

## Commodity Spotlight



USDA photo

# U.S. Rice Market Facing Record Supplies, Low Prices

Rice prices in the U.S. are at their lowest level in more than 15 years, the result of weak global prices and a second consecutive year of record supplies at home. Despite a bearish price outlook and expectations of a huge carry-over, U.S. rice producers cut plantings just 3 percent in 2002. At planting, most producers estimated returns to rice production—including payments under the government marketing loan program—to be higher than returns from alternative crops.

The 2002/03 (August-July) U.S. season-average farm price (SAFP) for rough rice is projected at \$3.50-\$4.00 per hundred-weight (cwt), down from \$4.17 a year earlier. The 2002/03 SAFP is the lowest since 1986/87, and the SAFP has dropped every year since 1997/98. In 1996/97, the SAFP was the highest since 1980/81 at \$9.96 per cwt.

Monthly cash prices have weakened as well. In October, USDA reported the August 2002 U.S. rough rice average cash price at \$3.72 per cwt, down \$1.38 from a year earlier and the lowest since July

1987. The September mid-month price was an estimated \$3.79 per cwt.

Prices for U.S. milled rice have also declined. Prices for high-quality Texas long grain rice were reported at \$198 per ton in mid-October, down \$45 from a year earlier. Prices were as low as \$164 in June 2002. Prices for medium grain rice—grown mostly in California—actually strengthened early in the 2001/02 market year, a result of an almost 12-percent cut in California production that year. However, prices began to drop last spring after producers indicated an 11-percent increase in California plantings in 2002. By mid-October, high-quality California medium grain milled rice was reported at \$265 per ton, down \$22 from April.

Because the U.S. exports more than 40 percent of production each year, events in the global market have strong impacts on the U.S. rice sector. The U.S. accounts for about 1.5 percent of global production and nearly 12 percent of exports. Because the U.S. produces high-quality rice for domestic and export markets, it is often at a price disadvantage to lower quality rice from low-cost exporters such as Thailand

and Vietnam. Since June 2001, India has been the lowest priced exporter, a result of substantial export subsidies. China, Pakistan, and Burma are also major exporters.

### U.S. Rice Plantings Drop 3 Percent in 2002

Despite several years of declining prices, U.S. farmers planted more than 3.2 million acres of rice last spring, just 3 percent below a year earlier. Plantings are projected smaller in 2002 in all producing states except California. Long grain, which accounts for more than 75 percent of U.S. rice acreage, is responsible for all of the decline.

At planting, the price outlook for long grain was lower than for medium/short grain. Long grain plantings this year are estimated at 2.54 million acres, a 6-percent drop from a year earlier. In 2001, the U.S. long grain crop was a record 165 million cwt. In contrast, combined medium/short grain plantings are projected at 693,000 acres in 2002, 12 percent above a year earlier. In 2001/02, a 23-percent drop in production (to 47.7 million cwt) boosted medium/short grain prices.

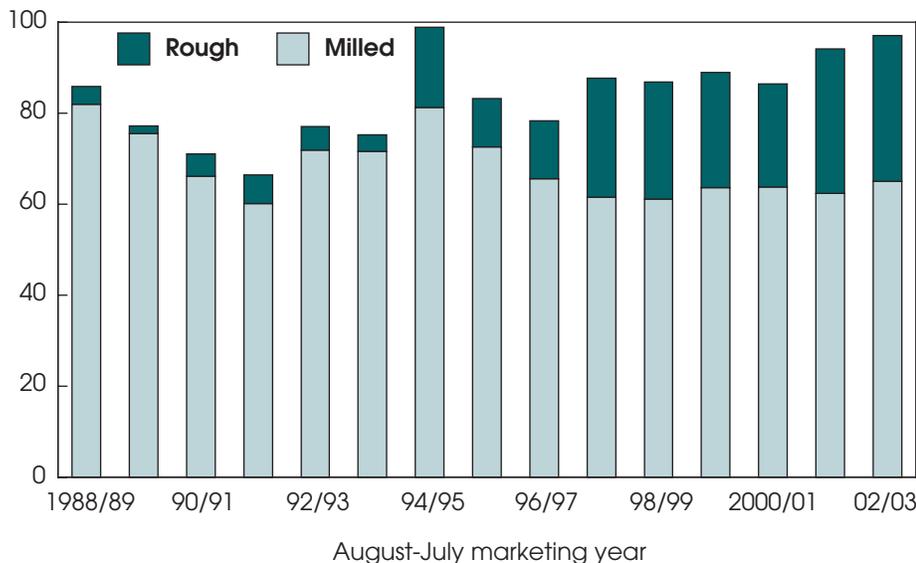
Six states account for more than 99 percent of U.S. rice production. Nearly all U.S. long grain rice is grown in the South—primarily in Arkansas, Louisiana, Mississippi, Missouri, and Texas. California produces more than two-thirds of the U.S. medium/short grain rice, Arkansas and Louisiana nearly all the rest. Although not included in National Agricultural Statistics Service estimates, smaller amounts of rice are grown in other states, with Florida accounting for most.

