



# WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**SEPTEMBER 10, 2007**

## **IMPLICATIONS OF HIGH WHEAT PRICES**

The current extremely high prices for wheat raise some important questions about U.S. crop acreage for the year ahead. Depending on the size of the 2007 U.S. corn crop and soybean planting decisions in South America, there may be a need for U.S. producers to plant more acres to those two crops in 2008. If winter wheat seedings increase significantly, generating an increase in corn or soybean acreage will be a challenge.

September 2007 wheat futures settled at \$8.40 on September 7, nearly \$1.00 above the previous record established in 1996. High prices are being generated by a second consecutive small world wheat crop, extremely strong export demand for U.S. wheat, and declining world wheat inventories. The USDA will release a new world wheat production estimate on September 12. The August forecast of the 2007-08 crop of 610.4 million tons was 7.4 million tons larger than the small crop of 2006-07, but 18.2 million tons smaller than the record crop of 2004-05. The production estimate was 10.1 million tons less than the projected level of world consumption and pointed to a decline in world stocks for the sixth time in seven years.

Export demand for U.S. wheat has been extremely strong with concerns that production in Europe and Australia may be smaller than previously forecast. The USDA has forecast 2007-08 marketing year U.S. wheat exports at 1.075 billion bushels, the largest in four years and 165 million bushels (18 percent) larger than exports during the 2006-07 marketing year. Through the first 14 weeks of the 2007-08 marketing year, the USDA reports that 338.4 million bushels of U.S. wheat have been inspected for export, nearly 52 percent more than during the first quarter of the 2006-07 marketing year. As of August 30, the USDA reported that nearly 332 million bushels of U.S. wheat had been sold for export, but not yet shipped. That is 2.8 times larger than unshipped sales of a year ago. The largest year-over-year increase in export commitments is for hard red winter wheat (2.9 times) and soft red winter wheat (2.6 times). Purchases from Italy, Iraq, the Philippines, and Egypt account for much of the year-over-year increase.

High wheat prices reflect the need to slow the rate of consumption and to increase the area planted to wheat in 2007-08. There is widespread anticipation that U.S. winter wheat producers will increase seedings this fall. That decision, however, will be influenced by the

large inversion in wheat futures prices and the generally weak basis in most areas. The July 2008 futures price at Chicago on September 7 was \$2.465 below the September 2007 price and the discount at Kansas City was \$2.1475 per bushel. Cash bids for harvest delivery in southern Illinois in 2008 ranged from \$5.00 to \$5.36 on September 7. Those bids were \$.575 to \$.935 under July 2008 futures, representing a continuation of a weak basis. While \$5.00 is a historically high price for wheat, the harvest bids are about \$2.30 below the current spot price of wheat.

The decision relative to winter wheat seedings will also be influenced by prices of competing crops, particularly corn and soybeans. If the 2007 U.S. corn crop is close to 13.3 billion bushels (well above the USDA's August forecast), stocks of U.S. corn at the end of the 2007-08 marketing year may be near 1.7 billion bushels. If consumption increases another one billion bushels in 2008-09, a 13 billion bushel crop will be required again in 2008. The corn market may have to encourage corn producers to hold acreage at the extremely high level of 2007. U.S. soybean stocks will decline sharply during the current marketing year, even if exports decline by 80 million bushels as forecast by the USDA. Consumption of U.S. soybeans during the current year is expected to exceed the size of the 2007 crop by 360 million bushels, accommodated by large stocks of 2006 soybeans. Stocks at the end of the current year will not allow consumption to exceed production in 2008-09, implying that consumption of U.S. soybeans will have to decline or production will have to increase, or a combination of the two. Export prospects will be strongly influenced by the size of the 2008 South American crop. The USDA currently projects an increase in South American acreage for harvest in 2008 of only about 3.3 percent. If the increase is not larger, soybean prices may have to be high enough to slow consumption and/or increase acreage in the U.S.

If U.S. winter wheat seedings are increased significantly, if more U.S. soybean acreage is needed in 2008, and if U.S. corn acreage needs to remain at the 2007 level, corn and soybean prices will continue to be well supported. Prices of those two crops will have to be in the right relationship at the right time to direct plantings and perhaps high enough to divert acreage from other crops. In 2007, acreage of cotton and spring wheat (excluding durum) declined by nearly six million acres. In addition, acreage of all crops (including harvested acreage of hay) increased by 3.7 million acres. Can those types of adjustments continue in 2008?

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