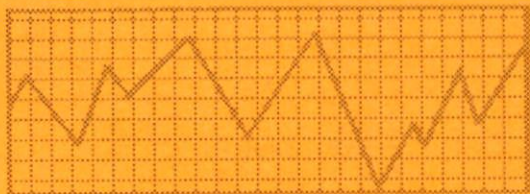




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# WEEKLY OUTLOOK

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## LOW WHEAT PRICES STIMULATE USE, DISCOURAGE PRODUCTION

**Wheat prices declined sharply** from the spring of 1990 through mid-January of 1991. March 1991 futures at Chicago declined from the \$3.75 per bushel level in early May 1990 to under \$2.50 in mid-January 1991. July futures declined about \$.90 per bushel from late June 1990 to mid-January 1991. The decline stemmed from the exceptionally large U.S. and world wheat harvest last year. At 2.74 billion bushels, the U.S. harvest was 34 percent larger than the 1989 harvest and 51 percent larger than the 1988 crop. Foreign wheat production totaled a record 514.5 million tons (18.9 billion bushels), nearly 7 percent larger than the previous year's harvest. The increase in foreign production was about equally distributed between major exporting and major importing countries. The largest increase, 29 percent, was in Canada. The crop in the USSR was 17 percent larger than in 1989.

The large world crop has resulted in very strong competition for U.S. exports. Even with export bonus sales and credit sales to the USSR, exports during the first 9 months of the 1990-91 marketing year (June 1990 through February 1991) were down 21 percent from exports of a year ago. Export commitments (exports plus outstanding sales) were 18 percent smaller than a year ago. For the entire marketing year, the USDA has projected exports at 1.025 billion bushels, 17 percent less than exported last year. To reach that level, export sales during the last 13 weeks of the marketing year need to average only 6.4 million bushels per week. Actual exports need to average 20.6 million bushels per week. Given the level of outstanding export sales, exports for the year will likely be slightly larger than the current USDA projection.

The low prices of wheat have stimulated an increase in world wheat consumption. Feed use of wheat is projected at nearly 119 million tons, up 24 percent from feeding of a year ago. Feed use in the United States is expected to be 2.8 times larger than use of a year ago. Worldwide consumption of wheat for all purposes is projected at 562.9 million tons, an increase of 5 percent from a year ago. Even with such an increase, world stocks of wheat are expected to grow by about 26 million tons, or 22 percent.

The second major impact of low wheat prices is to discourage production in some areas in 1991. Surveys of U.S. producers indicate that seedings will be down by 8.7 million acres, or about 11



percent in 1991. The largest decline in intentions, 16 percent, was reported by spring wheat producers. Lower prices may also lead to some reduction in acreage in Canada and Australia. Early surveys showed a 30 percent reduction intended in Australia and expectations of an 8 percent reduction in Canada. The reduction in Canadian acreage, however, may not materialize. The introduction of an income support program for producers in that country will likely encourage producers to continue to plant wheat.

The major factor in determining the size of the 1991 world wheat crop will be weather conditions. Some early concerns have been expressed about dryness in some parts of the U.S. hard red winter and spring wheat growing areas and too much moisture in some southeastern growing areas. In addition, some dry weather has occurred in parts of China. Current forecasts for the United States suggest that moisture conditions will improve for the western growing areas. A review of monthly rainfall totals for Chinese growing areas suggests that damage has probably been minimal. While it appears unlikely that the entire world wheat growing areas can repeat the generally very favorable growing conditions of 1990, significant problems have not yet surfaced.

Wheat prices have recovered from the lows registered in mid-January. March futures at Chicago rebounded to the \$2.75 level and July futures moved above the \$2.90 mark. Wheat prices appear to have turned the trend from sideways to higher. However, higher prices over the next few months will require a renewal of weather concerns somewhere in the world. In addition, it should be recognized that deferred futures contracts are already at a substantial premium to nearby contracts. March 1992 futures at Chicago are trading around the \$3.20 level, nearly 50 cents or 17.5 percent, higher than the March 1991 contract. A recovery in wheat prices is at least partially built into the market.

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