Last winter, when farmers made final planting decisions for the 2002 crop, payments to rice producers under the marketing loan program averaged \$3.14 per cwt, less than a dollar below the reported farm price at that time. Under the marketing loan program, when world prices are below the commodity loan rate, eligible producers are entitled to payment rates equal to the difference between the adjusted world price by class (as calculated by USDA) and the loan rate for rough rice. The average loan rate for all classes of

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## U.S. Rice Exports in 2002/03 to Be Second Highest on Record

Million cwt (rough basis)



2001/02 estimate; 2002/03 forecast.

Sources: 1988/89 to 2001/02, Bureau of the Census. 2002/03, USDA projections.

Economic Research Service, USDA

rice (long, medium, and short) is fixed at \$6.50 per cwt. By mid-May, payment rates had dropped below \$2.90 per cwt when world prices rose slightly. Weaker world prices boosted payment rates to \$3.28 by October, less than 50 cents below reported U.S. prices at the time.

### U.S. Production & Exports At Near-Record Levels

The 2002/03 U.S. rough rice crop is projected at nearly 212 million cwt, fractionally below the 2001/02 record. The yield, estimated at a record 6,608 pounds per acre, is up 3 percent from a year earlier and is the fifth consecutive year of rising average yield. The U.S. average yield has risen nearly 17 percent since 1998, indicating stronger annual yield growth than achieved during the previous decade. The stronger yield growth is due primarily to the release of several new higher yielding varieties in the South. In contrast, average yields in California remain below records achieved in the 1990s.

Beginning stocks of all rice for 2002/03 are estimated at 39 million cwt, up 37 percent from a year earlier and the largest

since 1993/94. Imports in 2002/03 are projected at 13 million cwt, down fractionally from last year's record. The larger carryin more than offset the slight drop in production, boosting 2002/03 total supplies 4 percent to a record 263.9 million cwt.

The supply situation varies somewhat by class. For long grain, a 130-percent increase in beginning stocks to 26.8 million cwt—the largest since 1987/88—more than offset a 5-percent drop in production to 157.4 million cwt. This boosts long grain supplies 4 percent to a record 193.5 million cwt. For combined medium/short grain rice, a 32-percent drop in beginning stocks to 10.7 million cwt nearly offsets a 14-percent increase in production to 54.5 million cwt. At 68.9 million cwt, medium/short supplies are more than 2 percent larger than a year earlier.

In 2002/03 the U.S. is projected to export 97 million cwt (rough basis), up 3 percent from a year earlier and second only to the 1994/95 record of 99 million cwt. In 1994/95, emergency imports by Japan accounted for much of the expansion in U.S. rice exports. In 2001/02, the U.S.

exported 94.1 million cwt of rice, 13 percent more than a year earlier. Rough rice exports accounted for most of the expansion.

For 2002/03, rough rice exports—projected at a record 32 million cwt—are fractionally above a year earlier. Milled rice exports—projected at 65 million—are up 4 percent. Several factors account for the strong pace of U.S. rice exports since 2001/02.

