the low prices have not stimulated imports.

U.S. wheat production, at 2.74 billion bushels, was 35 percent larger than last year--nearly matching the record of 2.79 billion in 1981. Total wheat supplies are up 20 percent. Planted acreage was only slightly larger, but an unusually high 90 percent of the planted acreage was harvested and wheat yields set a new record of 39.6 bushels per acre. Export demand has slumped and wheat has become a feedgrain. Feed and residual wheat usage is projected to reach a record 450 million bushels, about 3 times larger than last year.

Spring wheat planting in 1991 is expected to drop 1 to 2 million acres due to the triple base flexibility of the new farm bill. With a 15 percent set-aside and the new flexibility provision, the early forecast of 1991 total wheat production is 2.4 billion bushels--close to expected usage in 1991-92.



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