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Executive Summary

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# Wheat and Feed Grains Outlook

by

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## Energy, Inflation and Grain Prices

The focus of this marketing year will be on rising oil prices and their ultimate effect on domestic inflation. The corn crop is record large, but some analysts pin their hopes for the 2000-2001 marketing year on rising international demand brought about by relatively low grain prices. I am not in that camp. The Asian crisis is now old news, but effective demand will have to be great in order to overcome the negative impact of the sheer size of the crop and the pressures which will be exerted on prices at harvest time.

## Is a "Little Bit" of Inflation In the Offing?

Commodities analysts tend to be positive about grains because of the rising cost of energy. It is easy to seek parallels between the present situation and the 1974-77 period, the first great energy crisis. Commodity inflation does not necessarily need to follow rising oil prices. Inflation was already thoroughly entrenched in the economy in 1974. The cost of financing the Viet Nam war and large domestic entitlement programs were big factors fueling inflation. However, three years of aggregate production below trend line averages were even bigger. You tell me you can accurately forecast a Corn Belt drought in 2001 and I can start getting excited about grain prices!

## Record Crops and Rising Exports

Examining relative historical production-export relationships allows us to compare the

present situation with a major energy short period-1974-77. The crop in 1974 was about 45 percent of this year's expected crop and well below the norm. Total 1974 exports were 24 percent of the crop. Exports this year are forecast at 2.1 billion bushels, about 20 percent of the total crop. Feed usage was 67 percent of the crop in 1974 and will be 55 percent this year. The short crop in 1974 was the first of three occurring in a period of high world inflation. Effective demand was stimulated by heavy borrowings of debtor nations. Loans could be deferred and paid with even cheaper dollars in the future. The same world situation does not exist today.

Exports need to be even greater than presently forecast or ending stocks will be larger next year. If growers seed about the same number of acres next year, prices will be low, but probably not at this year's levels. Unfavorable weather is the usual wild card but present stock levels provide some buffer against contingencies excepting extreme drought.

## Foreign Coarse Grains, Wheat and Rice

- Projected world wheat production is expected to be slightly higher than last year's, U.S. production is about the same as last year as will be ending stocks
- Ending foreign coarse grains stocks will drop another 12-13 million metric tons from previous year's ending stocks

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- Eastern Europe's poor production performance opens the door for more U.S. coarse grain exports
  - Wheat ending inventories are slightly higher than last year at about 950 million bushels
  - The big story this year was in average yields-- a U.S. record high of 141 bushels of corn per acre
  - Ending stocks of corn will be about 2.2 billion bushels, the highest since the mid '80's
  - Many commodity analysts believe December corn futures have already reached seasonal lows
  - California grain production is up a bit from last year

- Ending foreign wheat supplies will be down another 12-14 million metric tons from last year--a third consecutive year of declines

low as this year. Drought next year could again change the picture, and speculation regarding drought will provide growers with hedging opportunities

- U.S. wheat exports are expected to decline again this year
- The soybean crop, presently estimated at 2.9 billion bushels is slightly smaller than last year, mainly due to lower yields in the western Corn Belt and the South
- The domestic rice crop will be smaller this year as will ending stocks, present forecasts are for average prices to be about \$.75 per hundredweight higher than last year's average of \$.475-.550