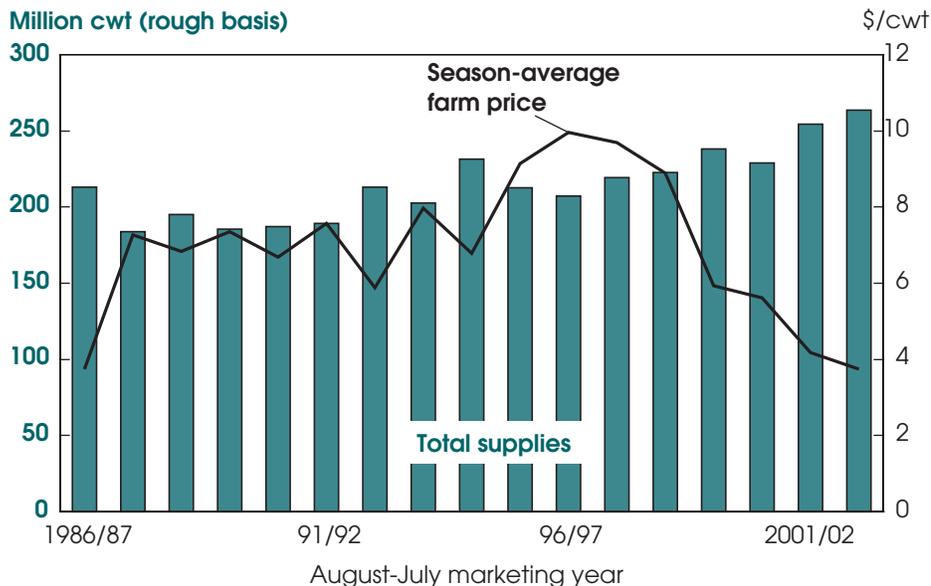
*First*, Mexico and Central America continue to import record amounts of rice, with all but a tiny fraction coming from the U.S. More than 90 percent of these imports are rough rice, nearly all long grain from the South. The U.S. is the only major exporter allowing rough rice exports. In 2001/02, Central America nearly doubled its rice imports from the U.S., and Mexico's imports of U.S. rice increased by more than 20 percent. Competitive U.S. prices, plentiful supplies, and declining rice production in both Mexico and Central America are behind the strong import growth in this region.

*Second*, the U.S. price differential over comparable grades of Thai rice declined substantially from July 2001 through August 2002. From more than \$105 per ton in August 2001, the U.S. price differential over Thai rice virtually disappeared by late May and remained at this record low level through August 2002. However, the combination of slightly higher U.S. prices and weakening Thai prices pushed up the difference to \$20-\$30 per ton in September and October. From 1996/97 through 2000/01, the U.S. price differential over Thai rice averaged \$91 per ton. Thailand—the world largest rice exporter—is a major U.S. competitor, especially in certain Middle East countries and South Africa. In recent years, India has successfully penetrated these markets as well.

*Third*, global rice trade has expanded every year since 2000, rising from 22.8 million tons (milled basis) in 2000 to a forecast 26.2 million in 2003—the second highest on record. Strong import growth by several top buyers—primarily Indonesia, Iran, Iraq, Nigeria, the Philippines, and Saudi Arabia—is responsible for most of the global trade growth since 2000.

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### Farm Price for Rice Is Lowest in More Than 15 Years



2002/03 projected. Projected price of \$3.50-\$4.00 is midpoint of range.  
Sources: USDA's National Agricultural Statistics Service and Economic Research Service.  
Economic Research Service, USDA

Long grain accounts for the bulk of the expansion in U.S. rice exports. In 2001/02, long grain exports jumped nearly 13 percent to 73.5 million cwt, with rough rice exports to Mexico and Central America accounting for most of the increase. Long grain exports are projected to increase more than 3 percent to 76 million cwt in 2002/03, second only to the 1994/95 record of 81.4 million cwt. For combined medium/short grain rice, 2001/02 exports jumped 15 percent to 20.6 million cwt. The first purchases of U.S. rice by South Korea (under its WTO minimum-access requirement) plus a large food aid sale to Uzbekistan were behind much of the growth. For 2002/03, medium/short grain exports are projected to be the largest since 1987/88 at 21 million cwt.

