

Commodity Spotlight



Agricultural Research Service, USDA

U.S. Wheat Supplies To Drop In 2001/02

Despite a strong domestic market for wheat products, U.S. wheat harvested area continues to drop, down more than one-third from its peak in 1981. Moreover, adverse weather is expected to push winter wheat harvested area in 2001 to its lowest level since 1988. Low returns relative to other crops, combined with the planting flexibility provided under current government programs, have led to the substitution of competing crops for wheat. The low returns to wheat are due largely to lackluster export performance. U.S. wheat exports have shown little increase since 1996/97, as U.S. share of the global wheat market continues to erode, dipping in 1999/2000 to the lowest in three decades, and barely increasing in 2000/01 and 2001/02.

2001/02 Production To Fall Below Last Year

U.S. wheat harvested area for 2001 is projected at 49.3 million acres, down 3.7 million acres from last year. Wheat yields are also projected to be down from last year because of adverse weather in some areas—40 bushels per acre compared with 41.9 bushels. Total U.S. wheat production is projected at only 1,974 million bushels, the lowest since 1978.

Sharply reduced wheat production, combined with lower carryin stocks and only slightly higher projected imports, will likely drop total wheat supplies to a 5-year low of 2,942 million bushels for the 2001/02 marketing year. Domestic use is projected to be down 43 million bushels from last year's 1,325 million bushels, as projected feed and residual use declines more than food use increases. Feed and residual use is 60 million bushels lower, with weak corn prices and large corn supplies expected to keep wheat feeding in check. Population growth is expected to increase food use by 10 million bushels.

Because total projected use (including exports) exceeds projected production plus imports, ending stocks are forecast to drop to 610 million bushels for the 2001/02 marketing year. This represents a decline of 263 million bushels from 2000/01 and 340 million bushels from the recent peak in 1999/2000. Consequently, the farm-gate price is projected to rise in 2001/02, ending up in the range of \$2.70 to \$3.30 per bushel. By comparison, the season-average prices for the 2000/01 and 1999/2000 marketing years were an estimated \$2.62 and \$2.48. Higher prices will allow a larger percentage of the nation's wheat producers to cover their costs (see box).

With reduced U.S. wheat supplies and expected higher U.S. wheat prices, exports are projected to decline. Wheat exports in 2001/02 are projected to be 1.05 billion bushels, compared with 1.065 billion bushels a year earlier.

Both Winter & Spring Wheat Production Down

U.S. winter wheat production, forecast at 1,366 million bushels in 2001, is 197 million bushels or 13 percent below 2000 and the lowest since 1978. The U.S. winter wheat yield is forecast at 43.2 bushels per acre, down 1.4 bushels from last year's 44.6. Harvested area totals 31.7 million acres, down 10 percent from 2000. This harvested area is the lowest since 1933.

Winter wheat production in most states will decline from a year ago. The largest projected declines are in Kansas, Oklahoma, South Dakota, and Washington. Texas is an exception, with production projected to recover from last year's poor crop as both harvested area and yields rise.

Hard red winter (HRW) is the largest U.S. wheat class. HRW harvested area is projected to be 21.4 million acres, down 9 percent from a year earlier. Dry conditions, which delayed seeding and slowed emergence last fall, was the leading cause of lower acreage. In Texas and Oklahoma, excessive rainfall followed dry conditions and further hindered planting. Summer drought in Montana continued into the fall, leading many farmers to reduce their planted acreage. Despite the weather, yield is forecast up 0.8 bushel per acre nationally. However, because of the acreage decline, total production will likely be down 62 million bushels in 2001.

Soft red winter (SRW) harvested area is down 13 percent from last year to 7 million acres. Nationally, various weather problems have reduced estimated SRW yields 7 percent below last year, even though Missouri, Kentucky, and Tennessee now expect record yields. SRW production is forecast at 380 million bushels, 91 million below a year ago.