#### **The California Situation**

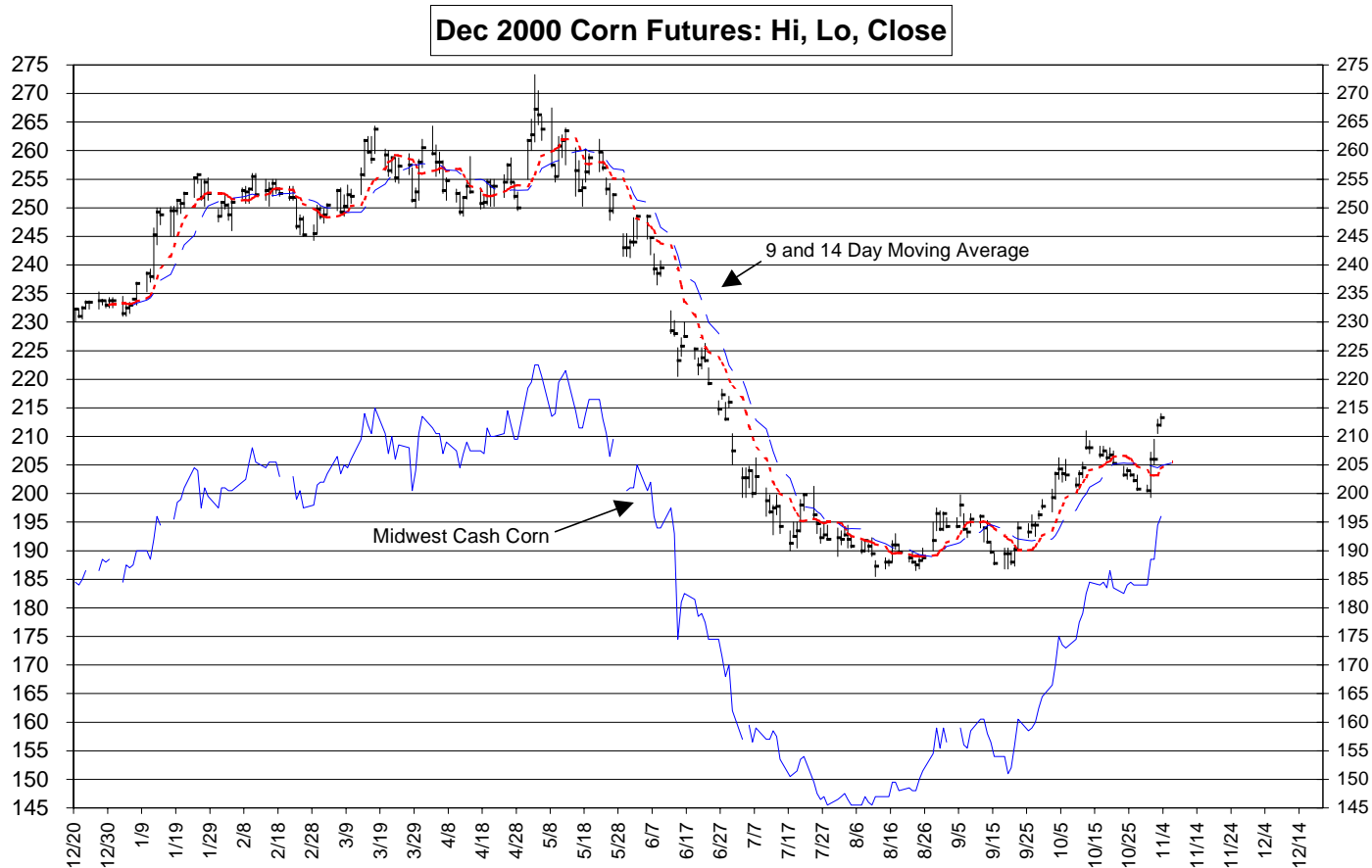
- California's grain production reflects grower advantage in other areas and continues a longer term temporal decline. This year's acreage was slightly higher than last year's, but large increases in dairy numbers easily negated this increase
- California dairy cow numbers remain relatively high resulting in a projected grain production-use deficit of nearly 5.3 million tons. Grain use by poultry and beef cows continues to decline while broiler and dairy cow use continues to increase
- The total 11 western state grain deficit is about 7.85 million tons, down slightly from last year
- Low feed prices will hold increased plantings down, but Mid West growers will do fairly well this year due to the amazing yields they achieved
- Expect more political pressure to return to some form of traditional farm price support programs next year

