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Wheat Situation and Outlook Yearbook

Gary Vocke and Edward Allen

Abstract

The projected 2006/07 season-average price received by farmers is \$4.20 to \$4.30 per bushel, sharply above last year's \$3.42 per bushel due to the severe drought on the Great Plains and the run-up of corn prices late in 2006. Increased winter wheat plantings driven by high wheat prices last fall and a return to trend yields are expected to boost U.S. wheat production in 2007/08 (Agricultural Outlook Forum 2007). With high corn prices, wheat feeding is expected to expand in 2007/08. Wheat exports are also expected to be higher, but with substantial competition from supplies in competitor exporting countries, export growth will be limited allowing ending stocks to rise modestly in 2007/08.

Increased production prospects in the United States, Ukraine, Russia, and the European Union (EU-25) are expected to offset less favorable prospects elsewhere, leaving global wheat production up significantly in 2007/08. Global food use is likely to grow slowly, mostly due to population growth. High feed grain prices and increased wheat production in the United States, EU-25, and former Soviet Union (FSU-12) are expected to boost wheat feed use.

Keywords: Wheat, United States, world, production, feed, consumption, supply, use, stocks, price

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Summary

U.S. 2007/08 Wheat Supplies Are Expected To Increase More Than Use

U.S. 2007/08 Forecast

U.S. wheat supplies for 2007/08, as forecast at the Agricultural Outlook Forum 2007, are expected to be 244 million bushels above 2006/07 because of expanded acreage and higher yields. High wheat prices in the fall of 2006 created expectations of high prices for 2007-crop winter wheat. Responding to higher expected returns, producers sowed 3.5 million more acres last fall as compared to fall 2005 and 3.7 million more acres than in the fall of 2004. Planted area in 2004 was the smallest since 1971. Yields are projected up for 2007/08 with a return to more normal weather after last year's drought.

When expected spring wheat plantings are added, the total planted area for 2007/08 is forecast to be 60 million acres, 2.7 million acres above 2006/07. The expected year-to-year increase in production of 358 million bushels to 2,170 million bushels more than offsets the 99-million-bushel decrease in carryin stocks to 472 million bushels, the lowest since 1997/98.

Total use for 2007/08 is projected up 210 million bushels from 2006/07 to 2,236 million bushels. This forecast is largely influenced by high prices generated by reduced wheat production worldwide in 2006/07 because of weather problems in the United States and elsewhere in the world and rising U.S. ethanol demand for corn.

The high U.S. wheat prices and the higher foreign production projected for the 2007/08 marketing year are expected to limit United States exports to 925 million bushels. This is only 50 million bushels higher than projected in 2006/07 despite an expected recovery of U.S. wheat production in 2007/08. Wheat feeding in the U.S. is expected to increase 155 million bushels year-to-year as the expected expansion of U.S. ethanol production raises the price of corn relative to wheat prices. The shifting corn and wheat price relationship favors wheat feeding over exports, especially with larger wheat supplies expected in other major exporting countries.

Food use of wheat is expected to increase in 2007/08, but the increase will still be slower than population growth. The sharp increase of consumer interest in low-carbohydrate diets starting in 2000 has slowed. Per capita all-wheat flour use dropped from 146.3 pounds in 2000 to 133.5 pounds in 2006. Per capita use dropped 9.6 pounds from 2000 to 2002, but only 0.8 pounds from 2004 to 2006. Notably, per capita durum-flour use rose in both 2005 and 2006 after declining from 2002 through 2004. Expected supply and use changes for 2007/08 result in ending stocks only 34 million bushels above 2006/07. The expected season average price is \$4.30 per bushel, which would match the second-highest on record, achieved in 1996/97. The highest was \$4.55 per bushel in 1995/96.

World wheat use is expected to increase in 2007/08. Global food use is likely to grow slowly, mostly due to population growth. High feed-grain prices and increased wheat production in the United States, EU-25, and the former Soviet Union (FSU-12) are expected to boost wheat feed use. Increasing global use is expected to support prices. With global beginning stocks projected at their lowest level since 1982/83, growing conditions in 2007 will be crucial to determining

available supplies and the size of any change in stocks. Through early March 2007, the weather across the Northern Hemisphere has been mixed for growing wheat, but the early outlook for crops in major exporting countries is good.

U.S. 2006/07 Situation and Outlook

Low U.S. carryin stocks for 2007/08 are the result of sharply lower 2006 production because of a severe drought in the U.S. Great Plains. The drought reduced both yields and harvested area, particularly in the Southern Plains. Production of hard red winter (HRW) wheat and hard red spring (HRS)wheat were down 248 million bushels and 34 million bushels, respectively, year-to-year. In Texas, wheat production was the lowest since 1971 and the area harvested the lowest since 1925. Oklahoma's production was the lowest since 1971 and harvested area the lowest since 1955.

All wheat production totaled 1,812 million bushels in 2006, 293 million bushels or 14 percent below 2005. Harvested area was 46.8 million acres, down 7 percent from 2005/06 even though planted area rose slightly. The U.S. average yield is 38.7 bushels per acre, down 3.3 bushels from 2005. Durum had the lowest harvested area since 1961 and the lowest production since 1988.

U.S. domestic wheat use in 2006/07 is projected to be about the same as in 2005/06 as slightly higher food use offsets lower feed and residual use. U.S. exports for the 2006/07 marketing year are expected to be 875 million bushels, 134 million bushels below 2005/06 because of relatively high domestic wheat prices. These high prices can be attributed to both lower U.S. production, reduced foreign production prospects, and support provided by high corn prices late in 2006. Corn prices were bid up as 2006 corn area and yield fell below expectations and as concerns rose that not enough land will be planted to corn in 2007 to meet the booming ethanol demand for corn. Smaller U.S. wheat exports drop the projected U.S. share of the world export market from 24 percent in 2005/06 to 22 percent for the current marketing year.

U.S. exports of hard wheats in early 2006/07 were slowed relative to the previous marketing year while soft-wheat exports exceeded the previous year's pace. The drought in the Southern and Central Plains caused hard-wheat prices to rise early in the marketing year, slowing their exports. Relatively abundant supplies of soft wheats held down their prices until the late fall when news of the extent of the Australian drought and soaring corn prices raised international prices. The durum export pace to date is slightly up from last year but is expected to face increasing competition from the large Canadian supplies the remainder of the marketing year.

Projected all-wheat exports for 2006/07 are 134 million bushels below 2005/06. Exports for 2006/07 for HRW, HRS, and durum are down 165 million bushels, 32 million bushels, and 17 million bushels, respectively, from 2005/06. Projected 2006/07 exports for soft red winter (SRW) wheat and white wheat are up year-to-year by 54 million bushels and 25 million bushels, respectively.

The ending stocks of wheat for 2006/07 are down nearly 100 million bushels from 2005/06. The sum of the hard-wheat ending stocks is about 300 million bushels, the lowest since 1995/96. The ending stocks of the soft wheats are a more typical total; however, white-wheat ending stocks are very low as lower area and yields reduced production. Durum wheat ending stocks are also at a historic low, mostly due to a

one-third reduction in plantings from 2005/06 because of very low durum prices in the spring of 2006. The season average price for all wheat for 2006/07 is expected to be between \$4.20 and \$4.30 per bushel, which is substantially higher than in recent years.

Global Situation and Outlook

Worldwide, key wheat-producing countries had lower production in 2006/07 than in 2005/06 and these shortfalls contributed to higher world wheat prices. Production in the European Union (EU-25) and Russia were down 5 percent and 6 percent, respectively. Production is down in the EU-25 because of high temperatures in July and in Ukraine and Russia because of reduced planted area. Importantly, Australian production is sharply reduced due to a very severe drought, which lowered output 58 percent. U.S. soft white wheat (SWW) benefited from the Australian shortfall as its price rose sharply with respect to SRW. In the first half of calendar 2006, SWW prices were as much as \$.33 per bushel below SRW prices, but by September SWW prices were \$.56 per bushel over SRW.

Of the major exporters, Canada and Argentina had good production in 2006/07. While Argentina's expected trade year exports are up 20 percent, Canadian exports are projected to be up 31 percent year-to-year. In addition to a good production year, other events favorable for Canada's exports was the ending of the U.S. antidumping and countervailing duties on Canadian HRS imports and an even weaker currency than the U.S. dollar.

On the import side, India is dramatically increasing imports to the highest in 30 years, due to tight stocks and increasing consumption. This follows 6 years of being a net exporter. World imports for 2006/07 are 109 million metric tons (mmt), nearly the same as the two previous marketing years, as reductions in several countries' imports offset the increase for India.

Global world use for 2006/07 is down 1 percent year-to-year with smaller production and higher world wheat prices. The decline was mostly due to a 3-percent decline in feeding, much of which occurred in the EU- and Russia. Wheat feeding in the EU-25, which accounts for over half of the world's wheat feeding, is down because feed grain prices, particularly barley, were more price competitive.

Overall, world production has dropped 2 years in a row from a recent peak of 629 mmt in 2004/05 to 593 mmt for 2006/07. World ending stocks for 2006/07 are forecast at the lowest level since 1982.

Outlook for 2007/08

Winter Wheat Acreage Is Up

Winter wheat plantings are reported up 3.5 million acres from 2006 plantings, and spring wheat (including durum) plantings are expected to be down from last year. The U.S. Department of Agriculture will release its first official forecast of 2007 production on May 11, 2007.

Winter Wheat Planted Acres Are Up 9 Percent With Higher Prices

Winter wheat seeded area for 2007 is expected to total 44.1 million acres, up 3.5 million acres from 2006 according to *Winter Wheat Seedings* and up 3.7 million acres from the 2005 planted area which was the smallest seeded area since 1971 (fig. 1). Seeding began last August and was slightly behind the 5-year average pace because of a lack of moisture in the southern Great Plains during September and much of October. Precipitation during mid-October relieved moisture concerns somewhat in major producing areas. Warm dry conditions in November allowed seeding to advance at normal pace during the month. Nearly all of the U.S. acreage was seeded by December 1 with the exception of some intended acres in the Southeast and California. The winter-wheat crop condition at the end of November was rated at 53 percent good to excellent compared with 52 percent last year.

Hard red winter (HRW) wheat-seeded area is 31.9 million acres, up 9 percent from 2006. Acreage was above last year's level in all the States in the HRW-growing areas of the Great Plains and Rocky Mountain regions except Utah where acres are unchanged from last year. Strong wheat prices encouraged many producers to increase their acres. Although dry weather prevailed in many areas of the Great Plains, producers planted with anticipation of moisture.

Figure 1

Winter wheat planted area up for 2007¹

Million acres



¹2007 preliminary.

Source: USDA, National Agricultural Statistics Service, *Quick Stats*.

Soft red winter (SRW) area, at 8.3 million acres, is up 13 percent from last year. Large acreage increases occurred in most SRW-growing States due largely to strong prices and ideal planting and germination conditions. Acreage was above last year's level in all States in the southern portion of the SRW-growing area. The acreage increase was most notable in the Delta due to ideal planting conditions. Wet fall weather in the northern SRW-growing areas delayed harvest of row crops and prevented planting of winter wheat. The States most affected by the wet fall were Indiana, Kentucky, and Ohio, where planted area declined from last year. West Virginia and Michigan showed no change from last years levels.

White winter wheat-seeded area totals nearly 3.9 million acres, up 2 percent from 2006. Crop conditions varied across the three Pacific Northwest States (Idaho, Oregon, and Washington) throughout the fall. Washington's planted acreage is unchanged from 2006 as seeding began late with some early concerns about moisture supplies. However, by the end of October, virtually all fields had been seeded and 79 percent of the acreage had emerged. Some fields in the central area grew taller than normal due to warm temperatures and good moisture. In Idaho, late rains resulted in good emergence and stand development.

Durum wheat seedings in Arizona and California for 2007 harvest are estimated at 180,000 acres. This total is up 24 percent from their 2006 level. Planted acreage is up 5,000 in Arizona and up 30,000 in California due mostly to good prices. No major problems with the crop have been reported.

Hard Red Winter Crop Conditions Are Improved In 2007

In the final *Crop Progress* report of 2006, for the week ending November 26, 2006, 94 percent of the winter wheat crop had emerged, the same percent as in 2005 at the same time and in keeping with the 5-year average of 93 percent. Fifty-three percent of the winter wheat crop was rated good to excellent going into dormancy in 2006. This rating is slightly higher than the 52 percent in 2005. Nine percent of the 2007 crop rated poor to very poor going into dormancy. The 2006 crop went into dormancy with 11 percent rated poor to very poor compared with 15 percent last year. Crop conditions have improved substantially since that time as precipitation fell throughout the winter across most of the wheat area.

HRW wheat crop conditions improved into the spring of 2007 in both Kansas and Oklahoma compared with the last National Agricultural Statistics Service report in November 2006. Kansas reported that only 7 percent of its winter wheat crop was rated poor to very poor at the beginning of March and that 64 percent was rated good to very good. The Kansas ratings for November last year were 8 percent poor to very poor and 51 percent good to very good. Oklahoma reported that 14 percent of its winter wheat crop was rated poor to very poor at the beginning of March and that 58 percent was rated good to very good. The Oklahoma ratings for November last year were 24 percent poor to very poor and 42 percent good to very good.

