SEPTEMBER 18, 2006

WILL U.S. WHEAT ACREAGE INCREASE?

Planted acreage of wheat in the U.S. has declined steadily since the early 1980s. The relatively high price of wheat currently reflected by the futures market suggests that producers may be interested in increasing planted acreage of winter wheat this fall.

Planted acreage of all classes of wheat in the U.S. reached a peak of 88.3 million acres in 1981-82, with harvested acreage exceeding 80.6 million. A combination of increasing foreign wheat production, competition for acreage from other crops, and expansion of the Conservation Research Program (CRP) resulted in a decline in planted acreage to 65.5 million by 1988-89. High prices in 1988-89 and 1989-90 pushed acreage up to 77 million by 1990-91. Acreage has generally declined since then, with occasional annual increases resulting from high prices, particularly in 1995-96. For the current marketing year, planted acreage totaled only 57.1 million acres, with harvested acreage totaling only 47.1 million.

The U.S. average farm price of wheat (all classes) averaged near $3.40 for the three marketing years from 2003-04 through 2005-06. For the current year, the USDA projects the average farm price in a range of $3.95 to $4.45. If the average is near the midpoint of $4.20, it would be the highest in 10 years, but $.35 below the high of 1995-96. The higher prices of wheat are being generated by a small U.S. crop resulting from reduced acreage and a 4-year low average yield of 38.3 bushels; smaller crops in Australia, Canada, the European Union, Russia, and Ukraine; and an expected sharp draw down in world wheat inventories. World wheat production is pegged at 596.1 million tons, 3.6 percent smaller than last year’s crop and 5.2 percent smaller than the record crop of two years ago. On the other hand, world wheat consumption is expected to total 615.8 million tons, resulting in the lowest year-ending stocks-to-use ratio on record. The previous record low was in 1972-73.

Wheat prices started moving higher in December 2005, with December 2006 futures at Chicago moving from about $3.50 to a high just over $4.60 in May 2006. That contract settled at $3.925 on September 15, 2006. The July 2007 futures contract at Chicago reached a high near $4.80 in May 2006 and settled at $4.27 on September 15, 2006. Futures prices at Kansas City (hard red winter) and Minneapolis (hard red spring) have been higher than prices at Chicago (soft red winter wheat). July 2007 futures settled at $4.4175 and $4,655 at Kansas City and Minneapolis, respectively, on September 15.
While the U.S. and world wheat situation is characterized by a small crop and declining stocks, that is not the case for U.S. soft red winter wheat. The 2006 soft red winter wheat crop was estimated at 380 million bushels, 71 million larger than the 2005 harvest. Production of other classes of wheat are down sharply, particularly hard red winter and durum. Consumption of U.S. soft red winter wheat during the current year is projected to be 76 million bushels (24 percent) larger than consumption last year, but year ending stocks are expected to grow modestly. Consumption of all other classes of wheat is expected to decline by 190 million bushels (10 percent) and year-ending stocks are expected to decline by 145 million bushels.

The abundance of soft red winter wheat in an environment of smaller U.S. and world supplies has resulted in very weak basis levels and lower cash prices for that class of wheat. In the month of July, for example, the average cash price received by Illinois wheat producers was estimated at $3.35, $1.18 below the average price received by Kansas producers. On September 15, the average price in southwest Illinois was $.68 under December 2006 futures. The basis at the same time last year was about -$0.33. The weak basis for soft red winter wheat suggests that futures prices at Chicago have been supported at higher levels than warranted by the fundamentals of that crop. A generally weak basis for that class of wheat may persist until the overall U.S. and world wheat supply increases enough to push futures prices lower.

The generally high level of 2007 crop wheat futures suggests that wheat producers may be motivated to increase acreage this year. Cash bids for harvest delivery of soft red winter wheat, however, reflect a very weak basis and lower cash prices than historically implied by futures prices at current levels. Will soft red winter wheat producers increase acreage in response to relatively high futures prices? Or, will acreage be limited by relatively low cash bids for the new crop? The answer has important implications in an environment where a significant increase in corn acreage appears to be needed in 2007.

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