

Commodity Spotlight



Dennis Shields

U.S. Wheat Supplies Remain Large in 1999/2000

Large beginning stocks (up nearly one-third) will offset a forecast decline in U.S. wheat production, leaving U.S. supplies at 3.4 billion bushels in 1999/2000, up slightly from last year and the highest level since 1987/88. U.S. wheat production in 1999 is projected down 9 percent from last year because of lower harvested area and slightly lower yields.

Production and imports will almost satisfy projected domestic use and exports during 1999/2000. Relatively large carryover stocks will be reduced only slightly from 945 million bushels in 1998/99, the highest since 1987/88.

Domestic demand is projected down as weak corn prices and large corn supplies keep wheat feeding in check. Food use is expected to increase modestly after a year of stagnant use in 1998/99. Exports in 1999/2000 are expected to rise 10 percent from the disappointing 1998/99 total that included a substantial quantity of food aid.

While wheat prices strengthened in fall 1998 as USDA announced donation programs, prices have weakened since the November peak. For 1999/2000, a more usual price pattern is expected, with

prices reaching their seasonal low during harvest and increasing as the marketing season progresses. The average price received by farmers is projected to range from \$2.45 to \$2.95 per bushel. The \$2.70

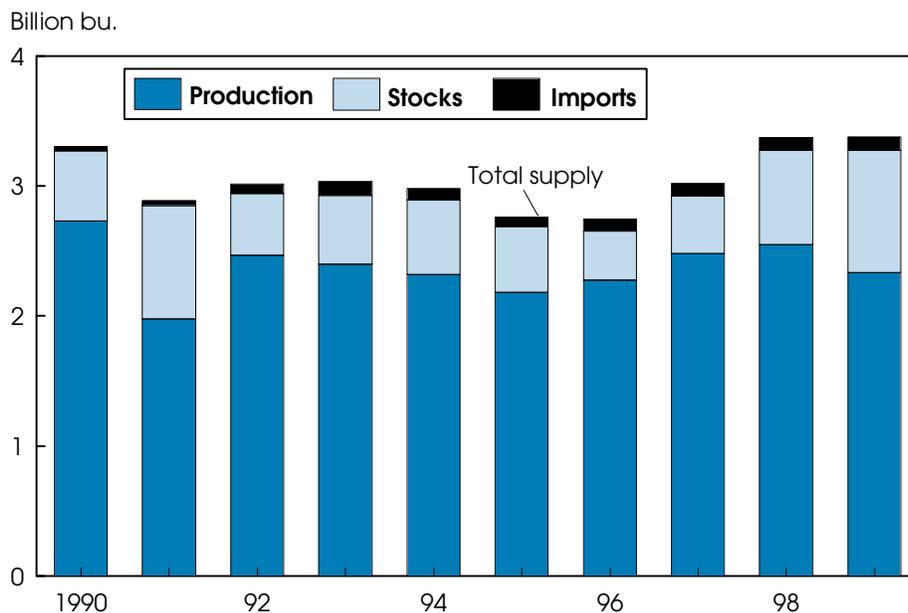
midpoint is up only 5 cents from the 1998/99 estimate, and down sharply from the 6-year average of \$3.49 (1990/91-1996/97).

Lower acreage and yields are projected to reduce U.S. wheat output to 2.33 billion bushels in 1999. U.S. farmers planted an estimated 62.9 million acres, down 5 percent from last year and the lowest since 1973. Declining returns in recent years have encouraged producers to switch to other crops or leave more land fallow. The all-wheat yield in 1999 is forecast at 42.7 bushels per harvested acre, down from last year's record 43.2 bushels.

USDA forecasts 1999 U.S. winter wheat production at 1.67 billion bushels, down 11 percent from 1998. Harvested area totals 35.6 million acres, also down 11 percent from 1998. Based on conditions as of July 1, the U.S. winter wheat yield is forecast at a record 47 bushels per acre.