Nebraska's situation this spring is mixed, while conditions have slipped slightly in Texas. Nebraska reported that only 9 percent of its winter wheat crop was rated poor to very poor at the beginning of March and that 59 percent was rated good to very good. The Nebraska ratings for November last year were 4 percent poor to

very poor and 60 percent good to very good. Texas reported that 20 percent of its winter wheat crop was rated poor to very poor at the beginning of March and that 42 percent was rated good to very good. The Texas ratings for November last year were 14 percent poor to very poor and 44 percent good to very good.

Wheat Supplies Are Expected To Rise More Than Use in 2007/08

Increased winter wheat plantings driven by high wheat prices last fall and a return to trend yields are expected to boost wheat production in 2007/08. With high corn prices, wheat feeding is expected to expand in 2007/08. Wheat exports are also expected higher, but with substantial competition from supplies in competitor exporting countries, export growth will be limited, allowing ending stocks to rise modestly in 2007/08.

The early outlook for U.S. wheat supply and use for 2007/08 were released at the Agricultural Outlook Forum 2007 on March 2, 2007. The first official United States, world, and country-specific supply and use projections for 2007/08 will be in the May 11, 2007, World Agricultural Supply and Demand Estimates (WASDE) report when the National Agricultural Statistics Service (NASS) publishes the first forecast of winter wheat production. The following projections are from the Agricultural Outlook Forum 2007 and are based on NASS' January 12, 2007, *Winter Wheat Seedings* report and analyses by members of the Interagency Commodity Estimates Committee for wheat.

Ethanol Demand Is Expected To Impact Wheat in 2007/08

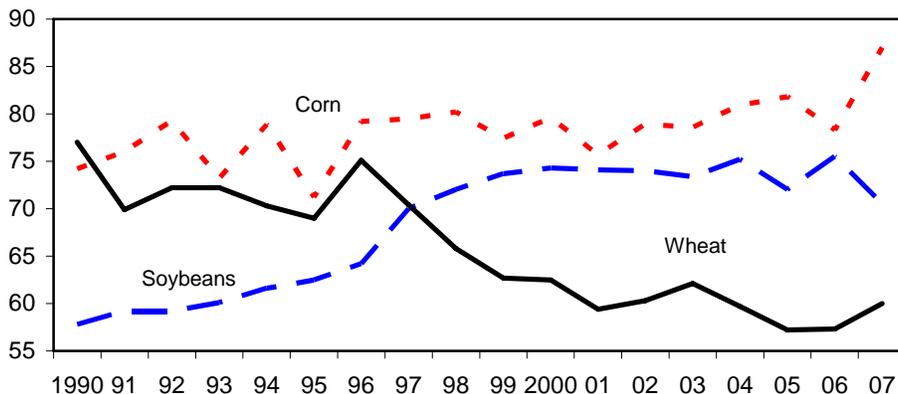
The outlook for wheat for 2007/08 is highly conditioned by expectations for U.S. corn market. Corn use for ethanol production in 2007/08 will be driven by the continued expansion in ethanol production capacity. Ethanol corn use for 2007/08 is projected at 3,200 million bushels, up nearly 50 percent from the current year projection of 2,150 million. At this level, 2007/08 ethanol corn use will account for 26 percent of total corn use, up from a projected 18 percent for 2006/07.

Rising ethanol corn demand is expected to lead to higher corn prices which, in turn, are expected to drive corn plantings to their highest level in more than 60 years and to support wheat prices at the highest levels in several years. This year's forecast increase in corn planting is expected to result from a shift away from soybean planting, particularly in the traditional Corn Belt where corn-on-corn plantings are expected to boost corn acreage (fig. 2). Corn area is also expected to gain from shifts from spring wheat in the Northern Plains and from cotton and rice in the South. The impact of corn area expansion will be better understood when producer planting intentions are reported in the March 30, 2007, *Prospective Plantings*.

Figure 2

Projected wheat acreage in 2007/08 up from a year ago

Million acres planted area



Note: 2007/08 projection, Agricultural Outlook Forum, March 2, 2007.
 Source: USDA, National Agricultural Statistics Service.

Wheat Area Is Expected To Be Up In 2007

Wheat planted area in 2007 is expected to increase 2.7 million acres to 60 million acres. Winter wheat seeding is reported at 44.1 million acres, up 3.5 million acres from 2006. HRW area is expected to expand in all major producing States, while a wet fall in the eastern Midwest moderated the increase in SRW plantings. Gains in winter wheat will be partially offset by smaller spring wheat plantings given strong prices for competing crops in the Northern Plains. Wheat harvested area is also expected to recover following last year's increased abandonment during the 2006 drought. Current winter wheat conditions and moisture levels in the Southern and Central Plains are much better than a year ago.

Wheat Supplies Are Projected Up for 2007/08

Wheat production in 2007 is expected to increase 20 percent to 2,170 million bushels, driven by a rebound in yield following last year's drought in the Great Plains and larger harvested area. Larger production more than offsets lower beginning stocks and a decline in imports, leaving total supplies at 2,742 million bushels, up 10 percent from 2006/07.

The national average yield is projected at 42.5 bushels per acre based on trends by major class for 1985-2006. This is up 3.8 bushels from 2006 when yields declined for all classes of wheat except SRW. Higher harvested area reflects a 5-percent rise in planted area and an expected increase in the harvested-to-planted ratio (based on a 10-year average). Current moisture conditions are generally favorable for HRW wheat areas, particularly when compared with dry conditions a year ago. Severe cold in February has been a concern in some Midwestern SRW wheat areas with little or no snow cover.

Imports are expected to decline with reduced shipments from Canada. Soft wheat imports could shrink because of sharply lower soft wheat production in eastern Canada, and hard wheat imports could decline slightly as a result of higher U.S. hard wheat production.

Total Wheat Use Is Projected Up for 2007/08

Total use of wheat for 2007/08 is projected at 2,236 million bushels, up 10 percent from 2006/07. Both domestic use and exports are expected to rise year-to-year.

Domestic wheat use is expected to increase 14 percent to the highest level in 7 years, driven by a doubling of feed and residual use. Larger crops of HRW and SRW wheat and much higher corn prices relative to wheat, especially during the summer quarter, will promote wheat feeding. A larger crop is also expected to increase residual disappearance use including handling losses. Food use is expected to continue to increase at a rate that is slower than population growth, leaving per capita flour use down slightly.

Despite much larger expected production in 2007/08 compared with 2006/07, U.S. wheat exports are expected to rise only 6 percent to 925 million bushels in 2007/08. With tight supplies and low stocks expected in most major competitors entering the summer of 2007, the United States will likely have a window of opportunity for large new crop sales. However, as new crop supplies become available in Europe and the Black Sea region, the United States could face very strong competition in key Mediterranean markets. High prices at planting encouraged expanded winter area by many of these competitors, and with a return to better yields, their exportable supplies could be much larger. In addition, high U.S. corn prices will likely support U.S. wheat export prices and hurt the competitiveness of U.S. wheat in the global market.

Ending Stocks Are Expected Up for 2007/08

Larger supplies more than offset increased use in 2007/08, leaving ending stocks up 34 million bushels. The projected ending stocks-to-use ratio declines slightly to 22.6 percent, from a projected 23.3 percent in 2006/07. The price received by producers is expected to average \$4.30 per bushel, up 5 cents from the midpoint of the price range for 2006/07.

Foreign Wheat Production Is Expected to Increase in 2007/08

Wheat prices during the fall of 2006 in many countries were high, supported by tight wheat supplies and strong prices for corn. Planting conditions for winter wheat across the Northern Hemisphere were generally favorable and much better than a year earlier in Ukraine and Russia. Except for China and Canada, winter wheat-planted area generally increased. Assuming trend yields based on normal weather, average global wheat yields will increase in 2007/08. Winter growing conditions have been unusually mild, especially across Europe; however, winter rains have been below normal across North Africa. Increased production prospects in the United States, Ukraine, Russia, and the European Union (EU-25) are expected to offset lower production in countries where growing conditions have been less favorable, leaving global wheat production up significantly for 2007/08. The increase in global production is expected to offset lower beginning stocks, supporting prospects for some increase in global wheat supplies in 2007/08. World wheat use is expected to increase in 2007/08. Global food use is likely to grow, mostly due to population growth. High feed grain prices and increased wheat production in the United States, EU-25, and the former Soviet Union (FSU-12) are expected to boost wheat feed use. Increasing global use is expected to support prices.

Global Wheat Production Expected to Increase in 2007/08

World wheat production for 2007/08 is projected to increase. Assuming trend yields, increased wheat production prospects in India, the EU-25, Russia, Ukraine, Australia, and the United States are expected to more than offset decreases in China, Canada, and North Africa. However, growing conditions over the next several months will largely determine the size of the increase in global production.

The U.S. Department of Agriculture will issue its first global and country-specific supply and use projections for 2007/08 on May 11, 2007. Winter wheat was planted in the Northern Hemisphere last fall, when global wheat prices were relatively high, supported by tight supplies and increasing prices for feed grains. The relative wheat price was attractive, but the EU-25 policies supporting biodiesel use boosted oilseeds prices, and encouraged rapeseed plantings. Also, several of the largest wheat-producing countries have producer prices that are not closely linked to world prices (e.g., China, EU-25, and India).

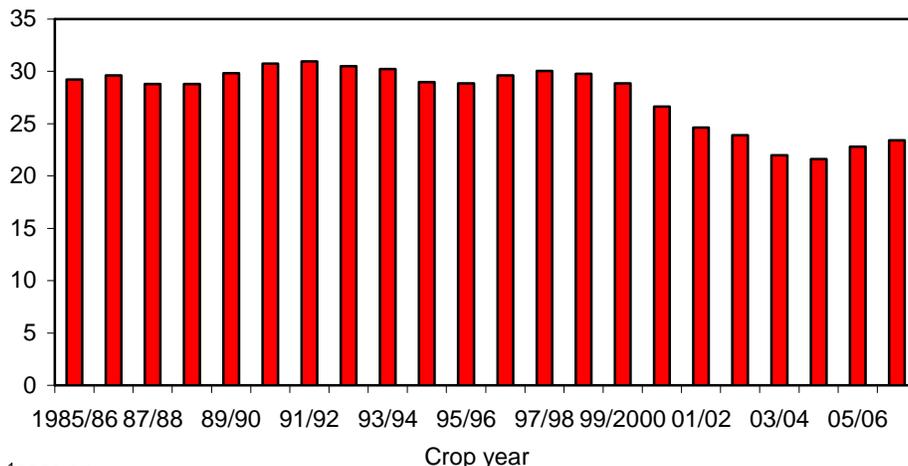
Yields of winter wheat in the Northern Hemisphere will depend on weather during the coming months. Moreover, spring wheat in the Northern Hemisphere and wheat in the Southern Hemisphere have not yet been planted, making projections about those countries' area and yields highly speculative.

Global wheat production dropped 27.5 million tons to 593.1 million tons in 2006/07, mostly the result of adverse weather. Global average yield was somewhat less than in the previous 2 years, but the weather-induced area decline was more significant, with prevented plantings especially across Ukraine and Russia, and a reduced harvested-to-planted ratio in several countries. As of the beginning of March 2007, wheat growing conditions are much better than a year ago in several key countries.

Figure 3

China harvested area reverses trend¹

Million hectares



¹2006/07 projected.

Source: USDA, National Agricultural Statistics Service, *Quick Stats*.

In the EU-25, the world's largest wheat producer (117.1 million tons in 2006), winter wheat area planted for 2007/08 is up slightly, but with normal weather, area harvested and yield are expected to increase significantly. The winter has been exceptionally mild across much of Western Europe and wheat growth has reportedly been abundant, but, with the critical spring growing season still ahead, it is too early to forecast anything above trend yields. However, EU-25 yields fell short of trend last year and a return to trend implies increased production prospects.

China is the second-largest producer of wheat (103.5 million tons in 2006). A year ago, Government incentive payments and strong prices boosted area planted, and favorable weather resulted in record yields. In the fall of 2006, wheat prices were not as attractive compared with other crops and wheat area planted was reduced slightly (fig. 3). Since yields were well above trend in 2006, a return to trend yields in 2007 would produce a crop lower than that of a year ago.

The FSU-12 produced 86 million tons of wheat in 2006, but output is expected to increase significantly in 2007. A year ago, poor planting conditions and severe winter weather hurt winter wheat across Ukraine and Russia. In the fall of 2006 planting conditions were generally favorable, and Ukraine reported a significant increase in seedings. Temperatures have been exceptionally mild this winter and the crop is in much better condition than it was a year ago. Assuming trend yields for 2007 would imply a modest increase in FSU-12 average yields compared with the previous year. A significant increase in winter wheat production is expected in Ukraine and Russia. Spring wheat production in Russia and Kazakhstan had good yields a year ago, so a return to trend may reduce spring wheat production, offsetting some of the increase in winter wheat production. Still, FSU-12 wheat production is expected to increase in 2007.