#### **Another Great Crop Next Year?**

- Growers planted about 2.2 million more acres this year and the big story is average U.S. yields of 141 bushels per acre, combinations which will leave us with the largest ending stocks since 1992
- Exports will increase again this year, a combination of low prices and poor crops in Eastern Europe and Africa
- Unless drought occurs, stocks at the end of this marketing level indicate another year of low prices, but probably not as

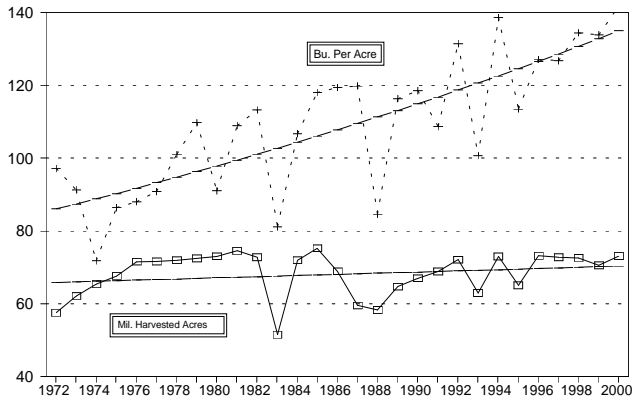
### *Continuing Important Issues*

- Are the net effects of low grain prices detrimental to the California agricultural economy?
- What would be the relative effects of drought on grain users and agricultural producers?
- How should users and growers protect themselves from unfavorable weather, changes in export demand and changes in agricultural policy?
- Which segments are most vulnerable?
- How will comparative advantage shape the future of California livestock and grain industries?
- How is California's competitive advantage in livestock and grain affected by changes now occurring in other western states?



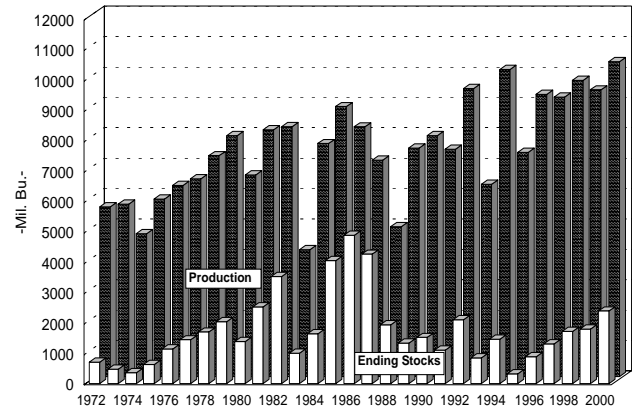
*Long hedgers had their best opportunities to hedge in July, a time when seasonal prices are usually highest, short hedgers best opportunity occurred in late April*

**Corn: Harvested Acres and Yield**  
U.S.: 1972-00



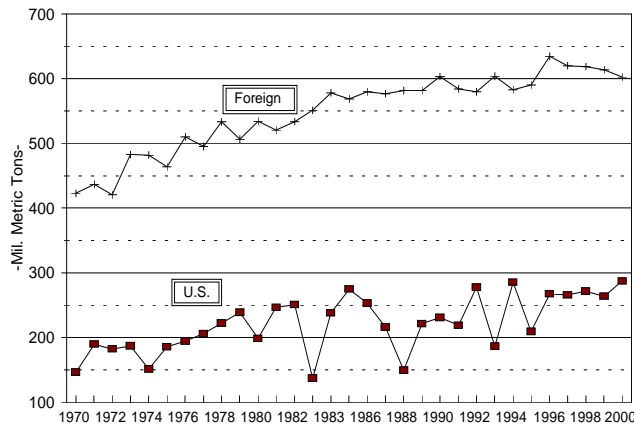
*Average yields of 140 bushels per acre were the third consecutive year above trend*