### U.S. Rice Consumption Continues to Rise

Both total and per capita U.S. rice consumption continue to rise, with 2002/03 domestic consumption (not including seed use) projected at a record 121 million cwt, up almost 3 percent from a year earlier. Domestic consumption has expanded almost 3 percent a year since the mid-1990s, about half the rate reported during

the previous 15 years but still ahead of population growth.

Factors driving expanded domestic consumption include:

- a growing share of Asian-Americans and Hispanic-Americans in the population (groups whose per capita rice consumption is much higher than the U.S. average);
- greater demand for ethnic foods;
- a variety of new rice products;
- versatility of rice as an ingredient in other foods or as a side-dish; and
- effective marketing.

U.S. per capita rice consumption has been rising steadily since the late 1970s. For 2002/03, per capita consumption is projected at a record 26.3 pounds, up about a quarter of a pound from a year earlier and double the 1978/79 level. USDA's long-term forecast projects continued expansion in per capita rice consumption over the next decade.

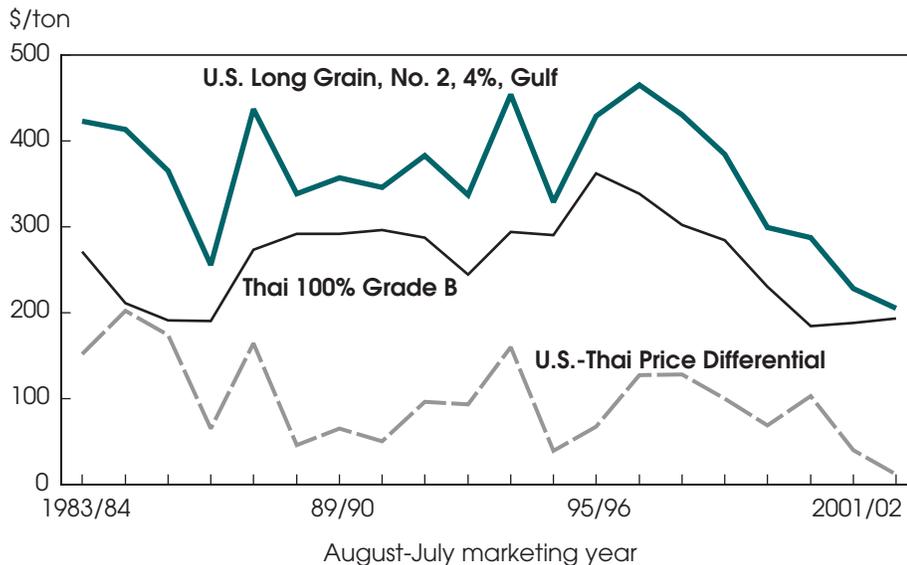
The domestic market (including consumption of imports) has expanded as a share of total use over the past 22 years as well. In 1980/81, the domestic market, including seed and residual (unaccounted losses and unreported use) accounted for 40 percent of total use, with the remainder exported. By 1999/2000, the domestic market accounted for nearly 60 percent of total use. In 2001/02 and 2002/03, the domestic market's share dropped slightly as exports rose, but the domestic share is projected to expand over the next decade. Food use has accounted for nearly all of the expansion in domestic use since the mid-1980s.

Long grain rice accounts for the bulk of U.S. consumption. For 2002/03, long grain consumption is projected at a record 88.7 million cwt, an increase of 3 percent from a year earlier. Most table rice in the U.S. is long grain. Processed foods—such as packaged mixes—use mostly long grain rice. For medium/short grain rice, domestic use is estimated at 36.3 million cwt, up 1 percent from a year earlier but well below the 1997/98 record of 44.2 million cwt. Breakfast cereals are a major processed food use for medium grain rice. Beer manufacturers and some food processors can shift among rice classes based on price and availability.

Imports account for a growing share of U.S. rice consumption. In 2001/02, imports of nearly 13.2 million cwt represented 11 percent of domestic use (excluding seed use), compared with less than 1 percent in 1980/81. Nearly all U.S. rice imports are varieties not currently grown in the U.S. Jasmine rice from Thailand accounts for 70-80 percent of U.S. rice imports. Basmati from India and Pakistan accounts for about 15 percent. Italy, Australia, and Egypt supply most of the rest. Imports are projected to continue increasing at a slightly faster pace than overall consumption.