The 2007/08 wheat crop is harvested first in South Asia, beginning in India (the world's fourth-largest producer, with 69.4 million tons in 2006) in March, and soon after in Pakistan. Prices for wheat were very attractive in India in the latter part of

2006, and the area planted was reported up. Growing conditions over the winter have been much better than a year earlier and yield prospects are normal, implying an increase in production in 2007. Moreover, beginning wheat stocks are expected to be up slightly, so India's wheat supplies are expected to increase in 2007/08, reducing the need to import. Growing conditions have been favorable in Pakistan, and with relatively weak cotton prices, wheat area is up slightly, so some increase in production is expected.

In North Africa, winter wheat production prospects are much worse than a year ago, especially in Morocco. Drought this winter has hurt wheat-production prospects in contrast to a year earlier when Morocco had record yields. The critical growing period for Northwest Africa's winter wheat occurs during March and April. Planting and winter growing conditions across the Middle East were generally normal and assuming trend yields, wheat production is expected to be little changed in 2007/08. Much will hinge on timely spring rains.

Spring wheat producers in the Northern Hemisphere and wheat growers in the Southern Hemisphere have not yet planted wheat for harvest in 2007. This includes major exporters such as Canada, Australia, Argentina, and Kazakhstan.

In Canada, area for the relatively small winter wheat crop planted in Ontario dropped more than 20 percent due to wet planting conditions and delays harvesting summer crops. Spring wheat area in the Western Prairie Provinces is expected to decline modestly as rapeseed and coarse grains are expected to increase. Canada's area decline is expected in western red spring wheat because durum prices have been relatively robust. Trend yields in 2007 would be similar to a year earlier, so the reduced area is expected to reduce production. Australia is expected to rebound from devastating drought and have a much larger wheat crop in 2007/08.

Tight World Beginning Stocks Are Expected in 2007/08

Global wheat stocks for the end of 2006/07 are forecast at 121.2 million tons, the lowest in 25 years. This is down 26.2 million tons from a year earlier. The largest decline is expected in the EU-25, down 8.1 million tons to 12.8 million, followed by Australia, down 7.1 million to 2.6 million. Most countries are expected to have reduced beginning stocks in 2007/08 with the notable exceptions of China and India. China, with large production in 2006 and declining per capita wheat food use, is expected to have a modest increase in beginning stocks for the first time in 7 years. India has bolstered beginning stocks for 2007/08 with increased imports during 2006/07.

Combined beginning stocks of the major exporters (the United States, Canada, EU-25, Australia, and Argentina) are expected to be down 21.3 million tons in 2007/08, to 35.2 million. Thus major exporters' beginning stocks for 2007/08 are likely to provide very little buffer, amplifying the price effect of any production changes. In the FSU-12 wheat stocks are forecast to begin 2006/07 down 1.4 million tons to 13.7 million, so these exporting countries will have to rely more heavily on production for export supplies in 2007/08.

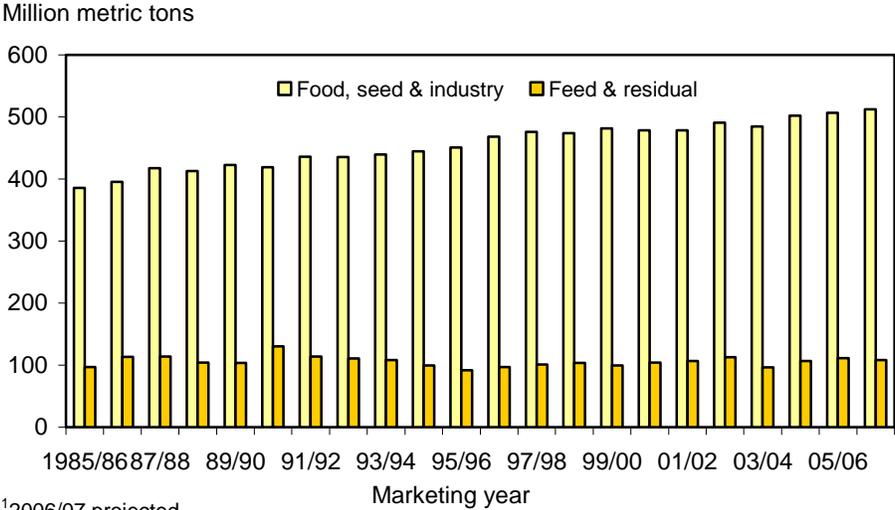
With a 26-million-ton drop in beginning stocks year-to-year, world wheat supplies are expected to remain relatively tight in 2007/08, supporting prices. World wheat

supplies in 2007/08 will depend heavily on production. The expected increase in world wheat production, assuming trend yields, would be slightly larger than the decline in beginning stocks. Global supplies would increase, but not much.

Increased Global Wheat Consumption Is Expected in 2007/08

In 2006/07, world wheat disappearance is projected to decline 5.1 million tons, to 619.3 million (fig. 4). Most of the decline is caused by a 3.2-million-ton reduction in feed and residual use of wheat as wheat prices have been strong and the residual use associated with production losses is being limited by reduced production. However, in 2007/08 relatively high feed grains prices are expected to encourage increased wheat feeding in the United States, the EU-25, and the FSU-12. Increased production is likely to boost residual disappearance. Moreover, population growth is expected to drive a slow recovery in food use of wheat. The total growth in global wheat use in 2007/08 may be large enough to offset any increase in world supplies. This leaves the direction of changes in 2007/08 world wheat ending stocks very much in doubt.

Figure 4
World wheat consumption increased in 2006/07¹



¹2006/07 projected
 Source : USDA, Foreign Agricultural Service, *PSD Online*.

Situation and Outlook for 2006/07

Projected Prices for 2006/07 Are Substantially Above Recent Years

U.S. wheat production dropped in 2006/07 primarily because of a severe drought in the Great Plains. Supplies for 2006/07 are down sharply, limiting projected exports and lowering projected ending stocks. The projected season-average price received by farmers is \$4.20 to \$4.30 per bushel, sharply above last year's \$3.42. The higher prices are due to the production shortfall and the run-up of corn prices late in 2006.

U.S. Wheat Supply and Use Are Down And Prices Are Up Sharply In 2006/07

U.S. wheat production is estimated at 1,812 million bushels for 2006/07, down 293 million bushels or 14 percent from 2005/06 primarily because of a severe drought in the Great Plains. The drought reduced both yields and harvested area, particularly in the Southern Plains. Production of HRW and HRS were down 248 million bushels and 34 million bushels, respectively, year-to-year. In Texas, wheat production was the lowest since 1971 and the area harvested the lowest since 1925. Oklahoma's production was the lowest since 1971 and harvested area the lowest since 1955. U.S. Harvested area was 46.8 million acres, down 7 percent from 2005 year. The U.S. average yield was 38.7 bushels per acre, down 3.3 bushels from 2005.

The decline in total production was due to reduced production of all classes of wheat except SRW. SRW production was up year-to-year because of both larger area and yields. Winter wheat production was down 13 percent from 2005 as HRW production was off 27 percent. Other spring wheat output was down 9 percent and durum was down a remarkable 47 percent. Durum planted and harvested areas were down nearly 1 million acres because of low prices relative to HRS at planting time and dry summer weather reduced yields 7.7 bushels per acre.

Supplies for 2006/07 were down less than production because of higher beginning stocks and projected imports (table 1). Beginning stocks were up 31 million bushels year-to-year. Imports are projected to be above last year by 33 million bushels, mostly because of increased HRS imports from Canada (see page 16 for explanation of this substantial increase from 2005/06). The net result is that the U.S. wheat supply in 2006/07 is forecast to drop 228 million bushels from a year ago.

Table 1 -- Wheat supply, disappearance, and stocks, June-May

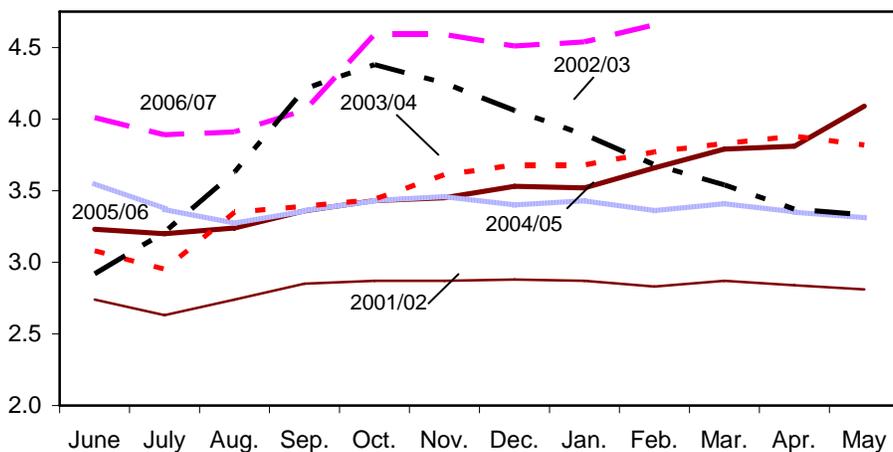
| Item | 2002/03 | 2003/04 | 2004/05 | 2005/06P | 2006/07P |
|----------------------------------|---------|---------|---------|----------|----------|
| Million bushels | | | | | |
| Stocks, June 1 | 777 | 491 | 546 | 540 | 571 |
| CCC inventory | 99 | 66 | 61 | 55 | 43 |
| Outstanding CCC loans | 78 | 55 | 37 | 58 | 42 |
| Unencumbered | 601 | 370 | 449 | 427 | 486 |
| Production | 1606 | 2345 | 2158 | 2105 | 1812 |
| Imports | 27 | 16 | 17 | 19 | 26 |
| Total supply (June-Aug.) | 2410 | 2852 | 2722 | 2663 | 2410 |
| Domestic use | | | | | |
| Food use | 233 | 231 | 227 | 231 | 233 |
| Seed use | 3 | 2 | 4 | 2 | 2 |
| Feed and residual use | 185 | 315 | 265 | 263 | 211 |
| Exports | 240 | 265 | 287 | 244 | 214 |
| Total disappearance (June-Aug.) | 661 | 813 | 784 | 740 | 659 |
| Stocks, Sept. 1 | 1749 | 2039 | 1938 | 1923 | 1751 |
| CCC inventory | 91 | 60 | 62 | 48 | 43 |
| Outstanding CCC loans | 60 | 110 | 86 | 90 | 51 |
| Unencumbered | 1598 | 1869 | 1791 | 1785 | 1657 |
| Imports | 23 | 18 | 19 | 20 | 30 |
| Total supply (Sept.-Nov.) | 1772 | 2057 | 1957 | 1944 | 1780 |
| Domestic use | | | | | |
| Food use | 238 | 240 | 236 | 238 | 244 |
| Seed use | 55 | 53 | 47 | 51 | 55 |
| Feed and residual use | -75 | -62 | -56 | -61 | -45 |
| Exports | 235 | 305 | 300 | 286 | 212 |
| Total disappearance (Sept.-Nov.) | 452 | 536 | 527 | 514 | 465 |
| Stocks, Dec. 1 | 1320 | 1520 | 1430 | 1430 | 1315 |
| CCC inventory | 81 | 60 | 62 | 44 | 43 |
| Outstanding CCC loans | 63 | 125 | 118 | 120 | 70 |
| Unencumbered | 1176 | 1335 | 1251 | 1265 | 1202 |
| Imports | 13 | 13 | 18 | 20 | NA |
| Total supply (Dec.-Feb.) | 1333 | 1533 | 1448 | 1450 | NA |
| Domestic use | | | | | |
| Food use | 219 | 216 | 218 | 219 | NA |
| Seed use | 3 | 2 | 2 | 1 | NA |
| Feed and residual use | 14 | 3 | 3 | 1 | NA |
| Exports | 190 | 291 | 240 | 257 | NA |
| Total disappearance (Dec.-Feb.) | 430 | 513 | 464 | 478 | NA |
| Stocks, March 1 | 907 | 1021 | 984 | 972 | NA |
| CCC inventory | 74 | 60 | 60 | 43 | NA |
| Outstanding CCC loans | 65 | 89 | 89 | 95 | NA |
| Unencumbered | 768 | 871 | 848 | 834 | NA |
| Imports | 15 | 17 | 17 | 22 | NA |
| Total supply (Mar.-May) | 922 | 1037 | 1001 | 995 | NA |
| Domestic use | | | | | |
| Food use | 229 | 226 | 229 | 226 | NA |
| Seed use | 24 | 22 | 24 | 24 | NA |
| Feed and residual use | -8 | -54 | -31 | -49 | NA |
| Exports | 186 | 296 | 239 | 222 | NA |
| Total disappearance (Mar.-May) | 430 | 491 | 461 | 423 | NA |

P = Preliminary. CCC = Commodity Credit Corporation. NA = Not available.