**Corn: Production-Ending Stocks**  
U.S.: 1972-00



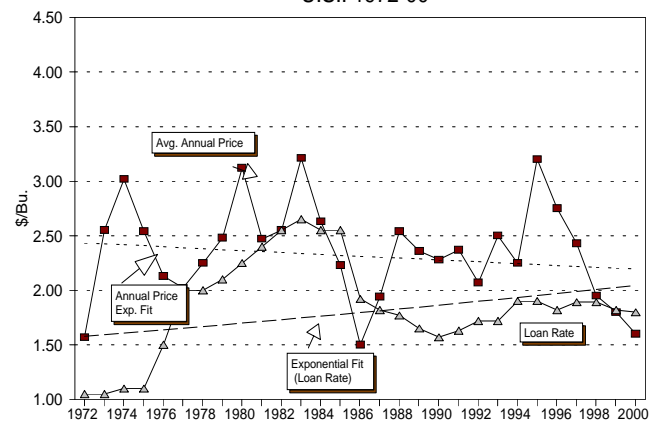
*Ending 2000 corn stocks will represent the fifth consecutive year of growth*

**Coarse Grains: Production**  
Foreign and U.S.: 1972-00



*Foreign coarse grain production declined, a result of poor crops in Eastern Europe*

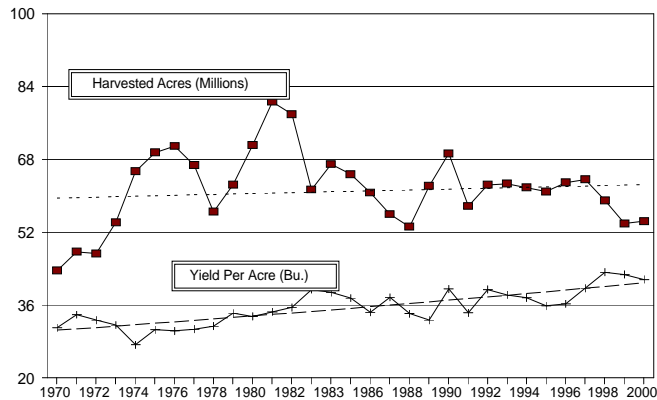
**Corn: Season Avg Price**  
U.S.: 1972-00



*Grain prices dropped to loan rates in mid-summer, traders believe lows have been reached*

## Wheat: Harvested Acres and Yield

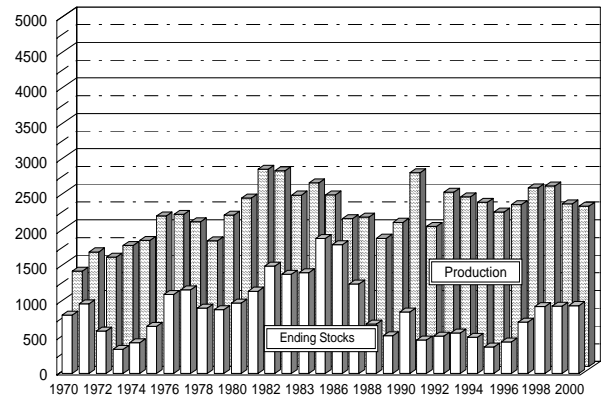
U.S.: 1970-00



*Wheat harvested acres were up a bit this year*

## Wheat: Production-Ending Stocks

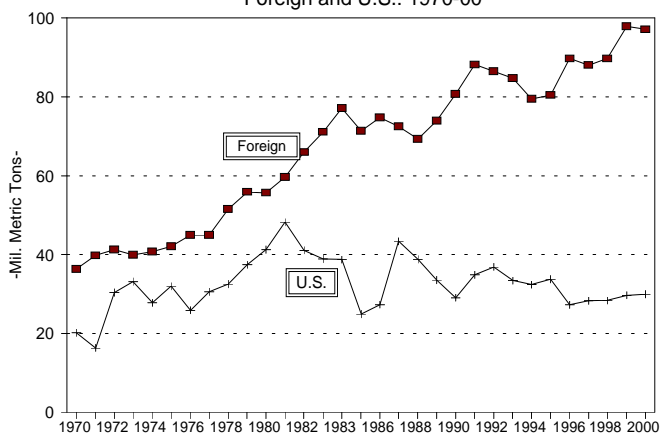
U.S.: 1970-00



*Wheat stocks will be about 950 million bushels, and global production is up a bit*