The winter wheat crop survived the winter well, and spring precipitation has been above average in several areas in the central and southern Plains. A mild winter followed by generally favorable spring weather pushed crop development slightly

Higher U.S. Wheat Stocks Offset Lower Production in 1999

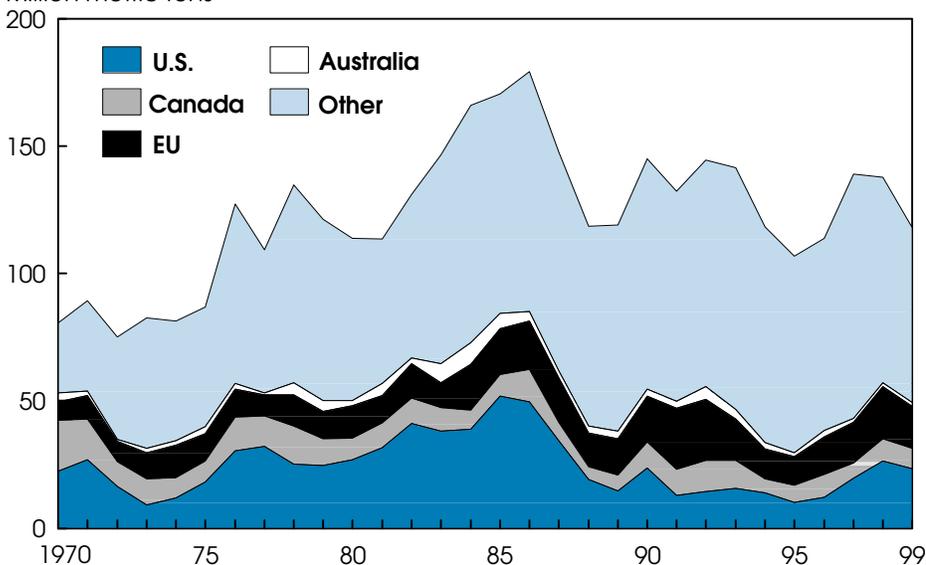


1999 forecast. Marketing year begins in June.
Economic Research Service, USDA

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World Wheat Ending Stocks to Decline

Million metric tons



Marketing year begins in June for U.S., August for Canada, July for European Union, and October for Australia.

Economic Research Service, USDA

ahead of normal. Above-average precipitation in many growing areas during June led to harvest delays and raised concerns about potential effects on protein levels and quality. Warm, dry weather allowed rapid harvest progress in early July, and as of July 11, 70 percent of the winter wheat had been harvested, compared with 74 percent on that date in 1998 and a 5-year average of 66 percent.

Hard red winter (HRW) wheat production is projected at 1.03 billion bushels, down 150 million from 1998. In Kansas, the largest wheat producing state, the crop is projected to total 423 million bushels, down from 495 million a year earlier. Forecast harvested acres are down 9 percent, while the forecast yield of 46 bushels per acre is down from the 1998 record of 49 bushels. Yields are projected to set records in Nebraska and Texas and match last year's record in Colorado.

Production of soft red winter (SRW) wheat is projected at 443 million bushels this year, slightly above last year. White

winter (WW) wheat production is projected at 199 million bushels in 1999, down 22 percent from 1998 and the lowest since 1991. The WW wheat crop in the Pacific Northwest appears to be well below average, with projected yields down in Idaho, Oregon, and Washington.

Unlike other classes of wheat, **durum** plantings are up 9 percent in 1999 from the previous year to 4.05 million acres. An attractive crop revenue insurance program may have affected plantings. North Dakota is the leading durum producing state, accounting for about 85 percent of the acreage in 1999. Durum wheat production in 1999 is pegged at 132 million bushels, down 9 million bushels from 1998. If imports of durum and durum products reach the projected level of 32 million bushels, total supply will exceed projected use, and projected ending stocks will increase to 92 million bushels in 1999/2000, the highest since 1986/87.

Production of **other spring** wheat (i.e., nondurum) is projected at 527 million

bushels in 1999, down marginally from last year. About 52 million bushels of this is white spring wheat, while the balance will fall in the hard red spring class. Plantings of other spring wheat are projected to total 14.96 million acres in 1999, down 1 percent from 1998. Minnesota, Montana, North Dakota, and South Dakota are the leading states for other spring wheat acreage, and together account for about 90 percent of the acreage in 1999.