Source: USDA, Economic Research Service, *Wheat Outlook* and USDA, Farm Service Agency, <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=coop&topic=rpt>

Figure 5
Prices for 2006/07 are sharply above earlier years

Dollars/bushel



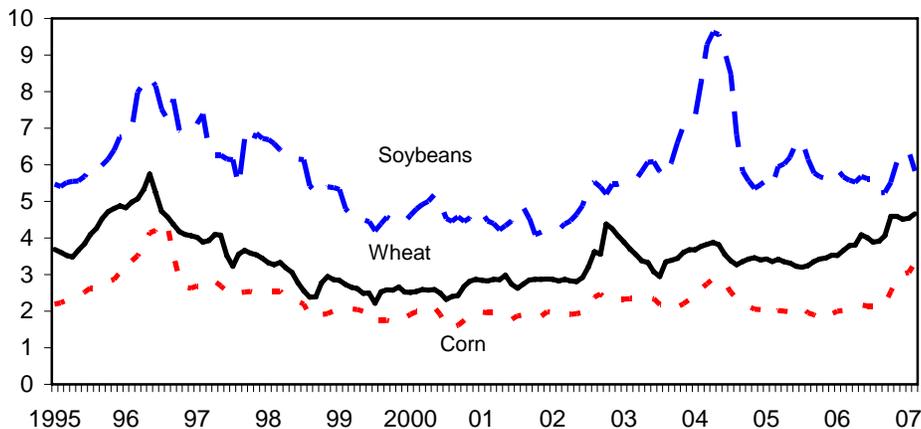
Source: USDA, National Agricultural Statistics Service, *Quick Stats*.

Monthly prices for the 2006/07 marketing year began at \$4.01 per bushel for June (fig. 5). This followed the 2005/06 marketing year in which prices rose steadily from a low of \$3.20 per bushel in July 2005 to a high of \$4.09 per bushel in May 2006. This high year-end price for the 2005/06 marketing year was due to expectations for reduced production from the severe drought in the Plains.

Prices for 2006/07 dropped to a seasonal low of \$3.89 per bushel in July. Monthly farm prices then rose to a high of \$4.59 per bushel in October and November because of reduced production potential in some major wheat exporting countries and rapidly rising corn and soybean prices (fig. 6). Uncertain prospects for adequate 2007/08 corn supplies to meet the booming demand for ethanol production will likely keep prices high and volatile this spring.

Figure 6
Monthly wheat prices rise in 2007

Dollars/bushel



Source: USDA, National Agricultural Statistics Service, *Quick Stats*.

The season-average farm price in 2006/07 is forecast at \$4.20-\$4.30 per bushel. This price range is considerably above last year's price of \$3.42 per bushel. Current prices are significantly above the recent season-average-price low of \$2.48 per bushel in 1999/2000, but still well below the record \$4.55 per bushel in 1995/96. U.S. ending stocks in 2006/07 are projected to be down nearly 100 million bushels from 2005/06 to 472 million bushels. This level is well below the recent peak of 950 million bushels in 1999/2000.

Production Down in 2006 With Historically Low Planted Area

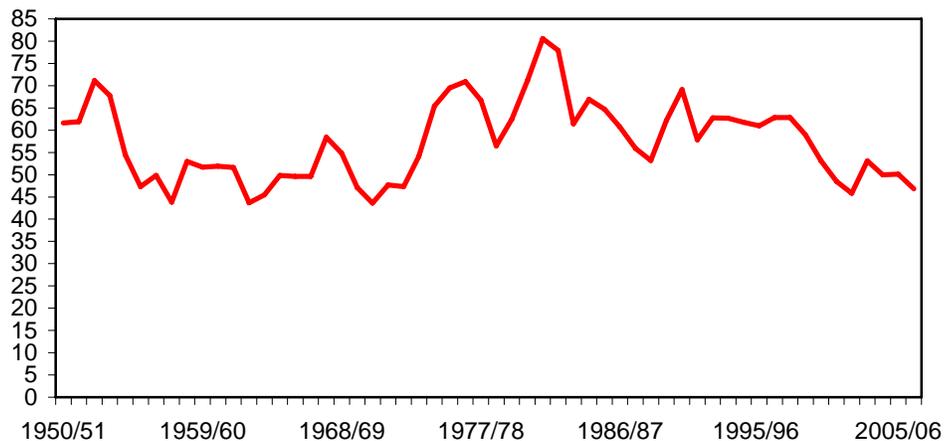
For all wheat, 2006 planted area of 57.3 million acres was only 0.1 million acres larger than in 2005. Planted area for 2005 was the lowest since 1972, when U.S. wheat producers planted only 54.9 million acres. In contrast, U.S. wheat farmers planted 88.3 million and 86.2 million acres in 1981 and 1982, respectively.

U.S. wheat-harvested area has varied widely during the past half-century, peaking in the early 1980s (fig. 7). Since the peak, wheat area dropped off sharply in the late 1980s, particularly due to relatively large acreage reduction program (ARP) levels when Government-owned stocks were very large. By 1987/88, nearly 30 percent of the national wheat base acreage had been idled by farmers choosing to participate in this voluntary program so as to be eligible for commodity loans and deficiency payments. Wheat area recovered in the mid-1990s as stocks were reduced and prices rose, thus lessening the need for ARPs. ARPs were eliminated by the 1996 Farm Act.

Figure 7

U.S. wheat harvested area, 1950/51- 2006/07

Million acres



Source: USDA, National Agricultural Statistics Service, *Quick Stats*.

Wheat acreage has again been trending down with enhanced planting flexibility in the 1996 and 2002 Farm Acts. Planted area in the United States is down by about 30 percent from an average of 85 million acres in the early 1980s to an average of 60 million acres in recent years. Wheat's share of U.S. field-crop receipts has fallen from about 20 percent in the early 1980s to about 11 percent in recent years.

Wheat land switched to other uses. Wheat area has dropped off in the United States as farmers have taken their land out of production or switched to alternative crops offering higher returns. Enrollment in the Conservation Reserve Program (CRP) is concentrated in those regions where wheat production predominates. Over 85 percent of the land enrolled in the CRP is located in the Plains States, stretching from Texas to North Dakota and Montana. USDA estimates that about 9 million acres of CRP land had been planted to wheat or in a wheat-fallow rotation prior to enrollment. In addition, the introduction of nearly full planting flexibility in the 1996 Farm Act has enabled farmers to switch to alternative crops or to idle their land.

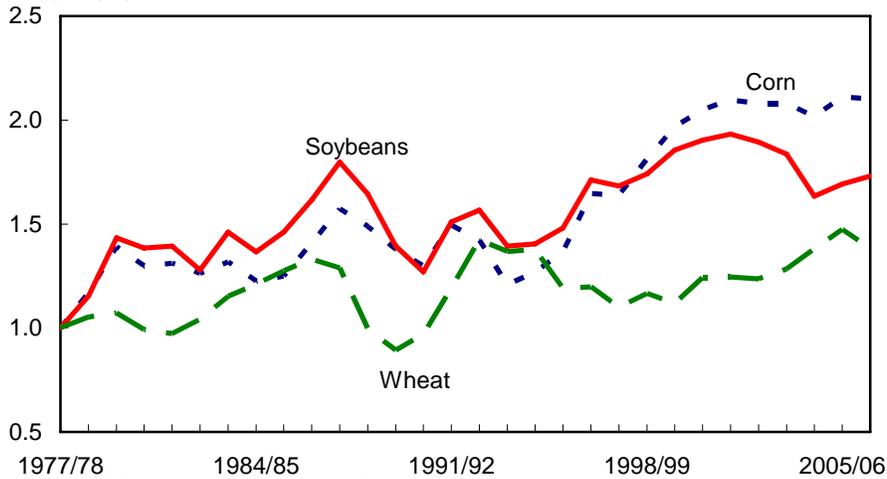
More intensive use of cropland in the Plains. In the traditional wheat-growing areas of the Western Plains there is a more-than-20-year trend to reduce the area fallowed by planting alternative crops and lengthening crop rotations. For example, in western Kansas, a typical wheat-fallow rotation is most commonly replaced by a rotation of wheat-grain sorghum-fallow, so that wheat is planted 1 year out of 3 instead of 1 out of 2 years. Thus, though the intensity of cropping increases, wheat is not favored.

Improved genetics for competing crops in the Plains. Loss of wheat acreage to row crops on the Plains also reflects genetic improvements, including biotechnology gains, in corn and soybeans (fig. 8). New varieties of corn and soybeans can be planted farther west and north in areas with drier conditions or shorter growing seasons. These new varieties also provide easier and better weed control that benefits wheat grown in the rotation. While increased row-crop

Figure 8

Indices of North Dakota crop yields (3-year average)

Index 1976 = 1



Source: USDA, National Agricultural Statistics Service, *Quick Stats*.

production began well before the increased flexibility provided in the 1990 and 1996 Farm Acts, the planting of corn and soybeans accelerated since 1996 partially at the expense of wheat acreage.

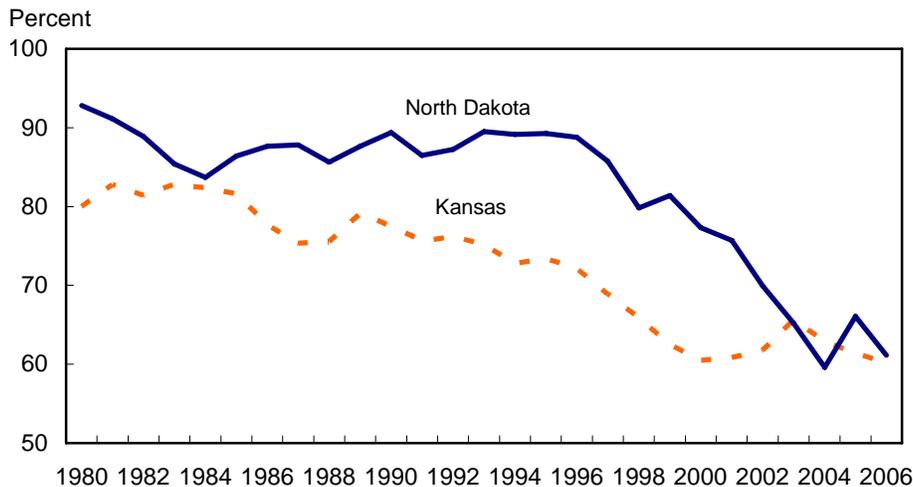
The pace of genetic improvement has been slower for wheat than for some other field crops. This has slowed yield growth and limited the ability of producers to reduce input costs and crop management requirements, thus lowering the profitability of producing wheat relative to other crops, such as corn and soybeans. Research incentives for the genetic improvement of wheat have been weaker due to the lower potential returns to commercial seed companies and resistance by the wheat industry to the introduction of biotechnology varieties. Many wheat farmers, particularly in the Plains States, use saved seed from the previous year's crop instead of buying from dealers every year. This practice sharply reduces the size of the market for the purchase of seed wheat.

Wheat disease also a factor. Concerns about wheat disease problems in the Northern Plains, particularly scab (head blight) in North Dakota and Minnesota (caused by the fungus *Fusarium graminearum*), influenced planting decisions in the 1990s and will do so in the future. The increased incidence may stem in part from switches to corn plantings and minimum tillage in traditional wheat areas in the Northern Plains. Both activities provide hosts for disease organisms.

Wheat share of cropped area in Plains is declining. The trend to increased plantings of corn and soybeans on acreage traditionally planted to wheat is shown by data for Kansas and North Dakota, the two largest wheat-producing States (fig. 9). In the early 1980s, wheat accounted for 80-90 percent of the combined area of

Figure 9

Wheat planted area as share of the planted area of wheat, corn, and soybeans in Kansas and North Dakota



wheat, corn, and soybeans planted in Kansas and North Dakota, while in recent years wheat has made up only 60-65 percent of the total.

Harvested Area Was Down In 2006 Because Of Drought

U.S. wheat harvested area for 2006 was down compared with 2005, despite a higher planted area. The 2006 harvested-to-planted ratio was 81.6 percent, 5.9 percentage points lower than the 2005 ratio, because of larger abandonment in the Plains due to the drought. The harvested area for 2006 was 46.8 million acres, down 3.3 million acres from the previous year. The U.S. yield was 38.7 bushels per acre, down 3.3 bushels from a year earlier and down 5.5 from the record yield in 2003.

The 2006 winter wheat production is estimated at 1,298 million bushels, down 201 million bushels from 2005. The U.S. winter wheat yield was 41.7 bushels per acre, down 2.7 bushels from a year earlier. Total winter wheat harvested acreage was 31.1 million acres, down 2.7 from 2005. Planted area for winter wheat was 40.6 million acres, nearly the same as the previous year.

Production of HRW wheat was down 248 million bushels from last year to 682 million, because drought reduced both harvested area and yields.¹ SRW wheat planted area was up from last year because of more favorable weather during this year's planting season. Higher yields on larger harvest area than in 2005 raised SRW production 81 million bushels to 390 million bushels. White winter production was down 34 million bushels from last year because of both reduced planted and harvested area and yields.

