12-30-1976

What Happened to the Wheat Price?

Art Sogn
South Dakota State University

Follow this and additional works at: http://openprairie.sdstate.edu/econ_comm
Part of the Agricultural and Resource Economics Commons, and the Regional Economics Commons

Recommended Citation
http://openprairie.sdstate.edu/econ_comm/101

This Newsletter is brought to you for free and open access by the Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Economics Commentator by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.
What Happened to the Wheat Price?

Twice within the last decade, 1966 and 1974, farmers have been urged to produce more wheat to feed a hungry world. Twice farmers have responded and have been repaid with sharply lower prices. Under this set of circumstances it is difficult for farmers to understand why their wheat prices dropped from about $5.25 a bushel in 1974 to the present approximate price of $2.60 (in eastern South Dakota).

As is usual in the case of rapidly changing prices, there is more than one reason for the turn-around. The first and primary reason for the lower wheat prices is that we simply have grown too much wheat for the present demand.

We increased our wheat acreage in the United States from 54.9 million acres in 1972 to 80.2 million acres in 1976. We increased actual production from 1,545 million bushels in 1972 to a record 2,147 million bushels in 1976. This represents a 39 percent increase in production without any noticeable increase in exports or domestic use from 1973 to 1976. The result was an increase in carryover supplies which had a direct correlation to price.

The U.S. carryover of one year's crop of wheat to another (the wheat year runs from June 1 to May 31) increased from 247 million bushels in 1973-74 to 430 million in 1974-75, to 664 million in 1975-76, to the projected 1,000 million bushels for 1976-77. This billion bushel carryover is much more than a year's supply for our normal use of wheat in the United States.

The total human consumption of wheat in the United States has changed very little since our population was 162 million people. Our population is now estimated at 216 million. This, of course, indicates a substantial decline in our per capita consumption. We presently consume in the United States only a third of the wheat we raise.

Where it is difficult to increase domestic consumption of wheat then one could suggest increasing exports instead. This is also very difficult for several reasons. First of all the world produced a record crop of wheat in 1976. The 1976 world wheat crop was just over 15 billion bushels compared to 12.9 billion in 1975; about a 16 percent increase. It was 10 percent greater than the previous record of about 13.6 billion bushels in 1973.

Canada also has a record wheat crop which it is aggressively trying to sell in the export market. With the weakening Canadian dollar it is able, because of the "cheaper" currency, to compete extremely well in the export arena.

Argentina has a better than expected crop plus the fact that she devalued her currency also by about 5 percent. This has the effect of giving importers a 5 percent discount for buying Argentine wheat.

Australia devalued its currency by 17½ percent and while it also increased the price of its wheat accordingly, it could use this devaluation as a means to sell more wheat to the export market.

The U.S. has an increased carryover of Hard Red Winter, Hard Red Spring, Durum and White Wheat with only Soft Red Wheat showing a decline.

Durum wheat appears to be in a special supply situation that will take a miracle, or a lot of time, to adjust. We normally have a good domestic market for about 45 million bushels of Durum wheat, and exports will be normally about the 45 million bushels also. Whenever we get more Durum supplies than these markets need, then the price goes
way down as it is now. In 1974 we had production of 79 million bushels of Durum Wheat; in 1975 we had production of 123 million bushels and in 1976 we have a projected production of 135 million. During these years the carryover of Durum was going up from 26 million to 53 million to a projected 96 million bushels this year. In other words, we have enough Durum wheat in the 96 million bushel carryover to take care of one year's domestic use plus a normal amount for export - even if we don't raise a bushel of Durum next year.

It is difficult for us to comprehend the record production of wheat in the world and in the United States when South Dakota had a 37 percent drop in production. However, if we consider only the three states of South Dakota, North Dakota and Minnesota, we see better than a 10 percent increase in wheat production for 1976 over 1975. North Dakota had a 9 percent increase (23.4 mil. bu. increase), Minnesota had a 47.7 percent increase (42.1 mil. bu. increase) and South Dakota had a decrease of 23.1 million bushels for its 37 percent decrease.

What are reasonable alternatives to the present wheat supply and demand situation?

Art Sogn, Extension Economist - Grain Marketing

(3700 printed at an estimated cost of 1¢ each for educational purposes.)