The Northern Plains region, particularly North Dakota, has been plagued by excessive rainfall at many locations, causing delays in planting durum and other spring wheat crops. Due to excessive moisture, some fields in North Dakota will likely remain idle or be seeded to forage or cover crops. USDA plans to recheck some of the fields with unplanted acreage at the time of the June survey in North Dakota. Any updates will be published in the August *Crop Production*.

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World Wheat Stocks to Drop In 1999/2000

World wheat stocks are forecast to drop 13 million tons in 1999/2000, the largest reduction since 1994/95. Since 1970, global wheat stocks have declined by more than that amount only five times. World wheat production is declining by 13 million tons at the same time that foreign consumption is relatively stable. The global ending-stocks-to-use ratio is expected to drop to 21 percent, almost as low as the 19.8 percent reached in 1996/97, and prices that season reached very high levels. However, little if any increase in world prices is expected in 1999/2000 because major wheat exporters' supplies are large.

World wheat production is projected down 2 percent from the previous year to 575 million tons in 1999/2000. Low wheat prices in the international market during 1998/99 have been a disincentive for producers in many countries. Additionally, the European Union (EU) increased its area set-aside from 5 to 10 percent.

The crop and marketing year for U.S. wheat supply and demand is June-May. The international trade marketing year is July-June. Marketing years vary by country. A metric ton equals 36.74 bushels.

Unfavorable weather has reduced production prospects in several countries. Drought has affected much of the Middle East, with reduced winter wheat production prospects in Turkey, across Jordan, Syria, Iraq, and into Iran. Additionally, drought has damaged wheat crops in Spain, Portugal, and Morocco.

Some countries expect to harvest larger crops in 1999/2000, partly offsetting these declines. In China, the world's largest wheat producer, a dry fall planting season was followed by the driest winter on record in parts of the North China Plain. But production is expected to increase slightly, as much of the crop is irrigated, limiting the damage done by drought. Despite dryness in key winter wheat areas, wheat production in the Newly Independent States (NIS) of the former Soviet Union is expected up 5 million tons, rebounding from the previous year's severe drought. India, the first country to harvest wheat during the marketing year, has enjoyed excellent growing conditions, and is reportedly harvesting record production.

Major exporters Argentina and Australia are expecting a modest increase in wheat production because of the low profitability of alternative uses for the land. Very low prices for oilseeds and feedgrains (also wool in Australia) are expected to support wheat plantings that were under way in June and early July.

The large beginning stocks held by exporters—Australia, Canada, the EU, and the U.S.—are expected to limit early-season price strength. While beginning stocks are down from a year earlier in the NIS, China, and Iran, wheat prices in these countries are generally isolated from world markets. Therefore, the tightening of world supplies only indirectly affects world prices.

World wheat consumption in 1999/2000 is projected at 588 million tons, down 2 million from a year earlier. Global food, seed, and industrial consumption of wheat in 1999/2000 is expected to grow slowly, gaining less than 1 percent, somewhat less than the 4-million-ton growth in 1998/99. Global feed and residual use is projected to fall by 5 million tons.

The Middle East & North Africa Region Suffering from Severe Drought

In 1999, a number of countries in the Middle East/North Africa region are suffering one of the worst droughts in decades. This has reduced grain crops in Iran, Iraq, Turkey, Jordan, Israel, and Syria and has devastated production in Morocco, where near-record grain imports are forecast. It has also affected production of other crops such as cotton and sugar cane, which are harvested in the fall.

Partly because of drought in this region, world wheat trade in 1999/2000 is expected to total 100 million tons, about the same level as estimated for 1997/98 but up slightly from last year. Imports by countries in the Middle East and North Africa are forecast to rise to 32 million tons in 1999/2000, up 3.5 million from 1998/99.

Western Iran's wheat producing area has received about 25 percent of its normal rainfall since September 1998. As a result, the Iranian wheat harvest is forecast at 8.5 million tons in 1999/2000, down from an estimated record 12 million in 1998/99 and the 1994-98 average of 11 million. Iran's wheat imports for 1999/2000 are likely to reach 6 million tons, double the amount imported in 1998/1999.