Other spring wheat production in 2006 was estimated at 460 million bushels, down 44 million bushels from 2005. Harvested area of other spring wheat was 13.9 million acres, up slightly from the previous year. Drought reduced the other spring yield for 2006 by 3.9 bushels per acre from last year and down 10 bushels per acre

¹ By class acreage data are not published in NASS' *Small Grains report*, but provided to Economic Research Service for internal analysis and publications

from 2004's record high of 43.2 bushels per acre. Both HRS and white spring production were down in 2006 from 2005, by 34 million bushels and 10 million bushels, respectively. HRS harvested area was up slightly year-to-year mostly because of a larger planted area, but yields were off 3.8 bushels from 2005. Wheat farmers on the northern plains were encouraged to plant HRS rather than durum wheat because of \$.50 to \$.60 per bushel premium of HRS to durum farmgate prices in the spring of 2006.

Durum wheat production for 2006 totaled 53 million bushels, down 48 million bushels from last year. Harvested area was 1.9 million acres, 0.9 million below that of 2005. The durum yield was 29.5 bushels per acre, down 7.7 bushels from 2005.

Imports From Canada Are Projected To Rise

U.S. imports of HRS wheat from Canada dropped off after the imposition of duties in 2003. The U.S. Department of Commerce set the duty for HRS wheat imports at 5.29 percent to countervail subsidies and at 8.87 percent to compensate for dumping the wheat in the U.S. market. The Commerce Department revoked these duties effective January 2, 2006.

HRS imports in 2000/01 and in 2001/02 were 56 and 61 million bushels, respectively. In 2002/03, HRS imports dropped to 23 million bushels. Then, in 2003/04 and in 2004/05, HRS imports were 9 and 8 million bushels, respectively (almost entirely flour and products). For 2005/06, HRS imports were limited to 13 million bushels by the relatively poor quality of the HRS stocks in Canada. For 2006/07, HRS imports are projected to be 49 million bushels following a good production year for Canada, reduced U.S. hard wheat production, and weakening of the Canadian currency to the U.S. dollar.

Total Use Is Projected To Fall in 2006/07

Total disappearance of U.S. wheat in 2006/07 is projected to drop 129 million bushels from a year earlier, to 2,026 million bushels. Domestic use is forecast up 5 million bushels and exports are forecast down 134 million bushels. Food use is projected at 925 million bushels, up 10 million bushels from a year earlier, with per capita flour use continuing to decline (see next section). Feed and residual use is projected down 8 million bushels, to 145 million in 2006/07. Seed use is projected at 81 million bushels. Exports are projected at 875 million bushels for 2006/07, down because of decreased domestic supplies and high domestic prices.

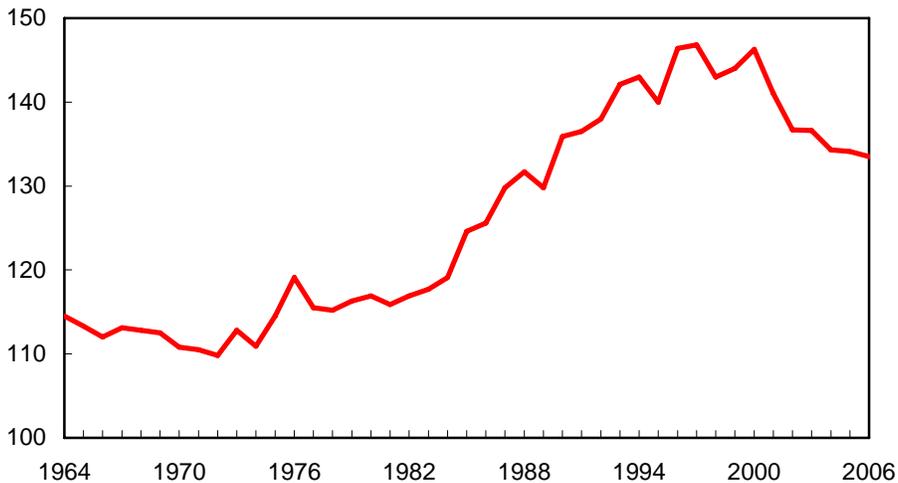
Per Capita Flour Consumption Down Again

Per capita flour use. Per capita wheat-flour use for calendar year 2006 is estimated at 133.5 pounds, down 0.6 pounds from a year earlier and down 12.8 pounds from the recent high in 2000. Until the late 1990s, U.S. wheat producers could count on rising per capita food use to expand the domestic market for their crop. The strength of this domestic market developed out of the historic turnaround in U.S. per capita

Figure 10

U.S. per capita wheat flour use

Pounds/person



Source: USDA, Economic Research Service.

wheat consumption that occurred in the early 1970s. For nearly 100 years, per capita wheat consumption had declined in the United States, as hard physical labor became less common and diets diversified. Wheat consumption dropped from over 225 pounds per person in 1879 to a low of 110 pounds in 1972. By 1996, consumption had rebounded to 146.8 pounds per capita (fig. 10). The overall growth in per capita consumption that occurred between 1973 and 1997 reflected changes that included the boom in away-from-home eating, the desire of consumers for greater variety and more convenience in food products, promotion of wheat flour and pasta products by industry organizations, and wider recognition of health benefits stemming from eating high-fiber grain-based foods.

Since 1997, however, this growth appears to have ended with changing consumer preferences. These changes likely include increasing numbers of weight-conscious people following diets that include lower carbohydrates. Consumer interest in these diets apparently spiked starting in 2000. The sharp decline of per capita flour consumption that began in 2000 has slowed. Per capita all-wheat flour use dropped from 146.3 pounds in 2000 to 133.5 pounds in 2006. Per capita all-wheat use dropped 9.6 pounds over 2001 and 2002, but only 0.8 pounds from 2004 to 2006. Notably, per capita durum-flour use rose in both 2005 and 2006 after declining during 2002 through 2004.

Bread preservation has improved. Another force that reduced flour usage in recent years was the expanding production of extended shelf life (ESL) bread. ESL technologies can double or even triple the shelf life of a fresh loaf, from several days to 10 or more. The outcome for U.S. bakers is a reduction in “stales” (bread that does not sell and is taken back by the baker) from as high as 15 percent of sales to less than 8 percent. Reducing stales directly reduces the quantity of flour required to produce enough bread to meet the same level of consumer demand. This factor will not be so important in the future as it has probably run its course.

Farm Program Expenditures for Wheat Farmers Are Down in 2006/07

The U.S. wheat sector receives various forms of government assistance. The current four main types of direct program assistance are: marketing assistance loans, direct and countercyclical payments, crop insurance, and export assistance through credit guarantees and food donation programs.²

Marketing Loans. The 2002 Farm Act extended USDA's programs to assist farmers facing low market prices, including nonrecourse marketing assistance loans and loan deficiency payments (LDPs). Nonrecourse marketing assistance loans provide interim financing to eligible producers of wheat and other commodities and provide price protection support when prices are low. Producers pledge their wheat as collateral and obtain a loan equivalent to the quantity of pledged collateral times the per-bushel loan rate established in their county by USDA's Farm Service Agency (FSA). The loan proceeds are often used to cover short-term cash needs.

As of March 7, 2007, wheat producers had outstanding loans of \$113 million on 42 million bushels of the 2006 crop. This is down sharply from last year. As of March 9, 2006, wheat producers had outstanding loans of \$229 million on 83 million bushels of the 2005 crop. Farmers may settle the loan by forfeiting the crop pledged as loan collateral at maturity or by repaying at the loan repayment rate, at or before loan maturity. The loan repayment rate may actually be lower than the loan rate (plus interest) if the posted county price (PCP), a proxy for the local price, is below the local loan rate. The PCP—calculated by FSA each day the Federal Government is open—is based on terminal market prices and a differential to each county, largely reflecting transportation and other marketing costs. When a farmer repays the loan and the PCP is below the loan rate, the difference between the loan rate and the PCP is called a marketing loan gain (MLG).

If the PCP is lower than the county loan rate, eligible producers may opt for an LDP on part or all of the crop in lieu of securing a loan. The LDP rate is the amount by which the county loan rate exceeds the PCP on the date the application is made. The wheat cannot be placed under loan once an LDP is paid. After an LDP is accepted, the farmer can sell the crop and avoid storage costs or hold it in the expectation of a price rally later in the marketing season. If producers take the LDPs and immediately sell their crop, and if the PCP accurately reflects local prices, the producers effectively receive a per unit revenue equal to the loan rate, partly from the market and partly from the Government.

The high farm gate prices sharply reduced LDPs for the 2006 crop. As of March 7, 2007, producers had collected \$165,000 in LDPs covering 1.6 million bushels of the 2006 wheat crop for an average of 11 cents per bushel. A year earlier, as of March 7, 2006, producers had collected \$17 million in LDPs covering 102 million bushels of the 2005 wheat crop for an average of 17 cents per bushel. This is less than in the previous 2 years when payments averaged \$77 million with average payments of 17 to 18 cents per bushel. However, LDPs for 2003 to 2005 crops were substantially less than in earlier years when prices were low. For example, for the 2000 crop at this time of the year, the payment was \$791 million on 1,782 million bushels, for an average payment of 44 cents per bushel.

² For more information on these programs, see <http://www.ers.usda.gov/publications/aib778/>.

Total annual marketing loan benefits from the 2002 through 2005 crops were \$16 million, \$94 million, \$80 million, and \$20 million compared with about \$175,000 for 2006.

Direct payments (DPs). DPs under the 2002 Farm Act are similar to production flexibility contract (PFC) payments under the 1996 Act. DPs are decoupled from current production and prices, providing farmers with a fixed predetermined payment that does not depend on market conditions. The DP equals 85 percent of the farm's base acreage times the farm's DP yield times the DP rate. The wheat DP rate is fixed at \$0.52 a bushel. The wheat DP expenditures have averaged \$1.1 billion annually under the 2002 Farm Act, slightly above scheduled PFC expenditures for the final year of the 1996 Farm Act.

Countercyclical payments (CCPs). CCPs are decoupled from current production, but linked inversely to market prices. CCP rates rise as the season average market price falls below a specified level. The payments are intended to replace ad hoc market loss assistance payments, which supplemented PFC payments in 1998-2001.

Wheat CCPs are made when the target price (TP) minus the DP rate is above the higher of the national average loan rate (LR) or the season average farm price (FP). This calculated difference, when positive, is the CCP rate, computed as follows:

- $CCP\ rate = (TP - DP) - (\text{the higher of the LR or the FP})$
- For the 2004-07 crops, the wheat TP is \$3.92 per bushel and the wheat LR is \$2.75 per bushel. The DP rate is \$0.52 per bushel
- CCPs are paid if the FP is below \$3.40 per bushel ($3.92 - 0.52 = 3.40$). The CCP rate is at its maximum of \$0.65 per bushel when the FP is less than or equal to the LR ($(3.92 - 0.52) - 2.75 = 0.65$).
- The CCP quantity is equal to 85 percent of the base acres times the CCP yield.
- The CCP is equal to the CCP payment rate times the CCP quantity.

There have not been any wheat CCP net expenditures under the 2002 Farm Act because wheat prices have been above the CCP trigger.

Crop Insurance Subsidies. Since the 2001 crop year, roughly 75 percent of planted wheat acres have been insured annually under the Federal Crop Insurance program. In 2006, more than 44 million wheat acres were insured and total crop insurance premiums for wheat were about \$624 million, of which about \$364 million were premium subsidies paid by the Government. About \$792 million were paid to wheat producers in crop insurance indemnities on the 2006 crop. Participation in revenue insurance increased in 2006, reaching about 75 percent of wheat insured acres, up from 69 percent in 2005.

Export Assistance and Food Aid. U.S. food assistance programs donate or sell agricultural products directly to individual countries with food-aid needs or through loans at concessional rates. The United States provides food assistance through Public Law 480 (Food for Peace) and the Food for Progress Program. Title I of PL 480 finances sales of commodities under long-term credit arrangements to developing countries that are deemed to have insufficient foreign exchange. Title II provides for donations for emergency food relief and nonemergency humanitarian assistance to international organizations such as the World Food Program and to recipient governments. Section 416(b) of the Agricultural Act of 1949, as amended, provides for donations of Commodity Credit Corporation (CCC)-owned surplus commodities to developing countries. Food for Progress authorizes the donation or sale of food-aid commodities to assist developing countries that are implementing market-oriented policy reform. At present, most of the CCC-owned stocks are in the Bill Emerson Humanitarian Trust (formerly the Food Security Commodity Reserve) and thus are available for humanitarian purposes. The McGovern-Dole International Food for Education and Child Nutrition Program was authorized by the 2002 Farm Act to provide donations of U.S. agricultural products and technical assistance for school feeding projects in low-income countries.