Ending stocks for 2002/03 are projected at 41.9 million cwt, about 8 percent larger than a year earlier and the highest since 1986/87. Both long and medium/short grain stocks are projected higher in 2002/03. U.S. rice prices will likely face substantial downward pressure for several years due to large domestic supplies.

## Gap Narrows for U.S.-Thai Milled Rice Prices



All prices quoted at local port. 2002/03 August-October only.  
Sources: Thai prices, U.S. Ag Counselor, Bangkok, Thailand. U.S. prices, USDA's Agricultural Marketing Service.  
Economic Research Service, USDA

## Global Prices Remain Low

Global prices are just 10-15 percent higher than 30-year lows reported during much of 2001, despite 3 consecutive years of declining global production and ending stocks. In mid-October 2002, export prices for Thailand's 100-percent Grade B were quoted at \$193 per ton, \$20 per ton above a year earlier but well below the 20-year average of more than \$260.

Thai prices are currently being supported by large-scale government intervention purchases. In the global market, Thai prices continue to face substantial downward pressure from record shipments of subsidized exports from India and lack of major new sales. Record or near-record production in major rice importing countries and continued subsidized exports from India are likely to prevent a significant increase in global prices in the near term.

From April through October 2001, global prices were the lowest in nearly 30 years, with prices for Thai 100-percent Grade B averaging just \$175 per ton. Prices began to pick up in November 2001 and by mid-June 2002 were up \$25-\$35 per ton, due largely to Thai government intervention

purchases, concern by some importers over potential *El Niño* crop damage in 2002/03, and a temporarily tight supply situation in Vietnam. Prices have dropped \$15-\$20 since July 2002 as the Thai government sold some of its rice stocks and exportable supplies have increased in Vietnam.

For 2002/03, global rice production is projected at 381.2 million tons (milled basis), down 15.1 million from a year earlier and the smallest since 1996/97. India, the second-largest rice producer and a major exporter, accounts for most of this year's decline, following one of the worst monsoons in a century. Even with the smallest crop in a decade, India has enough rice to remain a top exporter. In addition, production in China—the world's largest rice producer—has declined sharply since 1999/2000, resulting from policy changes designed to encourage farmers to shift rice land to more profitable enterprises. Despite several years of declining production, China remains a major rice exporter. In contrast to China and India, rice production in top Asian importing countries—Indonesia, the Philippines, Bangladesh, and Malaysia—is projected to remain at or near record levels this year.

Global ending stocks for 2002/03 are projected at 105.5 million tons, a 20-percent drop from 2001/02 and the lowest since 1987/88. China accounts for the bulk of the decline in global stocks since 2000/01 as it attempts to draw down its burdensome rice stocks—much of it poor quality—which it began to accumulate in the early 1980s. India's stocks have also declined sharply from the 2000/01 record. For 2002/03, the global stocks-to-use ratio for rice is projected to be nearly 26 percent, slightly higher than wheat (22 percent) and well above coarse grains (15 percent). **AO**

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A detailed explanation of programs affecting rice producers is located on the ERS Website at [www.ers.usda.gov/briefing/rice/policy.htm](http://www.ers.usda.gov/briefing/rice/policy.htm)

## Upcoming Reports—USDA's Economic Research Service

The following reports are issued electronically at 4 p.m. (ET) unless otherwise indicated.

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### November

- 12** *World Agricultural Supply and Demand Estimates* (8:30 a.m.)
- 13** *Oil Crops Outlook\*\**
- 14** *Feed Outlook (9 a.m.)\*\**
- 14** *Wheat Outlook (9 a.m.)\*\**
- 15** *Livestock, Dairy, and Poultry Situation and Outlook\*\**
- 20** *U.S. Agricultural Trade Update\*\**
- 21** *Agricultural Outlook (3 p.m.)\**
- 21** *Fruit and Tree Nuts Outlook*
- 22** *Cotton and Wool Yearbook\**
- 25** *Rice Yearbook\**

\*Release of summary.

\*\*Electronic newsletter.