## Wheat Exports

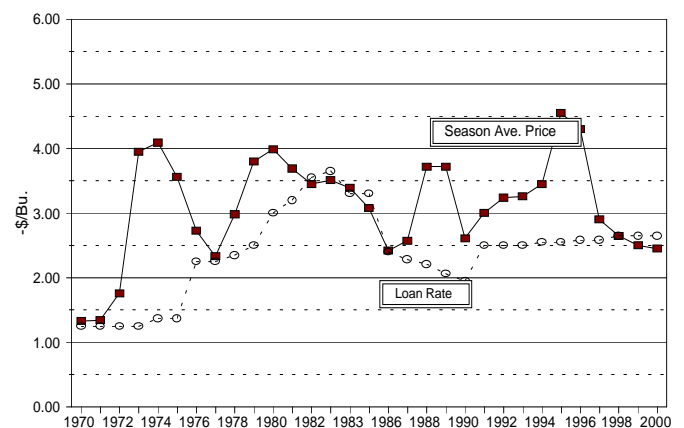
Foreign and U.S.: 1970-00



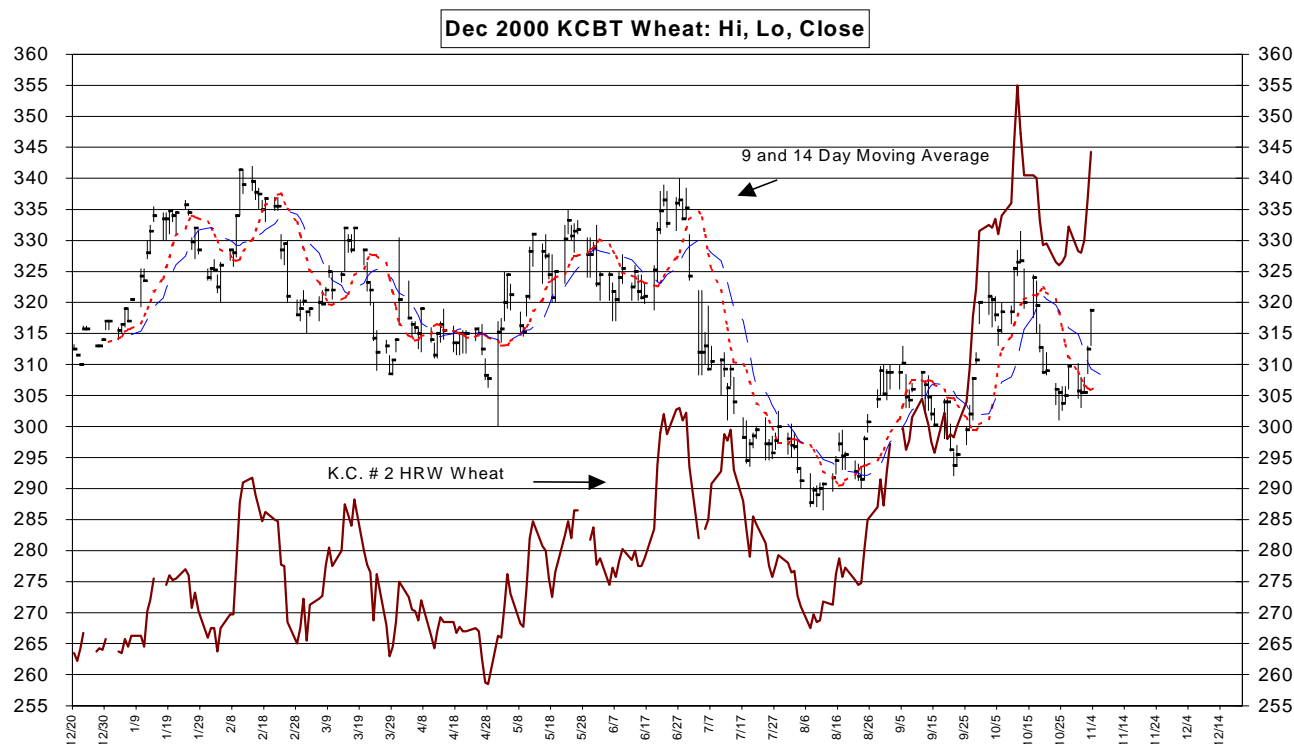
*The U.S. continues to lose export share as a result of the rising tide of world competition*