Projected white winter (WW) wheat harvested area totals 3.3 million acres, down just 2 percent from 2000. Yields, however,

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are estimated to be down 16 percent because of dry conditions in the Pacific Northwest. WW production is forecast at 204 million bushels, 44 million bushels lower than last year.

Spring wheat production, excluding durum, is forecast at 513 million bushels, down 37 million bushels from 2000. Harvested area is up slightly, but yields are down 9 percent overall and off sharply in Idaho, Minnesota, and the Pacific Northwest states.

U.S. durum production is forecast at 94 million bushels, down 16 million bushels from last year. Continued disease problems and the cancellation of a lucrative crop insurance option help explain the reduced area. Durum yields are projected to average 31.6 bushels per acre, down slightly from last year.

World Wheat Production To Drop

Global wheat production is forecast down almost 11 million tons to 568 million in 2001/02. However, most of the drop is in the U.S., with foreign production down less than 4 million tons. Wheat crops in many countries have critical growing stages still ahead, so weather and other factors are likely to modify production estimates.

Production by major competing exporters is expected to be lower, mostly because European Union (EU) prospects are down 9 million tons from a year earlier. Excessive rains across parts of Spain, France, and the entire United Kingdom (UK) prevented normal wheat planting in the fall of 2000. UK wheat area is forecast down 19 percent, with smaller but significant declines in France and Spain. Adverse weather conditions continued into the early summer in some areas, and EU yields are forecast down 3 percent from last year.

Increased production prospects in Argentina and Australia will offset about one-fifth of the EU drop. Dryness in some parts of Australia limited planted area, and wheat production is forecast up only 0.3 million tons as yields in some regions return to trend after last year's drought. Larger planted area is expected to raise Argentina's wheat production 1.5 million tons.

Canada is expected to expand area slightly, as indicated in official planting surveys, despite weather problems. Late spring dryness hampered early growth in western Saskatchewan and Alberta, while excessive rainfall plagued Manitoba and parts of eastern Saskatchewan. Canada's 2001/02 wheat production is projected down nearly 2 million tons compared with last year.

In China, May was the hottest and driest in the last 20 years across much of the North China Plain. Wheat was mostly in the filling stage and suffered, although irrigation limited losses. Also, relatively low wheat price supports led farmers to plant smaller area. The adverse conditions are expected to drop China's production to 96 million tons, down almost 4 million tons from a year earlier and the lowest in 10 years.

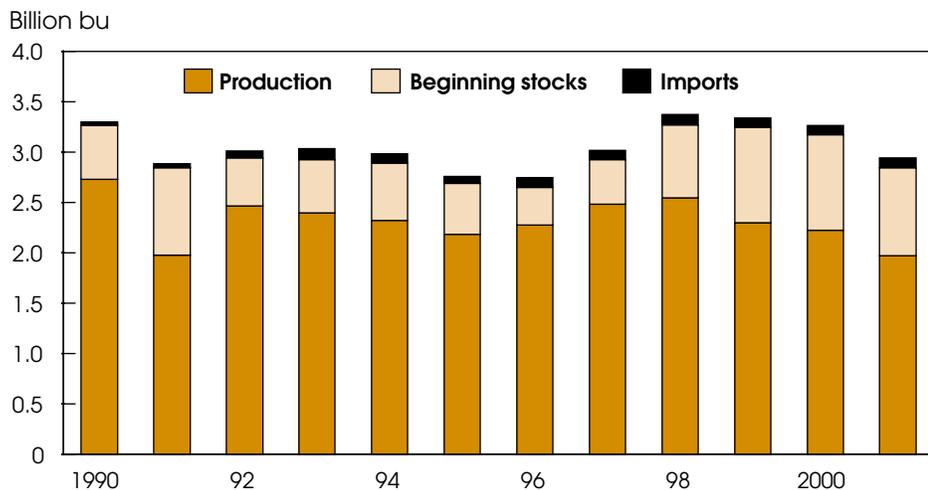
India and Pakistan are not expected to match the previous year's record production because of dryness and limited irrigation supplies. India's production is forecast down 10 percent, or nearly 8 million tons in 2001/02, while production in Pakistan is expected to drop over 2 million tons. Wheat production in the Middle East is forecast to increase only slightly from last year's drought-reduced level. While some countries, like Syria, received more rain than a year earlier, others, like Turkey, saw conditions worsen. Drought persisted in parts of North Africa as well, while some parts of the region, like northern Morocco, received better rains. North Africa is forecast to increase production by more than 2 million tons from last year's low level.