With the ending of the Export Enhancement Program (EEP) activity in the mid-1990s and the decline in Section 416 since the late 1990s, the share of U.S. wheat exports under these and other food-assistance programs has dropped sharply from an average of 75 percent in the first half of the 1990s. In 2005/06, 9 percent of total U.S. exports were under one of these programs. This level is half of the 18 percent in 2004/05 as the volume under both PL 480 shipments and CCC Credit Guarantee dropped sharply.

World Wheat Production Drops and Stocks Plummet in 2006/07

Global production in 2006/07 is estimated down 27.5 million tons to 593.1 million. This is the largest year-to-year drop in world wheat production in 12 years. World consumption is forecast down 5.0 million tons, a decline of only 1 percent. Global use is forecast to be 26.2 million tons greater than production, trimming projected ending stocks to 121.2 million tons, the lowest in 25 years. World wheat trade is expected to contract 2.8 million tons to 110.7 million, because modest reductions in imports by a number of countries more than offset a dramatic increase in imports by India. Reduced exports are projected for Ukraine, the United States, and Australia, but Canada's exports are expected to increase by more than 30 percent.

World Wheat Production Stumbles in 2006/07

Global production in 2006/07 is estimated down 27.5 million tons to 593.1 million. The largest drop was for production in Australia, down 14.5 million tons to 10.5 million due to an El Nino-driven drought. U.S. wheat production dropped 8.0 million tons. Dryness and high temperatures struck EU-25 wheat production for the second straight year, reducing wheat production 5.6 million tons to 117.1 million. Problems in planting winter wheat and a severe winter reduced wheat production in Ukraine 4.7 million tons to 14.0 million, and in Russia by 2.8 million tons to 44.9 million. Many other countries had smaller year-to-year declines. Those drops in production overwhelmed an increase of 6.0 million tons in China as record yields boosted wheat production to 103.5 million. North Africa had favorable rains boosting production 3.1 million tons to 18.3 million. Also, spring wheat in Kazakhstan had increased area and good yields, boosting production 2.5 million tons to 13.5 million. In India wheat production only increased 0.7 million tons to 69.4 million as yields fell below trend for a second consecutive year.

World Wheat Disappearance Declines in 2006/07

Global wheat consumption is forecast at 619.3 million tons in 2006/07, down 5.0 million tons from the previous year. World wheat feed use in 2006/07 is forecast at 108.0 million tons, down 3.2 million tons. Tight wheat supplies and the relatively high price of wheat in the EU-25, Ukraine, and Russia are limiting wheat feed use.

Actual country-by-country forecasts of wheat food use are projected to increase in 2006/07 as global population increases. However, world nonfeed (mostly food) use is forecast down 1.8 million tons to 511.3 million in 2006/07 based on the sum of local marketing year data. This decline is the end result of the difference in the global sum of imports and exports for the local marketing year.³ In the 2005/06 local marketing year, the sum of world exports exceeded imports by 6.5 million tons, boosting global disappearance by that amount. However, in 2006/07, the sum of local marketing year exports is 1.1 million tons less than the sum of imports. This shrinks apparent global wheat consumption by 1.1 million tons. So the year-to-year difference in global wheat consumption is 7.6 (6.5 + 1.1) million tons.

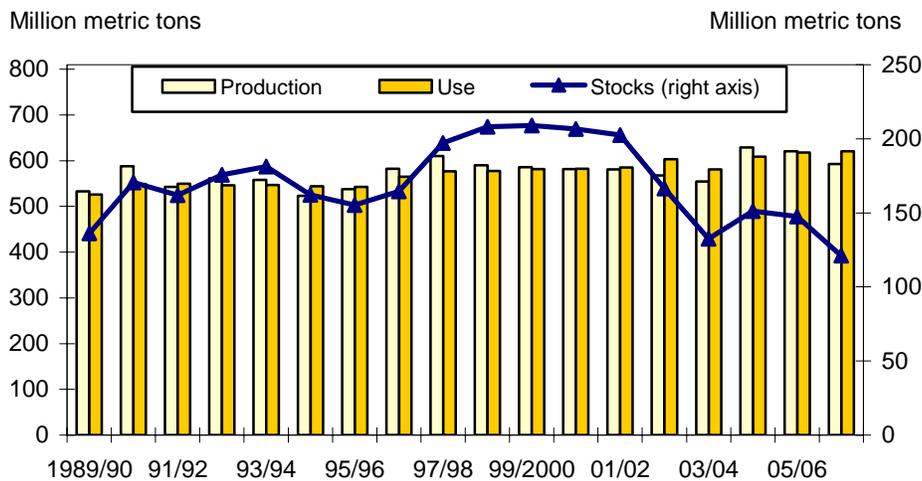
³ Local marketing years in Southern Hemisphere countries start up to 5 months, later than the wheat international trade year beginning July 1. Imports and exports on the trade year balance, with an unaccounted category of 2 to 3 million tons that can be considered to represent exports from countries in the database to countries outside the USDA database, boosting global consumption. However, exports based on a local marketing year can differ considerable from those based on an international trade year. For example, a drought in Australia in 2006 makes the sum of local marketing year exports and imports more variable than the sum of trade year exports and imports.

World Wheat Stocks To Plummet in 2006/07

Global ending stocks in 2006/07 are projected down 26.2 million tons to 121.2 million, the lowest in 25 years (fig. 11). World wheat stocks are estimated down in 6 of the last 7 years. Stocks in the major exporting countries are projected to drop significantly. EU-25 ending stocks are projected down 8.2 million tons, to only 12.8 million tons as nearly all government intervention stocks are liquidated. Australia, devastated by drought, is expected to cut stocks 7.1 million tons to only 2.6 million. Canada, with strong exports, is projected to reduce ending stocks 3.1 million tons to 6.6 million. Russia, Ukraine, and Argentina are expected to reduce wheat stocks by smaller amounts. The only major wheat exporter that is expected to increase stocks is Kazakhstan, with sharply increased production boosting ending stocks prospects 10 percent to 4.7 million tons. In China, the combination of increased production and stagnant use is projected to result in a small increase in wheat ending stocks, the first such increase in 7 years. India's large imports in 2006/07 are expected to increase stocks 1.5 million tons to 3.5 million, still a minimal level that will limit the government's ability to influence market prices. World wheat ending stocks, excluding both China and the United States, are a useful indicator of general market conditions that might influence U.S. exports (fig. 12). These rest-of-the-world stocks are forecast to plummet 24.2 million tons to 72.8 million at the end of 2006/07. The large reduction in rest-of-the-world stocks supports prices and suggest strong demand for U.S. wheat exports at the beginning of 2007/08.

Figure 11

World wheat stocks decline as 2006/07 use exceeds production

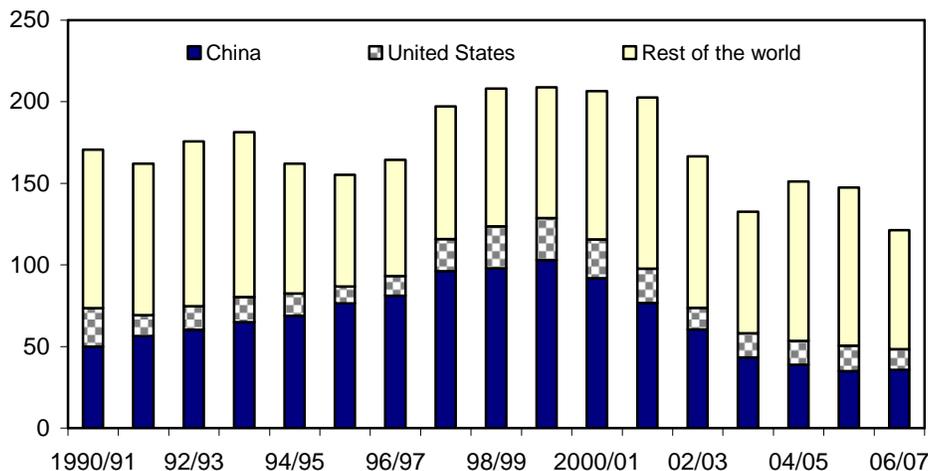


Source: USDA, Foreign Agricultural Service, PSD Online.

Figure 12

Wheat stocks decline in China, U.S., and rest of the world in 2006/07

Million metric tons



Source: USDA, Foreign Agricultural Service, PSD Online.

World Wheat Trade Declining in 2006/07

Global wheat trade (July-June international trade year) in 2006/07 is forecast at 110.7 million tons, down 2.9 million from the previous year. However, this forecast is nearly 3 million tons above the 10-year average. Wheat trade is declining year-to-year because reductions for several major importing countries are offsetting an important increase for India.

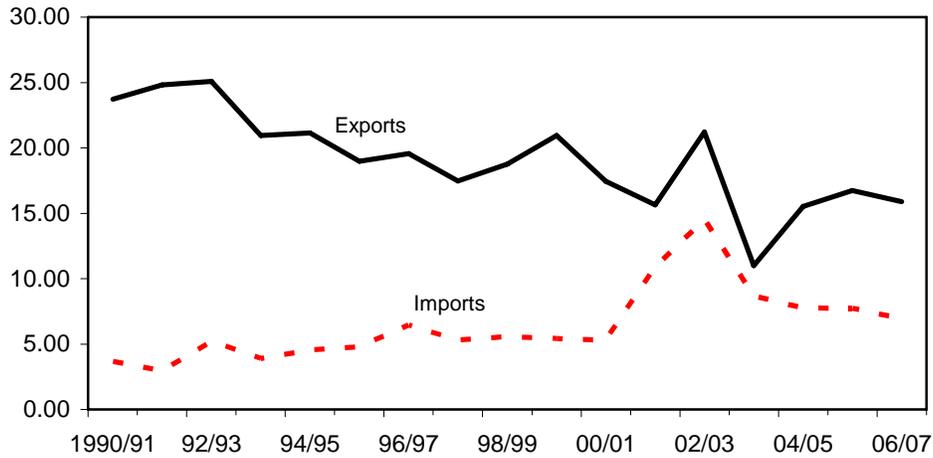
China is expected to import only 0.7 million tons in 2006/07, as increased production and stagnant use boost stocks prospects. With increased feed-quality wheat exports boosting projected exports to 2.5 million tons, China has become a significant net exporter of wheat in 2006/07, after being a slight net exporter in 2005/06.

Brazil is projected to become the world's largest wheat importer in 2006/07, boosting imports 1.3 million tons to 7.5 million as unfavorable weather cut production. Egypt, the largest importer the previous year, is expected to cut wheat imports 0.8 million tons to 7.0 million with increased production and reduced ending stocks. The EU-25 is expected to reduce imports 0.8 million tons to 6.8 million (fig. 13). Despite a second year of below-trend yields, and increased shipments from the acceding countries of Romania and Bulgaria, the EU-25 is expected to cut imports from the Black Sea, especially reducing shipments from Ukraine to Spain. The fourth largest wheat importer in 2006/07 is expected to be India, importing 6.0 million tons, and increase from almost nothing in recent years. Low stocks and increased local prices forced the Government of India to permit massive imports.

Figure 13

European Union wheat exports and imports stable and large in 2006/07

Million metric tons



Source: USDA, Foreign Agricultural Service, PSD Online.

Among the remaining top-10 importing countries, Japan at 5.5 million and Mexico at 3.6 million are stable to up slightly. The others--Algeria and Indonesia, both at 4.8 million tons; South Korea at 3.6 million; and Nigeria at 3.5 million--are expected to reduce wheat imports. Smaller importers with significant declines in projected imports include Morocco, which had a good crop, Israel, and the Philippines.

U.S. Wheat Exports Limited by Tight Domestic Supplies in 2006/07

U.S. wheat exports are forecast to decline 2.9 million tons to 24.5 million in 2006/07 (July-June) because of reduced U.S. supplies and high U.S. prices. Competition from other wheat exporters is not particularly intense in 2006/07, but the U.S. share of world wheat trade is expected to fall. The top markets for U.S. wheat exports so far in 2006/07 are Japan, Nigeria, Mexico, Egypt, the Philippines, and South Korea. The EU-25 and Iraq, which were top markets in the past, have reduced imports from the United States in 2006/07. U.S. export commitments to the Western Hemisphere are down 16 percent compared to a year ago, with reduced purchases from Mexico, Venezuela, and Colombia.