## Wheat: Market Price and Loan Rate

U.S.: 1970-00

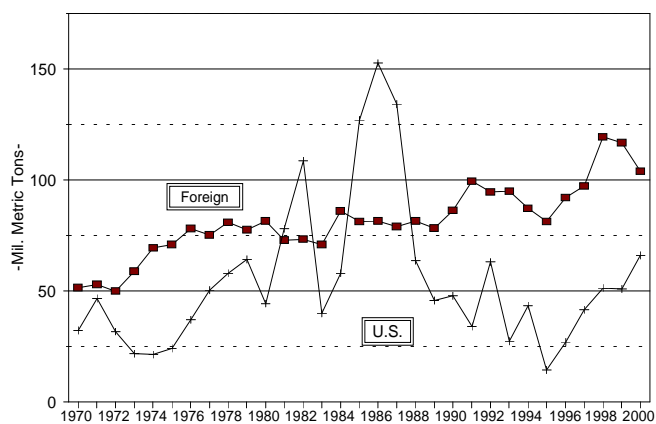


*Wheat prices averaged \$2.65 last year and may be about \$.05-\$.10 lower this year*



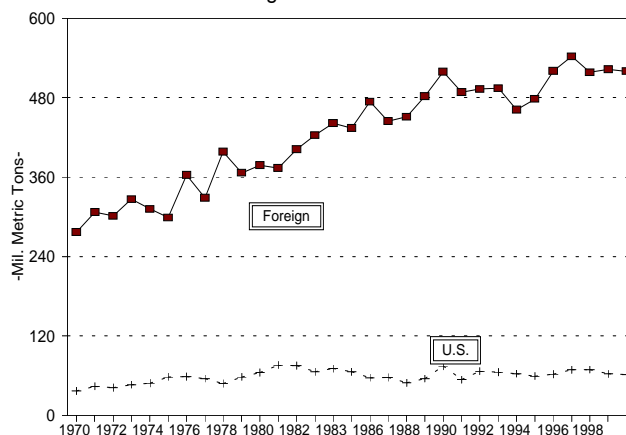
*December wheat futures prices topped at more than \$3.40 per bushel in late June but the cash market has been showing a bit of life in September*

**Coarse Grains: Ending Stocks**  
Foreign and U.S.: 1979-00

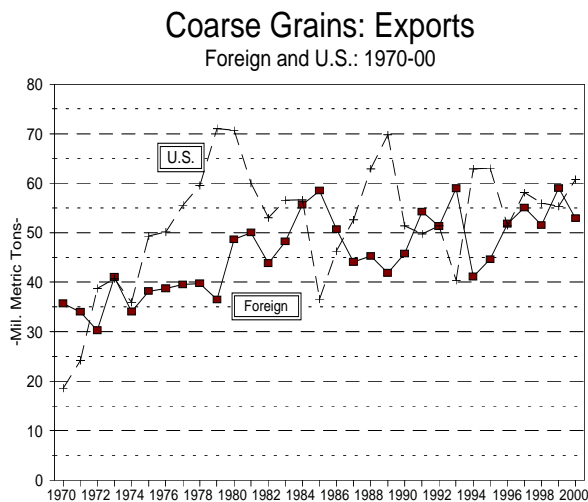


*US coarse grain stocks have increased over the past five years, while foreign stocks have declined in the past two years*