Countries of the former Soviet Union are expected to harvest a wheat crop of over 75 million tons, which is up more than 11 million tons from the previous year. Much of the increase is due to expanded plantings and improved growing conditions in Ukraine, but also to increased production in Russia. Eastern Europe has more moisture in some countries, especially in the North, while drought has persisted in parts of Romania and Bulgaria. The drought limited Eastern Europe's rebound to 4 million tons from last year's drought-induced level of 28 million tons.

Foreign Use Grows & World Ending Stocks Decline

Foreign wheat consumption is projected to increase more than 5 million tons to 558 million tons in 2001/02. Foreign food use is expected to increase over 1 percent, but less than population growth. Total wheat consumption is expected to expand the most in India and the former Soviet Union, while declining in the EU, China, and Canada. Wheat consumption in North

Lower U.S. Wheat Output Pulls Down Supply Level



2001 forecast.

Economic Research Service, USDA

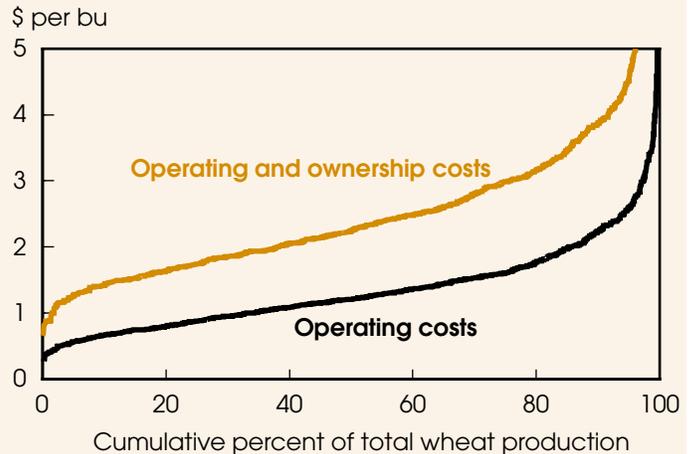
Production Costs Vary Widely

Farmers who grow annual field crops, such as wheat, decide each year what mix of crops to plant. Annual production decisions are usually based on whether the grower expects the price received for the crop to cover operating costs, including seed, fertilizer, chemicals, fuel, custom operations, repairs, and interest on operating inputs. Longer term decisions on continuing to raise the crop will consider whether or not expected prices over several years will cover both operating and ownership costs. Ownership costs are mainly the costs of maintaining the capital stock used in production, including costs for asset depreciation, interest, taxes, and insurance.

Production costs for wheat vary considerably across the nation. A cumulative distribution of operating costs for 1998 reveals, for example, that farmers produced 50 percent of the wheat crop at \$1.20 per bushel or less; 75 percent at \$1.60 per bushel or less; and 90 percent at \$2.25 per bushel or less. For operating and ownership costs, the cumulative distribution indicates that 50 percent of the 1998 wheat was produced at \$2.25 per bushel or less; 75 percent at \$3 per bushel or less; and 90 percent at \$3.90 per bushel or less.

The fact that 90 percent of wheat was produced at an operating cost of \$2.25 per bushel or less in 1998 helps to explain why U.S. wheat growers continue to plant wheat despite the low prices of recent years. During the past four crop years, the farm-level price for all wheat averaged \$2.79 per bushel, ranging from a low of \$2.48 in 1999/2000 to a high of \$3.38 in 1997/98. However, for many farmers, prices do not cover both operating and ownership costs. Farmers cannot continue to grow wheat over several years if they cannot cover ownership costs and thus replace capital stock as it deteriorates. Also, these costs do not include opportunity costs for owned resources, which may also affect the longrun decision about producing wheat (opportunity costs include foregone earnings from alternative uses of land and farmers' labor).

