

Commodity Spotlight



USDA Photo: Tim McCabe

U.S. Wheat Output & Exports To Decline in 2002/03

Prospects for the smallest U.S. wheat exports in more than 30 years are dominating the 2002/03 outlook for U.S. wheat. Smaller U.S. supplies, shrinking global imports, and intense competition are combining to reduce U.S. export prospects.

Domestic use in 2002/03 is projected to be nearly the same as last year, as a 10-million-bushel increase in food use because of population growth is offset by reduced feed and residual use. Projected exports of 900 million bushels are down 60 million bushels from the 2001/02 forecast and would be the lowest since 1971/72 (610 million bushels). Record wheat production is expected in the European Union (EU), and large wheat supplies in the former Soviet Union are expected to maintain stiff export competition from the Black Sea region. With EU imports dropping because of increased import duties, world wheat trade is expected to be reduced in 2002/03, and the U.S. share is expected to be the lowest since comparable data were first compiled (1961/62).

Total U.S. wheat production is forecast down 11 percent from 2001/02 to 1,749 million bushels. The smaller wheat crop (209 million less) combined with the low-

est carryin stocks since 1999/00 (104 million less) drops total 2002/03 supplies 313 million bushels (nearly 11 percent) below a year earlier.

Although total use is declining, it will exceed production plus imports and result in a further drop in U.S. ending stocks. Carryover stocks will fall below last year's level by 252 million bushels. However, bleak export prospects dampen price advantages from declining stocks. The 2002/03 price is projected to range from \$2.75 to \$3.35 per bushel, compared with an estimated \$2.78 for 2001/02.

Lower Acreage & Yields to Cut Wheat Production Again

All wheat. For all wheat, total 2002 planted area is estimated at 60.1 million acres, of which 47.6 million will be harvested. Planted area is up 0.5 million acres from a year ago, but harvested area will be down from a year ago, by 1 million acres. Poor soil moisture is estimated to increase winter wheat abandonment in 2002 compared with 2001 and reduce average yield by 3.5 bushels to 36.7 bushels per acre.

Winter wheat. USDA forecasts 2002 U.S. winter wheat production at 1,178 million bushels, down 183 million bushels

(13 percent) from 2001. This is the smallest output since 1971 and reflects lower harvested acreage and yield. Harvested area totals 29.8 million acres, down 1.5 million acres from 2001 and the lowest since 1917. The U.S. winter wheat yield is forecast at 39.6 bushels per acre, 3.9 bushels less than last year.

The largest class of winter wheat, hard red winter (HRW), is forecast at 634 million bushels, down 133 million bushels from 2001. This is the lowest since 1963/64 when 544 million bushels were produced. Production is down because HRW area is 1.1 million acres below last year to 19.8 million, and forecast yield is down 4.7 bushels per acre to 32.1 bushels.

Soft red winter (SRW) wheat, forecast at 341 million bushels, is down 59 million bushels because of reduced harvested area and a lower average yield. SRW harvested area is down 0.5 million acres to 6.7 million, and yield is forecast down 5 bushels per acre to 50.7 bushels in 2002.

White winter (WW) wheat is forecast up 8 million bushels at 203 million with higher yields and a slightly larger harvested area from last year. Forecast WW wheat yields are up 2.3 bushels from 2001 to 62.2 bushels per acre because of improved weather conditions.

Spring wheat. USDA forecasts 2002 U.S. spring wheat production (including durum) at 570 million bushels, down 26 million bushels, or 4 percent from 2001. This would be the smallest spring wheat output since the 1988 drought. Harvested area is up 0.5 million acres to 17.9 million acres—not enough to offset a 2.4-bushel decline in average yield from last year to 31.9 bushels per acre.

The largest spring wheat class, hard red spring (HRS), is forecast at 443 million bushels, down 32 million from 2001. Lower yields more than offset a 0.6-million increase in harvested area to 13.8 million acres. Forecast HRS yield is down 3.7 bushels per acre to 30.9 bushels.

Durum wheat, forecast at 84 million bushels, is up 0.6 million bushels from last year, as slightly higher average yield more than offset reduced harvested area.

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Durum yield is forecast up 1.3 bushels per acre to 31.3 in 2002.

White spring (WS) wheat is forecast up 6 million bushels to 43 million, with sharply higher yields reinforced by a slight increase in harvested area from last year. Improved weather conditions put the forecast WS wheat yields at 51.7 bushels per acre, up 6.6 bushels from 2001.