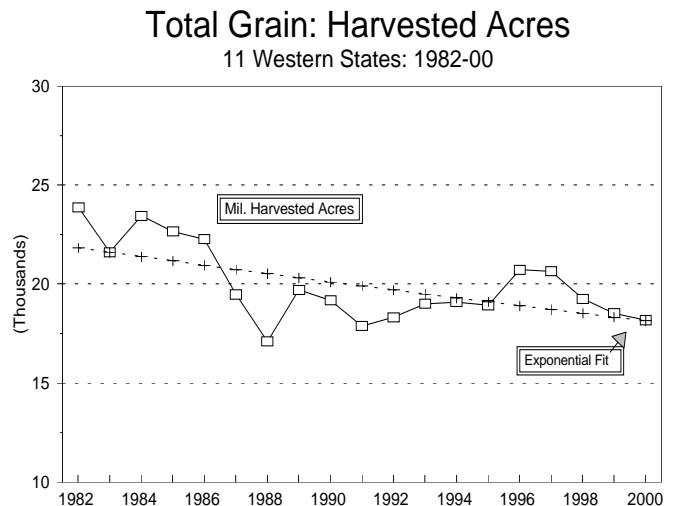
**Wheat: Production**  
Foreign and U.S.: 1970-00



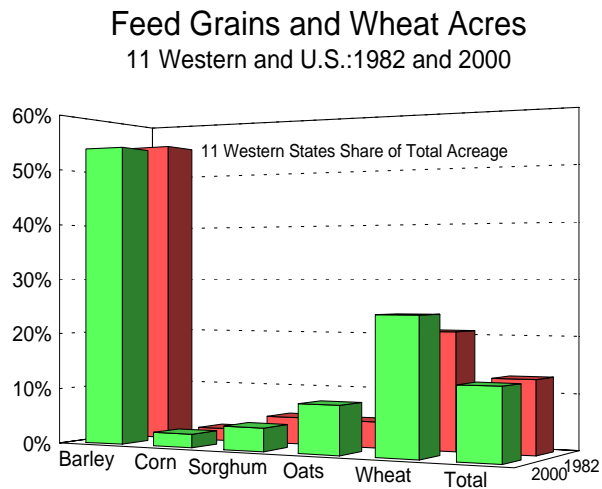
*Foreign and U.S. wheat production relationships remain on the same relative long term trend lines*



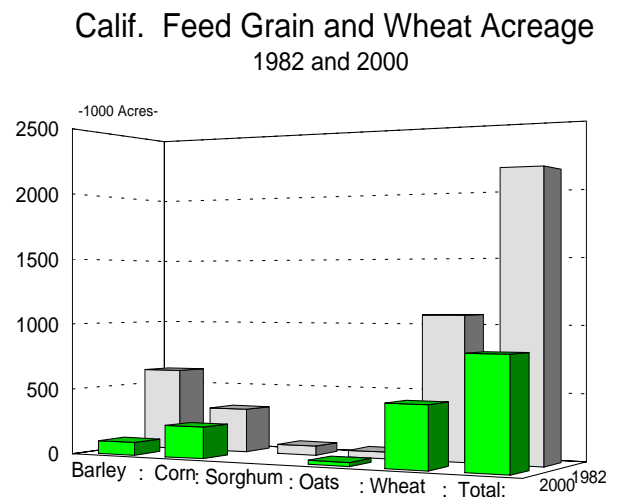
*Lower prices will allow U.S. exporters to move more grain into international markets this year*