Wheat Production: Distribution of Operating and Ownership Costs, 1998



Economic Research Service, USDA

Many producers have continued to grow wheat despite low farm-level prices because of the impact of government payments. Loan deficiency payments and marketing loan gains added about \$0.19 per bushel to gross returns for the 1998 wheat crop. Also, many wheat producers received flexibility contract payments and emergency assistance that may have helped cover some of wheat's production costs.

For further information on commodity costs and returns, contact Mir Ali (202) 694-5558 or William McBride (202) 694-5577 or visit the ERS web site at <http://www.ers.usda.gov/Data/CostsAndReturns>.

Africa and the Middle East is forecast to change little.

Slow consumption growth combined with continued reductions in production are expected to reduce global wheat stocks by almost 25 million tons in 2001/02. This is the largest decline (16 percent) in global wheat stocks since 1986/87, when U.S. stocks plummeted with implementation of the 1985 Farm Act. In 2001/02, foreign wheat stocks are projected down 18 million tons, with most of the drop in China. Competing major exporters' stocks are forecast down over 2 tons. India's stocks are forecast down 3 million tons as production drops, consumption increases, and subsidized exports continue. However,

Indian Government stocks are expected to remain above target levels.

China's Government does not publish estimates of grain stocks. In the past, USDA's independent estimates of stocks performed well as an indicator of conditions in China's grain market. Recently, however, new information from China's first agricultural census, official statements, and evidence from trade and price patterns indicate that stocks are larger than USDA previously estimated. There is little indication of tightness in China's wheat market, even though output and stocks have declined. The stock estimates have been revised to more accurately reflect grain supply and use in China.

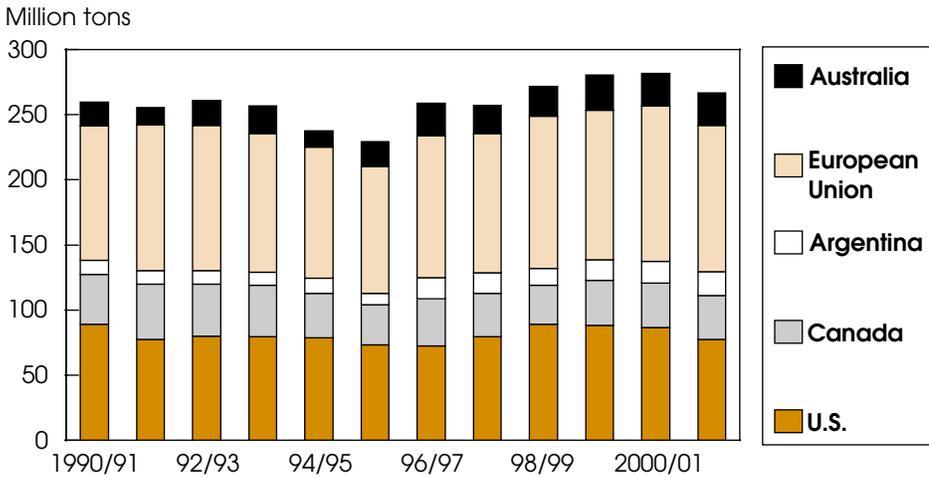
World Wheat Trade Forecast Up, U.S. Exports Down in 2001/02

World wheat trade in 2001/02 is projected to reach 107 million tons (excluding intra-EU trade), up 4 million tons from the previous year's level, but 5 million less than in 1999/2000.