Iraq's wheat production is forecast down to 0.8 million tons, compared with an estimated 1.3 million in 1998/99. The shortage of herbicides and the means to spray them has exacerbated the effects of the drought. Imports are forecast at 2.5 million tons in 1999/2000, which may not be enough to maintain its rationing system, which provides 19 pounds of flour per capita per month.

The wheat crop in southwest Turkey also suffered from drought. Early forecasts of a second record 18.5 million-ton crop have now been scaled back to 16.5 million, closer to recent averages. Exports are expected to drop by 50 percent.

The drought impact in Jordan is so severe that the United Nations Food and Agriculture Organization has called for emergency food aid. Water consumption has been drastically cut, and Jordan is receiving supplementary water from Syria. The Jordanian wheat crop is expected to be less than half of last year's 55,000 tons. Imports are forecast up 7 percent from 1998 to a near-record 750,000 tons. In neighboring Israel, the wheat crop (at 80,000 tons) is the second smallest since 1964. Imports, mostly from the U.S., could reach 1.2 million tons, 12 percent above the 1994-98 average.

In Syria, drought conditions significantly reduced the wheat harvest, estimated at 2.5 million tons, 40 percent below 1998. While domestic consumption of wheat is forecast at 3 million tons, large stocks will be drawn down to offset the gap.

Morocco has been devastated by another drought, the fifth this decade. Production of wheat is forecast at 2 million tons, down from 4.4 million in 1998 and about half of average annual production in the last 5 years. Imports are estimated at 2.5 million tons, about 10 percent above last year. Consumption remains at 5.6 million tons, and stocks are expected to be drawn down by more than half to around 1 million tons in order to avoid larger imports.

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The combination of large wheat supplies in major exporting countries, prices near historical lows (when adjusted for inflation), and tight supplies in several importing countries is expected to boost

1999/2000 world trade 1 percent to 100 million tons (July/June marketing year). The U.S. is expected to capture a significant part of the increased trade, with exports up 2.5 million tons to 31.5 million

Commodity Spotlight

and share of world wheat trade up slightly to 31 percent.

During the first part of 1999/2000, U.S. exports will be boosted by large shipments of aid announced the previous year. Early-season commercial sales for 1999/2000 are running behind levels of a year earlier. There is little incentive for importers to forward contract for 1999/2000 shipments if they believe wheat prices will remain closer to the current cash price than to the futures contract price. Crop conditions look favorable in most exporting countries, and importers can wait for harvest-time lows to make purchases.

Australia and Canada are each projected to increase wheat exports in 1999/2000 because of higher supplies and growing world demand. Australia is expected to increase exports by 2 million tons to 17.5 million while Canada's exports are projected to rise 2.5 million tons to 16.5 million. Argentina's wheat exports are expected to decline 0.5 million tons to 8

million, despite increased production. Argentina's harvest does not begin until November, and the export pace from July 1999 until November is expected to be very light, because the reduced 1998 crop was shipped out rapidly.

The EU is expected to maintain wheat exports at around 16 million tons in 1999/2000. Lower production and increased domestic use are expected to modestly tighten EU wheat supply and demand. But with large beginning stocks of over 20 million tons, the EU Commission is expected to maintain the pace of exports.

Kazakstan has had favorable rains to date and is expected to boost exports because of increased production. However, drought is expected to reduce exports from Turkey. Wheat exports out of Eastern Europe are expected to decline due to reduced production and to increased transportation costs as a result of war damage on the Danube River.

Reduced production is expected to drive Pakistan and Morocco to increase imports in 1999/2000, each by 0.3 million tons. Pakistan is not expected to match the previous year's record production, and Morocco suffered from drought this winter. Several countries, such as Egypt and the Philippines, are expected to increase imports slightly to maintain consumption growth. North Korea is projected to boost wheat imports by 0.4 million tons, continuing to draw on food aid.

Ending stocks held by the five largest wheat exporters (Argentina, Australia, Canada, the EU, and the U.S.) are projected to decline from 56 million tons in 1998/99 to 51 million in 1999/2000, but to remain more than 30 percent above the previous 5-year average. Despite a small rise in world wheat trade, the large ending stocks projected for these exporters in 1999/2000 would limit price increases. **AO**

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