INCOME PROSPECTS LOOK GOOD FOR SOFT RED WINTER WHEAT

Much of the recent focus in the crop markets has been on corn and soybeans. However, wheat prices have also been extremely volatile as the result of smaller world production, declining inventories, and less than ideal growing conditions.

Based on USDA estimates, world wheat production reached a record 609 million tons in the 1997-98 marketing year. That crop was 3.6 percent larger than the previous record output of 1990-91. The world crop has been smaller every year since 1997-98. Production declined about 20 million tons in 1998-99, followed by small declines in each of the next three years. Larger declines were experienced in 2002-03 and 2003-04. The 2003-04 crop is estimated at only 549 million tons, nearly 10 percent smaller than the record crop of 6 years earlier. Almost all of the decline in world wheat production from 1997-98 through 2003-04 was the result of a decline in harvested area. Average world wheat yields have been fairly constant for the past 7 years.

In the U.S., harvested acreage of wheat, average yields, and total production declined dramatically in 2002. Production was at a 31-year low. U.S. stocks were reduced to a low level even though exports of U.S. wheat were the smallest in 32 years. Harvested area of U.S. wheat increased sharply in 2003 and was accompanied by a record large average yield, resulting in the largest crop in 5 years. However, smaller crops outside of the U.S. have resulted in a dramatic increase in exports of U.S. wheat this year. For the marketing year ending on May 31, 2004, the USDA projects U.S. wheat exports at an 8 year high of 1.165 billion bushels, 36 percent above exports of a year ago.

The 2003 experience of high yields, strong demand, and relatively high prices was expected to encourage U.S. wheat producers to expand planted acreage in 2003-04. However, the USDA reported that winter wheat producers reduced planted area by 1.57 million acres (3.5 percent) and that spring wheat producers intend to reduce planted area by 665,000 acres (4 percent).

It is difficult to anticipate harvested acreage of wheat due to the large annual variation in the ratio of harvested to planted acreage. For example, harvested acreage in the U.S. represented only about 76 percent of planted acreage in 2002, but that ratio was near 86 percent in 2003. The USDA will release the first objective yield and production forecasts for
the U.S. winter wheat crop this week. The forecast of spring wheat production will be based on planting intentions and trend yield analysis.

In addition to U.S. crop size, the wheat market will be influenced by prospects for production in other major producing regions. In particular, forecasts for those areas that had small crops last year will be very important. These include all of Europe, Russia, Ukraine, China, and India. Prospects for U.S. wheat exports hinge on these forecasts. In general, there is anticipation of a significant rebound in world wheat production in 2004-05.

Wheat prices have traded in a wide range since the fall of 2003 as U.S. and world wheat fundamentals have unfolded. July 2004 futures at Chicago, for example, traded near $3.20 in October, rallied to $4.00 in January and February, declined to about $3.65 in March, moved to $4.30 in early April and are currently near $3.85. Prices are expected to continue to be quite volatile, influenced not only by wheat market fundamentals, but also by movements in corn and soybean prices.

In general, 2004 appears to be shaping up as another year of good profit potential for Illinois wheat producers and for soft red winter wheat producers in general. Illinois producers tend to market about 60 percent of their crop in June and July. Current cash bids in southern Illinois are in the $3.60 to $3.70 range, significantly higher than the cash prices in June and July of 2003. In addition, current prospects point to good yield potential for the 2004 crop. As of early May, 88 percent of the Illinois wheat crop was rated in good or excellent condition. Crop ratings were also generally high in Indiana, Ohio, and other soft red winter wheat producing states.

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