Many of the largest importers are not expected to increase purchases. Brazil's imports are forecast to decline 0.3 million tons to 7.3 million, because of increased production and stagnant demand. Iran is projected to maintain imports at 7 million tons despite a modest increase in production, as stocks are low after several years of drought. Egypt's wheat imports are expected to increase slightly to 6 million

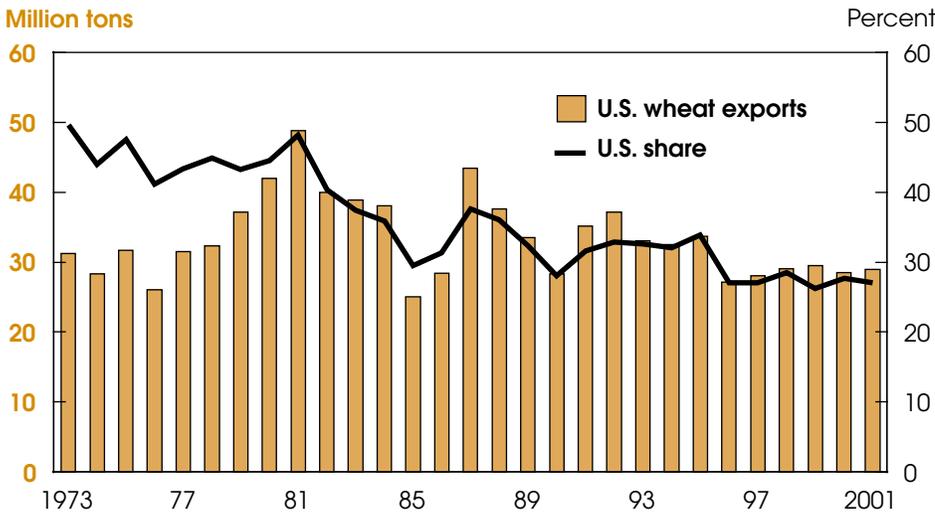
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Supplies of Major Wheat Exporters Down 2001/02 but Still Large



2001/02 projected. Supplies based on sum of production and beginning stocks.
Economic Research Service, USDA

U.S. Share of World Wheat Trade Has Fallen



2001 projected. Excludes intra-EU trade.
Economic Research Service, USDA

tons, but remain well below the 1998/99 peak of 7.4 million tons because of increased production and flat consumption. Japan's imports are also forecast down slightly to 5.8 million tons, with consumption declining slightly. Eastern Europe and the former Soviet Union are forecast to reduce imports by 1 million tons and 0.4 million tons, respectively, because of increased production.

Many importers are expected to increase imports by a small amount in 2001/02. China is projected to increase imports by 1.5 million tons because of reduced production, lower stocks, and a preference

for imported wheat for blending. Pakistan is likely to increase imports 0.5 million tons as production drops. Lower production will help boost Mexico's imports by a forecast 0.4 million tons. More use of wheat for feed is expected to boost imports by South Korea and the Philippines by 0.5 million tons each, and Israel by 0.2 million tons. The EU is forecast to import 0.3 million tons more for blending. Indonesia is expected to boost imports 0.3 million tons because of expanding consumption.

Exporters' Supplies To Keep A Lid on Prices

Exporters are forecast to have sufficient supplies to satisfy increased demand, but prices are expected to rise as supplies are less abundant. Large production in Canada, Australia, and Argentina is expected to boost their 2001/02 wheat exports by a combined 2.5 million tons. India, Ukraine, and Eastern Europe are expected to boost exports of relatively low-quality wheat by nearly 4 million tons.

The EU is expected to reduce exports 1.5 million tons because of lower production. The Grain Management Committee of the European Commission is likely to be concerned with ensuring stable internal prices, and thus will limit exports. Exports by Turkey and Pakistan are also expected to decline because of reduced production.

U.S. exports are forecast up 0.5 million tons to 29 million in 2001/02. Tight wheat supplies are expected to keep U.S. prices relatively high, shifting importers' purchases to other sources and reducing the U.S. share of world wheat trade to 27 percent (excluding intra-EU trade), the second lowest in three decades. **AO**

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China's grain industry: structure, operation, & prospects

...in an upcoming issue of *Agricultural Outlook*