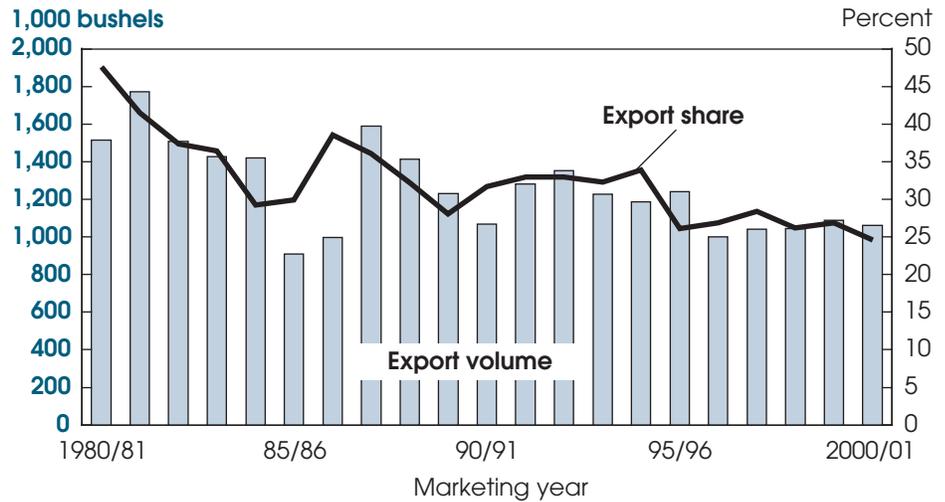
Foreign Wheat Production To Increase

Foreign wheat production in 2002/03 is forecast at 533 million metric tons (mmt), up nearly 7 mmt from last year and the largest except for the 1997/98 record. For the first time, the EU wheat crop is forecast to be double the size of the U.S. crop. EU wheat production is forecast to reach a record 109 mmt in 2002/03, up 17 mmt from 2001/02, when excessive rains and flooding reduced area and production. EU internal wheat prices during planting were relatively strong compared with world traded prices, especially for good-quality wheat.

With more favorable planting conditions and payment incentives favoring wheat compared with oilseeds, EU wheat area planted last fall increased dramatically and is forecast up 9 percent in 2002/03. Generally favorable conditions have prevailed so far across most of France, Germany, the United Kingdom, and Spain. Though much of Southern Italy has been dry, average EU yields are expected to be a record over 6 metric tons per hectare (comparable U.S. average is 2.6 metric tons per hectare).

India's wheat crop is one of the first harvested in the Northern Hemisphere, with harvest starting in March. With government support prices much higher than world prices for similar wheat, increased

U.S. Share of Global Wheat Exports Continues to Fall



Economic Research Service, USDA

area is reported. Production is forecast up 3 mmt to 72 mmt. Moreover, India's beginning wheat stocks are estimated up nearly 6 mmt, and storage facilities for government-owned grain are limited. With the high procurement price, the Indian Government is expected to make huge purchases in 2002/03, providing additional pressure to subsidize exports in order to move excess supplies onto the world market.

Wheat production in the Middle East is forecast up 5 mmt, mainly because more plentiful rains in Iran and Turkey are expected to boost yields. However, wheat production in North Africa is forecast down slightly, with dry conditions reducing yield prospects especially in Tunisia.

Wheat production in China is forecast down 2 mmt to 92 mmt. Surveys of planted wheat area by China's National Bureau of Statistics indicate a small decline. Yields are projected to be similar to drought-reduced levels of the last 2 years,

because of dryness in some regions and increased plantings of higher quality but lower yielding varieties in response to price premiums. China's wheat supplies in 2002/03 are expected to be sharply lower because beginning stocks are forecast down 19 mmt to less than 38 mmt.

Production in the major export competitor countries is forecast up slightly in Canada, but down in Australia and Argentina. Because of dry soils at planting, Canada's wheat area is forecast down 2 percent, but yields are forecast to rebound from the previous year's drought, boosting production nearly 2 mmt. In Argentina, wheat area is declining because of reduced credit availability and a shortage of diesel fuel. Argentina's production is forecast down 1.5 mmt to 14 mmt. Australia, which had a large crop in 2001/02, suffered from early season dryness especially in the West, and in 2002/03 is expected to reduce wheat area and lower production by 1 mmt to 23 mmt.

Wheat production in the former Soviet Union in 2002/03 is forecast down 11 mmt to 80 mmt. Area is forecast up slightly, but yields are not expected to match last year's high level. Growing conditions have been generally favorable this winter; they were excellent last year. Even with a significant drop in forecast production, wheat supplies in 2002/03 are expected to increase because beginning stocks are forecast up nearly 14 mmt.

County Loan Rates Updated

USDA county loan rates for wheat have been updated to reflect recent market price relationships among counties. In this update, national loan rates for the 2002 wheat crops are differentiated by five classes of wheat: hard amber durum; hard red spring; hard red winter; soft red winter; and soft white wheat. This update is the first time USDA has differentiated loan rates by class of wheat, and is the most comprehensive update in 15 years. The changes are intended to reduce disparities in marketing loan benefits in local markets that have emerged in recent years.