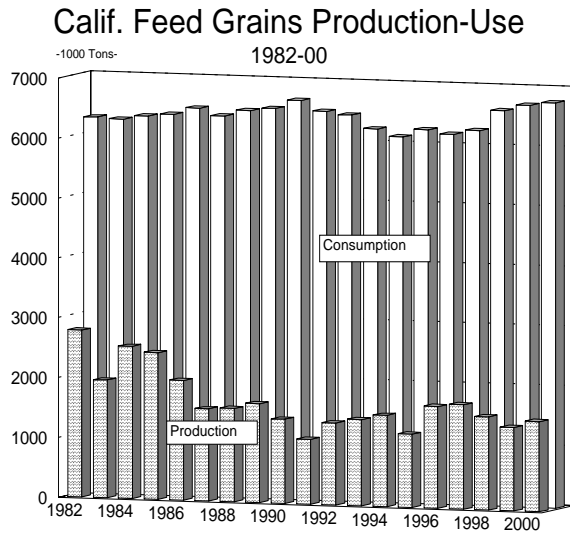
*Western production has been declining and the region is increasingly dependent on imports*



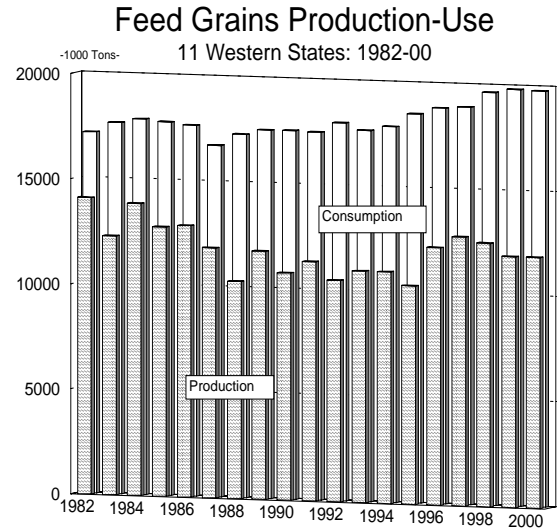
*Western total grain acres' relation to U.S. acres is stable*



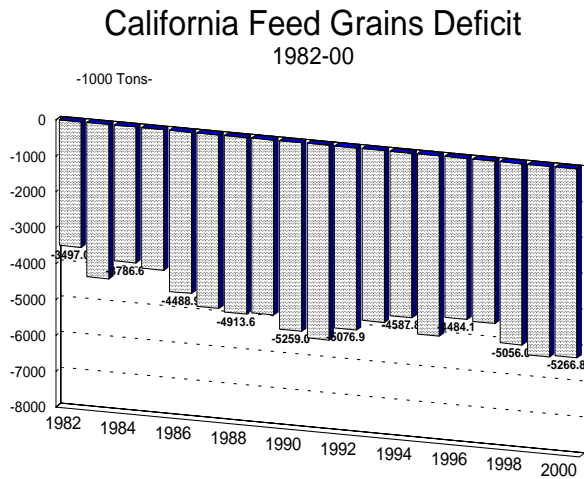
*California coarse grain production was up a bit this year*



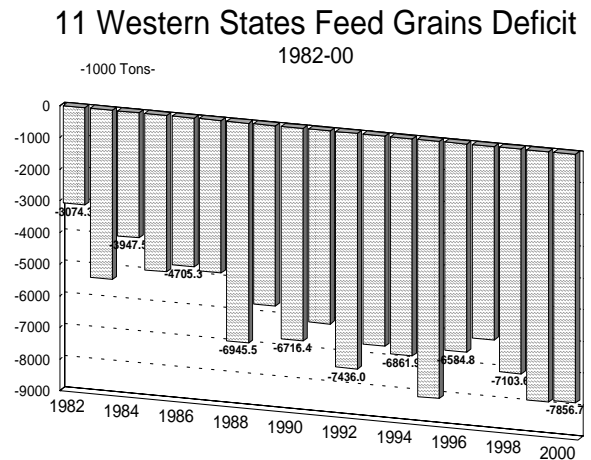
*Grain use in California in 2000 continues its upward growth*



*Most of the aggregate western grain deficit can be attributed to California and New Mexico*



*The California feed grains deficit is about the same this year as last, but both are higher than the preceding four years*



*The western grain deficit is calculated to be about the same as last year's*