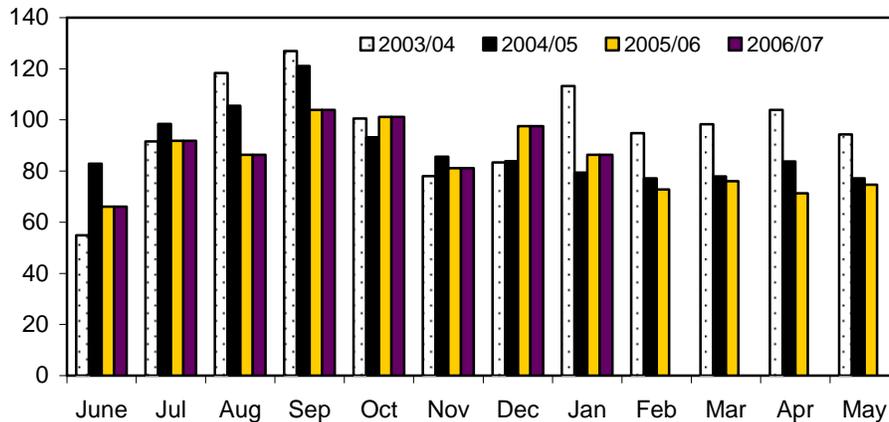
U.S. Wheat Exports Forecast Down 11 Percent in 2006/07

The U.S. July-June 2006/07 trade year wheat export forecast is 24.5 million tons (875 million bushels for the June-May marketing year). U.S. 2006/07 exports are projected down 2.9 million tons from the previous year, and are the lowest in 4 years. The reduced U.S. wheat crop and sustained high U.S. prices have limited exports. Census data from July 2006 through January 2007 show U.S. wheat grain exports of 13.9 million tons, down 3.5 million from the previous year (fig. 14). However, grain inspection data for February 2007 were up slightly from inspections

Figure 14

U.S. wheat exports, by month 1/

Million bushels



1/ Includes flour and products in wheat equivalent units.

Source: USDA, Economic Research Service, *Wheat Outlook*.

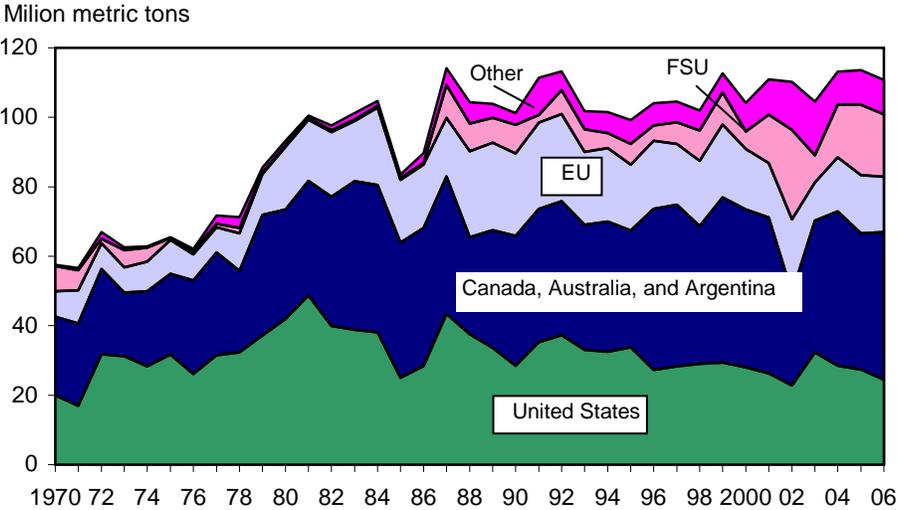
a year earlier. Moreover, according to U.S. Export Sales, outstanding sales of 3.7 million tons were reported as of March 1, 2007, up slightly from a year ago. Wheat sales and shipments during the final quarter of 2006/07 are expected to exceed the previous year's lackluster pace because of limited competition, especially from Australia.

Competition from Australia is expected to be sharply reduced during the last months of 2006/07 due to the precipitous drop in production. Also, shipments from Argentina are expected to slow from the torrid pace following their wheat harvest that began in December 2006. Few exporters have excess supplies going into the final months of 2006/07. The EU-25 has tight wheat supplies, and is not subsidizing its exports as intervention stocks reach minimal levels. EU-25 exports are projected to reach 14.0 million tons, the second lowest since 1980. The Ukrainian Government restricted wheat exports to limit internal price increases. Exports for Ukraine are projected to reach 2.8 million tons in 2006/07, less than half the previous year. Russia's wheat exports however, are expected to decline only 8 percent to 10 million tons.

Canada is the exception to tight competing supplies, entering 2006/07 with large stocks and good production. Canada's 2006/07 exports are expected to increase over 30 percent and provide significant competition for U.S. spring wheat and durum.

Overall, foreign competition for U.S. wheat exports in 2006/07 is not very intense. U.S. exports have been limited mostly by tight supplies and high prices for U.S. wheat. The U.S. share of world wheat trade is forecast down in 2006/07 to 22.1 percent, not a record low, but approaching the 20.7 percent nadir reached in 2002/03 (fig. 15).

Figure 15
Declining U.S. share of world wheat market



Source: USDA, PSD Online, Foreign Agricultural Service, PSD Online.

Several Customers Buy Less U.S. Wheat in 2006/07

The top markets for U.S. wheat exports so far in 2006/07 are Japan, Nigeria, Mexico, Egypt, the Philippines, and South Korea. The EU-25 and Iraq, which were top markets in the past, have reduced imports purchases from the United States in 2006/07. U.S. export commitments to the Western Hemisphere are down 16 percent compared to a year ago, with reduced purchases from Mexico, Venezuela, and Colombia.

During recent years, the top five purchasers of U.S. wheat have been Egypt, Japan, Mexico, the Philippines, and South Korea. In 2001/02 Nigeria moved ahead of the Philippines and South Korea, but until 2002/03, Egypt remained the largest market. However, according to *U.S. Export Sales* shipments data, in 2005/06 Nigeria became, for the first time, the largest customer for U.S. wheat. However, so far in 2006/07 Nigeria has purchased less wheat than a year ago.

In 2005/06 Egypt bought more from other suppliers than from the United States, seeking cheaper wheat. According to *U.S. Export Sales*, as of March 1, 2007, commitments (the sum of shipments and outstanding sales) to Egypt were 1.8 million tons, up 73 percent from the previous year's slow pace. Egypt has reemerged as a major U.S. wheat customer, but continues to purchase from the EU-25, Australia, the Black Sea region, and others.

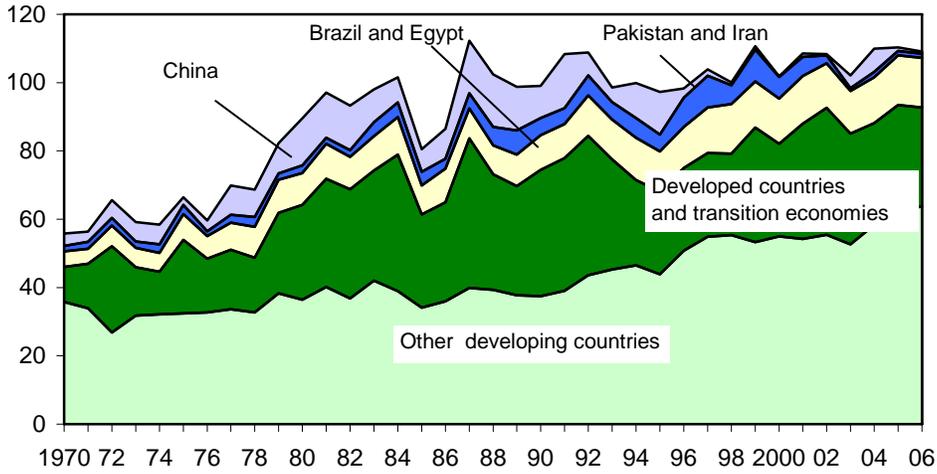
Japan has been the largest purchaser of U.S. wheat in several recent years, and with commitments of 3.0 million tons as of March 1, 2007 has increased purchases slightly. Japan is a very steady buyer. Mexico, with 1.9 million tons of commitments as of March 1, is expected to be the third-largest U.S. wheat market, though it is down from the pace of a year ago, purchasing more from Canada. The Philippines and South Korea remain major U.S. wheat markets, but South Korea's purchases are down slightly so far this year.

In most years, U.S. high-quality spring wheat and durum compete in the EU-25 market with Canadian wheat. With the quality of Canada's wheat relatively poor in 2005/06, U.S. exports to the EU-25 expanded. However, in 2006/07 Canada has much better quality wheat to export and U.S. sales to the EU-25 are down sharply. U.S. wheat exports also compete with Canada to many Western Hemisphere markets (fig. 16). U.S. export commitments to the Western Hemisphere are down 16 percent compared to a year ago, with reduced purchases from Mexico, Venezuela, and Colombia.

Figure 16

Developing countries fuel wheat import growth

Million metric tons



Source: USDA, Foreign Agricultural Service, *PSD Online*.

Wheat by Class in 2006/07

Wheat Supplies Reduced for 2006/07

Supplies of the hard wheats have been reduced by the severe drought in the Great Plains. Durum plantings and production are down sharply from a year ago. The reduced supplies of these classes of wheat lowered their projected exports and ending stocks from a year earlier. Soft white production was down with reduced area, but exports are projected up because of the severe Australian drought, ending stocks are reduced from the previous marketing year. The quality of the 2006 crop is generally good.

Hard Red Winter (HRW) Production Down Sharply in 2006/07

HRW production totals 682 million bushels, down 27 percent (248 million bushels) from last year (table 2). HRW harvested acreage is down 13 percent (3.3 million acres) from last year, mostly due to drought conditions in the Great Plains States that persisted throughout much of the growing season. Yields were down year-to-year by 5.8 bushels per acre to 32.0 bushels. The National Agricultural Statistics Service's (NASS) *Crop Production 2006 Summary* reported that drought caused the crop's condition ratings to decline as it matured. Harvested acreage was down in all States in the region except Arizona. In Texas, wheat production was the lowest since 1971, while acres harvested for grain were the lowest since 1925.

Oklahoma's production was the lowest since 1971, and acres harvested for grain were the lowest since 1955. Hot and dry weather during the summer months across much of the growing region accelerated the growth and maturation of the crop, but decreased its yield potential. Harvest of the crop started slightly ahead of normal and finished well ahead of the normal pace due to these weather conditions. Yields are down from the previous year in all HRW States except Iowa, Minnesota, North Dakota, and Arizona. Record-high yields were reported in Minnesota and Iowa due to ideal weather conditions during crop development.

Table 2--HRW supply and demand 1/

| Item | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07P |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Million acres | | | | | | | | | | |
| Area: | | | | | | | | | | |
| Planted | 34.0 | 32.4 | 30.8 | 30.4 | 28.9 | 30.1 | 32.6 | 30.8 | 30.0 | 29.3 |
| Harvested | 28.7 | 27.3 | 24.4 | 23.6 | 20.9 | 19.9 | 25.6 | 23.4 | 24.6 | 21.3 |
| Bushel per harvested acre | | | | | | | | | | |
| Yield | 38.3 | 43.2 | 43.1 | 35.9 | 36.7 | 31.1 | 41.7 | 36.6 | 37.8 | 32.0 |
| Million bushels | | | | | | | | | | |
| Supply: | | | | | | | | | | |
| Beg. stocks | 143 | 307 | 435 | 458 | 411 | 363 | 188 | 227 | 193 | 215 |
| Production | 1,098 | 1,179 | 1,051 | 846 | 766 | 620 | 1,071 | 856 | 930 | 682 |
| Imports | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 1 |
| Total supply | 1,242 | 1,487 | 1,486 | 1,304 | 1,178 | 984 | 1,260 | 1,084 | 1,123 | 898 |
| Domestic use: | | | | | | | | | | |
| Food | 381 | 387 | 386 | 375 | 366 | 377 | 378 | 382 | 369 | 355 |
| Seed | 36 | 35 | 34 | 32 | 34 | 37 | 35 | 33 | 33 | 36 |
| Residual | 156 | 186 | 132 | 93 | 65 | 74 | 109 | 86 | 76 | 75 |
| Total domestic | 573 | 608 | 552 | 500 | 465 | 488 | 522 | 502 | 478 | 466 |
| Exports | 362 | 444 | 476 | 393 | 349 | 308 | 510 | 389 | 430 | 265 |
| Total use | 935 | 1,052 | 1,028 | 893 | 815 | 795 | 1,033 | 891 | 908 | 731 |
| Ending stocks | 307 | 435 | 458 | 411 | 363 | 188 | 227 | 193 | 215 | 167 |

P = projected.

1/ ERS estimates of area, yield, and domestic use.

Source: USDA, Economic Research Service, *Wheat Outlook*.

The U.S. Wheat Associates' survey published in the *Crop Quality Report 2006* found the overall HRW protein percentage, at 13.7 (12-percent moisture basis), higher than the 12.2 percentage of the 2005 crop and the 5-year average of 12.3 percent (U.S. Wheat Associates). The overall test weight of 60.5 pounds per bushel was higher than the 59.9 pounds for 2005 and the 5-year average of 59.8 pounds. The average flour extraction rate was 67.7 percent, lower than the previous year's 69.1 percent and the 5-year average of 69.6 percent. The 2006 HRW crop's average falling number of 392 seconds was lower than the 401 seconds of the year before and the 5-year average of 407 seconds.⁴

Projected HRW supplies in 2006/07 are 225 million bushels lower than a year earlier, as the lower production more than offset beginning stocks that were 22 million bushels higher. Total projected use, at 731 million bushels, is 177 million bushels lower than last year. Lower projected exports accounted for 165 million bushels of this decrease (fig. 17). Total projected domestic use is down 12 million bushels, as slightly higher seed use is more than offset by lower food use and feed and residual use (fig. 18). The net result is to lower projected HRW ending stocks by 48 million bushels compared with the previous year and the lowest since 1996/97. The projected ending stocks-to-use ratio is 23 percent, less than the 24 percent for 2005/06, but higher than the 22 percent for 2004/05 and 2003/04.