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The Farm Security & Rural Investment Act of 2002

Among the Act's highlights

- Alters the farm payment program and introduces counter-cyclical farm income support;
- expands conservation land retirement programs and emphasizes on-farm environmental practices;
- relaxes rules to make more borrowers eligible for Federal farm credit assistance;
- restores food stamp eligibility for legal immigrants;
- adds various commodities to those requiring country-of-origin labeling;
- introduces provisions on animal welfare.

Wheat-related highlights

- Increases national crop loan rates for wheat from \$2.58 per bushel to \$2.80 in 2002/03 and 2003/04, and \$2.75 per bushel in 2004/05-2007/08;
- provides a direct payment of 52 cents per bushel;
- bases counter-cyclical payments for eligible production on target prices of \$3.86 per bushel for the first 2 years and \$3.92 per bushel thereafter;
- creates an incentive program to help develop marketing opportunities for hard white wheat;
- establishes marketing loans and loan deficiency payments (LDPs) for pulse crops providing new cropping opportunities for typical wheat producers;
- continues authority for LDPs on grazed wheat.

For details, see the ERS web site: www.ers.usda.gov/features/farmbill/

In Eastern Europe, production is forecast down 5 mmt because yields are not expected to match the previous year's exceptional levels. With the forecast increase in Eastern Europe's beginning stocks being less than the decline in production, a reduction in 2002/03 wheat supplies is expected.

World wheat disappearance in 2002/03 is projected to increase 1.1 percent to a record 594 mmt, compared with the small decline estimated for 2001/02. Population growth accounts for most of the increase, and ample supplies of low-quality wheat are also expected to maintain the use of wheat for feed. The EU, with a much larger crop, is forecast to increase its feed use by nearly 2 mmt to 49 mmt.

World wheat production is forecast at about 581 mmt in 2002/03, and with total use projected to exceed 594 mmt, global ending stocks will drop nearly 14 mmt from the previous year. Non-U.S. wheat stocks are expected to decline nearly 7 mmt, with significant increases in India, the EU, and the former Soviet Union, partly offsetting the 17-mmt drop in Chinese stocks.

World Wheat Trade To Decline Slightly

World wheat trade in 2002/03 (July/June international marketing year) is forecast at less than 104 mmt, down more than 3 percent from the previous year. The most significant drop in imports is projected for the EU. In 2001/02, the EU emerged as the world's largest wheat importer, even

excluding intra-EU trade. High internal prices and low import duties boosted imports to a forecast 9 mmt, almost triple the previous year. Inexpensive wheat from the Black Sea region moved into the EU in large volumes. In 2002/03, with a larger crop and increased import duties, EU wheat imports are expected to drop to 3.5 mmt. EU imports will be largely limited to the traditional demand for high-quality wheat and to some access granted to Eastern European countries that are in the process of joining the EU.

Iran is expected to reduce imports by 1 mmt in 2002/03 to 5 mmt because of increased production. In contrast, China is expected to increase wheat imports more than 50 percent to 2 mmt as stocks decline and membership in the World Trade Organization facilitates trade. Many other countries are expected to increase imports slightly in 2002/03 as populations increase, but not by enough to offset the drop in EU imports.

Intense Export Competition To Erode U.S. Share

EU wheat exports in 2002/03 are expected to increase 35 percent to 13.5 mmt. Increased production is expected to make EU prices more competitive with wheat from the Black Sea region and India.

India, with burgeoning wheat supplies, is expected to boost 2002/03 exports by a third to 4 mmt. Even with aggressive export subsidies, the government will not reach its goal of exporting 10 mmt of wheat. Turkey is also expected to increase wheat exports 1 mmt, the result of a larger crop.

Kazakhstan's improved transportation infrastructure is expected to help increase its wheat exports to Iran, and a rise of 0.5 mmt in exports is forecast in 2002/03. Australia is expected to remain the world's second-largest wheat exporter, boosting exports 0.5 mmt to a forecast 17 mmt.

Reduced production and higher EU import duties are expected to drop Ukraine's wheat exports 2.5 mmt to 3.5 mmt in 2002/03, and Eastern Europe's exports are expected to decline 1.2 mmt to less than 3 mmt. Canada's wheat

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exports are forecast down 1.5 mmt to 15 mmt because of relatively tight supplies. For Argentina, reduced production will offset a favorable exchange rate and exports are projected down 2 mmt in 2002/03.

U.S. wheat exports in 2002/03 (July-June) are forecast down 2 mmt to 24.5 mmt, the lowest since 1971/72. Reduced production is expected to maintain U.S. prices high enough to limit export potential. With

world wheat trade expected to decline in 2002/03, and increased production by several competing exporters, U.S. wheat will face intense competition, particularly in North Africa and the Middle East. This key wheat-importing region includes Egypt, which in recent years has been the largest importer of U.S. wheat. Wheat shipped from the Black Sea and the EU has lower transport costs than wheat from the U.S. While the U.S. is expected to remain the largest global wheat exporter, its share of global exports is forecast at

less than 23 percent, the lowest forecast share since comparable data have been compiled. **AO**

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