



WEEKLY OUTLOOK

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LONGER TERM PROSPECTS FOR WHEAT

World wheat production in 1996-97 rebounded sharply from the low levels of the two previous years. Production totaled 524.8 million metric tons (mmt) in 1994-95, 536.9 mmt in 1995-96, and is estimated at 581.5 mmt this year. Production outside of the United States reached a record 519.4 mmt. That exceeded the previous record of 513.6 mmt established in 1990-91, even though production in the former Soviet Union is down 37.4 mmt (37 percent) from the production of 1990-91. World production in 1996-97 was about 1 percent smaller than the record of 1990-91.

Compared to last year, production increased in almost every major producing area except Eastern Europe and India. The increase in production reflected a 4.7 percent increase in acreage and a 3.7 percent increase in average yields. The largest increases occurred in the European Union, Canada, Australia, Argentina, China, and North Africa. Acreage in the major exporting countries, excluding the United States, increased by nearly 14 percent. The increase in acreage was associated with high prices.

The increase in world wheat production in 1996-97 has had three important and related impacts. First, wheat prices declined sharply from the spring and summer of 1996 to the lows in February 1997. May 1997 futures at Chicago had a contract high of \$5.47 in May 1996 and a low of \$3.455 in February 1997. Second, exports of U.S. wheat have declined sharply. Based on USDA export inspection figures, exports for the period June 1, 1996 through March 13, 1997 were 18 percent less than during the same period last year. For the year, the USDA projects exports at 950 million bushels, 23 percent below exports of last year and at the lowest level since 1985-86. This will be only the third year in the past 20 years that U.S. exports have been less than 1 billion bushels. Third, world stocks of wheat are expected to increase. Stocks at the end of 1996-97 marketing year are projected at 112.2 mmt, up from 103.8 mmt of a year ago. Stocks are still well below the 142 mmt at the end of the 1993-94 marketing year.

As a result of lower prices, a reduction in wheat acreage is expected in 1997-98. The USDA has already reported a 3.76 million acre (7 percent) reduction in winter wheat acreage in the United States. Planting intentions for spring wheat will be reported on March 31. Private sources are suggesting a likely reduction of 2 million acres (8 percent) in spring wheat acreage. Similar or larger declines are expected in Canada, Western Europe, Australia, and Argentina. Production will obviously be influenced by growing conditions and average yields, but it appears that world

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production will decline in the year ahead. The areas of most uncertainty are China and the former Soviet Union, where production may continue to increase.

World wheat consumption continues to grow, so a reduction in production would likely reverse the impacts being experienced this year. Exports of U.S. wheat would likely recover, world stock levels would remain low or decline, and prices would likely recover. The price recovery would reflect the magnitude and timing of the events described here. Chicago futures have already recovered nearly \$.50 from the February low. Part of that recovery has been associated with significant strength in soybean prices, but some reflects lower U.S. acreage and concerns about crop damage in the midwest and possible planting delays for spring wheat.

If world wheat acreage does decline in the year ahead, as it already has in the United States, acreage of other crops will increase. Last year, foreign wheat area increased by 9.6 million hectares, coarse grain area was up nearly 2 million hectares, and oilseed area declined by 3.4 million hectares. Based on current price relationships, declines in wheat acreage in North America and western Europe will likely result in significant increases in oilseed acreage and some increase in feed grains. Producers in the European Union will have a smaller set-aside requirement in 1997. Southern hemisphere acreage may also be shifted to oilseeds (Argentina) and feed grains (Australia).

Large year to year acreage and price shifts may become routine in this new environment of low world stocks and production flexibility.

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