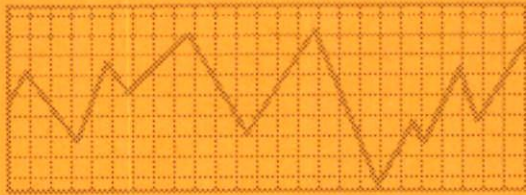




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WEEKLY OUTLOOK

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WHEAT SET-ASIDE AT FIVE PERCENT

On May 31, the USDA announced that wheat producers will have to idle 5 percent of their wheat base acreage in 1992 in order to be eligible for the price support program. Under rules of the Food, Agriculture, Conservation and Trade Act of 1990, the level of acreage reduction required by producers is based on the expected magnitude of stocks at the end of the marketing year. If expected stocks are below 40 percent of expected use, the set-aside requirement is to be 15 percent or less. A stocks-to-use ratio over 40 percent would require the set-aside to be between 10 and 20 percent. The USDA currently projects stocks at the end of the 1991-92 marketing year at 652 million bushels. The use of wheat for all purposes during the year is projected at 2.31 billion bushels, yielding a stocks-to-use ratio of 28 percent.

The set-aside requirement for the 1991 wheat crop was 15 percent. In a report released on May 13, the USDA indicated that 84 percent of the 79.4 million base acres were enrolled in that program. Idled acres totalled nearly 10 million acres. In addition, 4.9 million acres were idled under the 0/92 and 50/92 programs. Idled acreage, at 14.9 million, was more than double the previous year when the set-aside requirement of 5 percent was changed at mid-year to allow plantings to exceed base acreage by 5 percent.

The impact of the change in the set-aside requirement on the magnitude of planted acreage in 1991-92 is uncertain. While wheat acreage will increase, a number of factors make calculations of the magnitude of increase difficult.

First, the magnitude of wheat base acreage has been declining. The base totalled 84.8 million acres in 1988, 82.3 million in 1989, 80.5 million in 1990, and 79.4 million in 1991. Second, the level of participation in the program is uncertain. Over the past 4 years, acreage enrolled in the program has ranged from 78 to 85 percent of the base acreage. Participation is likely to be at the upper end of that range in 1992 since the target price will remain at \$4.00 per bushel. Third, the magnitude of wheat acreage planted by non-participating producers is uncertain. Acreage outside the program has varied from 3 million to 6 million acres over the past 4 years. Finally, the planting flexibility provisions of the 1990 Act may result in some acres eligible for wheat planting to be planted to other crops.

Under favorable weather conditions, the 1992 wheat crop could be 300 to 350 million bushels larger than the 1991 crop. The price impact of a larger crop depends on the strength of export demand for U.S. wheat over the next 18 months. Export demand, in turn, will depend on the magnitude of wheat and coarse grain production in the rest of the world and on U.S. trade policy. Many analysts suggest that the USDA's decision for a small set-aside requirement means that an aggressive export policy will be pursued by the Administration. An aggressive export policy would include the allocation of a large share of export bonus funds to wheat, the extension of export credits to the USSR, the extension of Most Favored Nation (MFN) status to China and eventually the granting of MFN status to the USSR. Congress will have to approve the granting of MFN status and is currently in the middle of the debate about extending that status to China.

In the near term, wheat prices will depend mostly on the eventual size of the 1991 harvest and the Administration decision about export credits for the USSR. A revised production estimate, as well as demand projections for the 1991-92 marketing year, will be released on June 11. Crop conditions have deteriorated in many soft red winter wheat areas over the past month due to excessive moisture. Prospects, however, may have improved in hard red winter and spring wheat areas. A continuation of strong prices into harvest may offer producers a good early selling opportunity this year.

Darrel Good

Issued by Darrel Good
Extension Specialist
University of Illinois

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

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