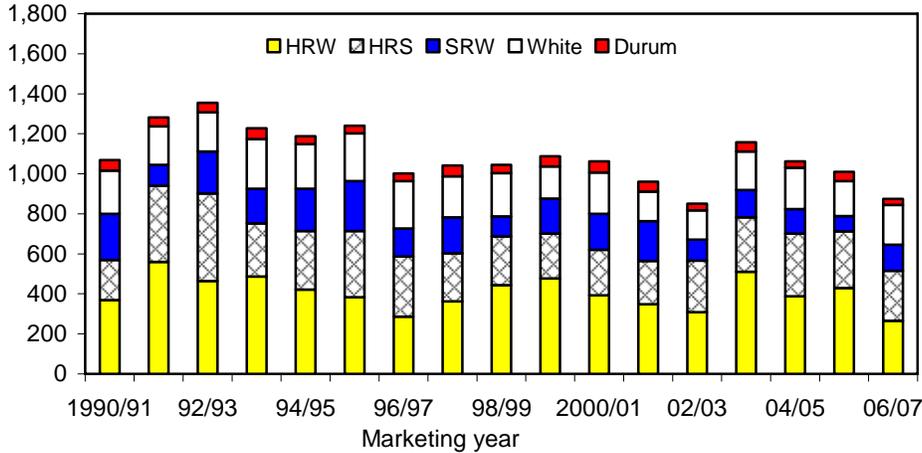
The monthly farm-level prices of HRW for 2006/07 are considerably above a year ago because of the widespread and severe drought in the Great Plains which reduced hard wheat supplies from the previous year (fig 19). This drought raised the prices for both HRW and HRS from the beginning of the marketing year and limited exports of hard wheats compared to 2005/06. Monthly HRW prices increased from \$4.28 per bushel in August to \$4.86 in October as export demand for hard wheat remained strong as foreign wheat production prospects declined and the

⁴ When it rains just before harvest, grain may start to germinate (or sprout) while still on the plant, releasing enzymes. The falling number test gives an indication of enzyme damage to the starch, and thus, the quality consequences for products made from the grain. There are no official standards for falling number. Generally, a value of 350 seconds or longer indicates little damage. In some cases, wheat testing below 300 seconds may be discounted. A test of 200 seconds indicates high levels of damage. For more information about product quality and sprout damage and the mechanics of the test go to <http://www.extension.umn.edu/cropEnews/2004/04MNCN31.htm>.

Figure 17

Wheat exports are projected down in 2006/07

Mil. bu

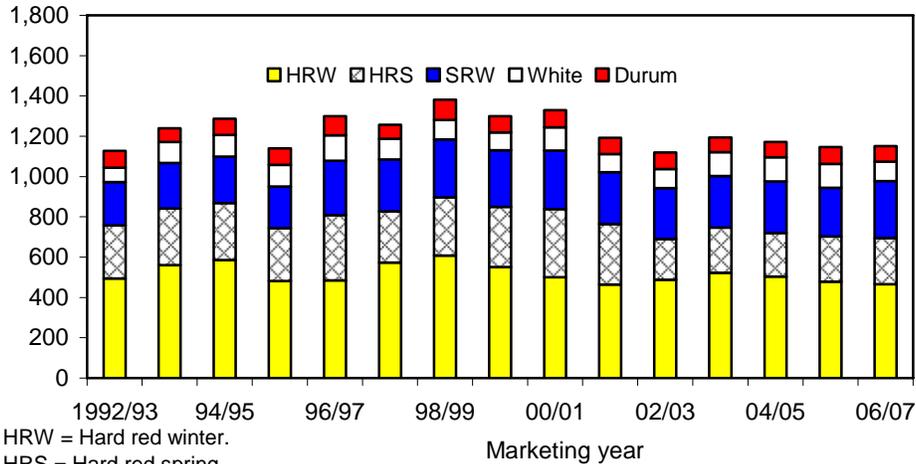


Source: USDA, Economic Research Service, *Wheat Outlook*.

Figure 18

U.S. wheat domestic use for 2006/07 projected nearly the same as in 2005/06

Million bushels



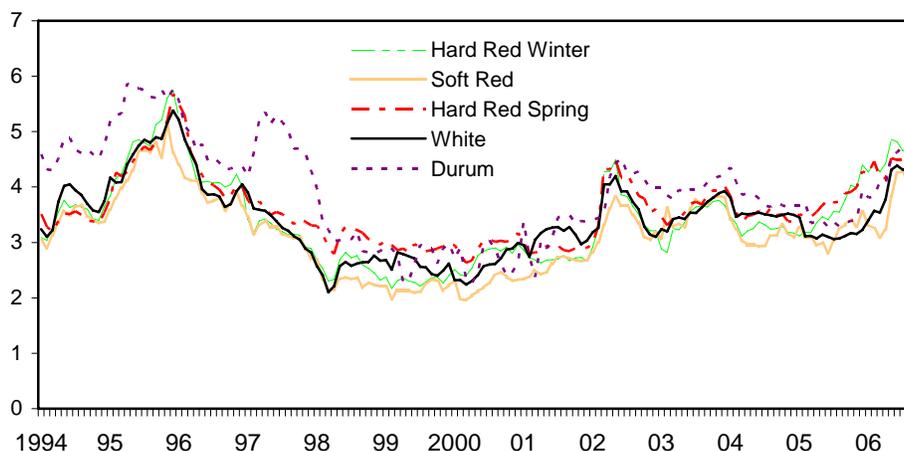
HRW = Hard red winter.
HRS = Hard red spring.
SRW = Soft red winter.

Source: USDA, Economic Research Service, *Wheat Outlook*.

Figure 19

Average monthly prices received by wheat farmers, June 1994-January 2007

Dollars/bushel



Source: USDA, National Agricultural Statistics Service, *Agricultural Prices*.

Prices of corn and soybeans soared in the fall of 2006. Strong corn prices will likely keep prices high and volatile this spring.

Hard Red Spring (HRS) Production Down Compared With a Year Ago

Despite higher planted and harvested area than in 2005, production for the 2006 HRS crop was down 34 million bushels year-to-year to 432 million bushels (table 3). The average HRS yield was 32.2 bushels per acre, down 3.8 bushels from last year and down 10 bushels from the record yields of 2004.

The NASS *Crop Production 2006 Summary* reported that planting in the six major producing States started off behind normal, mostly due to excessive moisture during April. However, planting had progressed ahead of normal by mid-May due to warm and dry weather across much of the growing area. The crop's development and maturation was accelerated by hot and dry weather during June and July. This weather caused the crop condition ratings to decline but pushed maturation and harvest progress ahead of the normal pace in all States in the growing area except Washington and Oregon. Yields were also reduced by this hot and dry weather. Yields were down from the previous year in all States except Minnesota, Colorado, Nevada, Washington, and Idaho. Montana, South Dakota, and Utah yields were down at least 10 bushels per acre from the previous year.

The U.S. Wheat Associates' HRS survey published in *Crop Quality Report 2006* includes the four States of Minnesota, North Dakota, South Dakota, and Montana. The survey found the 2006 HRS crop's protein percentage to average 15.2 (12-percent moisture basis), which was higher than 2005's 14.5 percent and the 5-year average of 14.4 percent.

Table 3--HRS supply and demand 1/

| Item | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07P |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Million acres | | | | | | | | | | |
| Area: | | | | | | | | | | |
| Planted | 18.3 | 14.8 | 14.3 | 14.4 | 14.8 | 14.8 | 13.1 | 13.0 | 13.3 | 14.4 |
| Harvested | 17.5 | 14.4 | 13.8 | 13.6 | 13.7 | 12.6 | 12.7 | 12.5 | 12.9 | 13.4 |
| Bushels per harvested acre | | | | | | | | | | |
| Yield | 28.1 | 33.8 | 32.5 | 37.0 | 34.6 | 27.9 | 39.2 | 42.2 | 36.0 | 32.2 |
| Million bushels | | | | | | | | | | |
| Supply: | | | | | | | | | | |
| Beg. stocks | 166 | 220 | 233 | 218 | 210 | 230 | 145 | 157 | 159 | 132 |
| Production | 491 | 486 | 448 | 502 | 475 | 351 | 500 | 525 | 467 | 432 |
| Imports | 57 | 58 | 56 | 56 | 61 | 23 | 9 | 8 | 13 | 49 |
| Total supply | 714 | 764 | 737 | 776 | 746 | 605 | 654 | 690 | 638 | 613 |
| Domestic use: | | | | | | | | | | |
| Food | 225 | 230 | 242 | 267 | 250 | 215 | 223 | 228 | 227 | 235 |
| Seed | 24 | 18 | 24 | 20 | 23 | 20 | 19 | 21 | 21 | 19 |
| Residual | 5 | 40 | 29 | 51 | 26 | -33 | -17 | -33 | -23 | -25 |
| Total domestic | 253 | 289 | 295 | 339 | 299 | 202 | 225 | 216 | 225 | 229 |
| Exports | 241 | 243 | 224 | 227 | 217 | 258 | 272 | 315 | 282 | 250 |
| Total use | 494 | 532 | 519 | 566 | 516 | 460 | 497 | 531 | 506 | 479 |
| Ending stocks | 220 | 233 | 218 | 210 | 230 | 145 | 157 | 159 | 132 | 134 |

P = projected.

1/ ERS estimates of area, yield, and domestic use.

Source: USDA, Economic Research Service, Wheat Outlook.

The 2006 crop's average test weight of 60.4 pounds per bushel was higher than the previous year's 60.1 pounds and the 5-year average of 60.3 pounds. The average falling number of 431 seconds was higher than 2005's 410 seconds and significantly higher than the 5-year average of 374 seconds. The average extraction rate of 68.5 percent was lower than last year's 70.2 percent and the 5-year average of 69.1 percent.

Projected HRS supplies in 2006/07 are down 25 million bushels from a year earlier. Production and beginning stocks are down 34 million bushels and 27 million bushels, respectively. Imports are projected up 36 million bushels with the elimination of duties and adequate Canadian supplies (see discussion on page ?). Total projected use, at 479 million bushels, is 32 million bushels lower than in 2005/06. Projected exports are 32 million bushels lower than a year earlier, while domestic use is up 4 million as minor changes in seed use and feed and residual use partially offset an 8-million-bushel increase in food use. The net result is that projected HRS ending stocks for 2006/07 are up 2 million bushels from 2005/06 and the second lowest since 1995/96. The projected ending stocks-to-use ratio is 28 percent, up from 26 percent for 2005/06, but still less than the 30 percent for 2004/05 and 32 percent for 2003/04.

The monthly farm-level prices of HRS for 2006/07 are considerably above a year ago because of the widespread and severe drought in the Great Plains which reduced hard wheat supplies from a year ago. Monthly HRS prices increased from harvest lows of \$4.16 per bushel in September to \$4.52 in October, but have remained relatively flat since then. High corn prices and lower expected HRS planted acreage will likely keep prices high and volatile this spring.

Table 4--White wheat supply and demand 1/

| Item | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07P |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Million acres | | | | | | | | | | |
| Area: | | | | | | | | | | |
| Planted | 4.9 | 4.7 | 4.4 | 4.4 | 4.2 | 4.4 | 5.2 | 5.1 | 4.9 | 4.3 |
| Harvested | 4.7 | 4.5 | 4.1 | 4.2 | 4.0 | 4.1 | 5.0 | 4.8 | 4.7 | 4.1 |
| Bushels per harvested acre | | | | | | | | | | |
| Yield | 70.2 | 67.0 | 60.0 | 75.1 | 56.9 | 56.4 | 59.5 | 64.5 | 63.6 | 62.0 |
| Million bushels | | | | | | | | | | |
| Supply: | | | | | | | | | | |
| Beg. stocks | 59 | 90 | 88 | 91 | 75 | 73 | 75 | 72 | 63 | 78 |
| Production | 332 | 301 | 245 | 301 | 226 | 233 | 297 | 306 | 298 | 254 |
| Imports | 8 | 10 | 6 | 5 | 8 | 11 | 11 | 11 | 10 | 10 |
| Total supply | 399 | 402 | 339 | 397 | 309 | 317 | 383 | 390 | 371 | 342 |
| Domestic use: | | | | | | | | | | |
| Food | 80 | 75 | 75 | 74 | 75 | 80 | 85 | 75 | 85 | 85 |
| Seed | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 6 | 7 | 6 |
| Residual | 18 | 16 | 6 | 37 | 8 | 8 | 27 | 38 | 26 | 5 |
| Total domestic | 104 | 97 | 87 | 116 | 89 | 94 | 119 | 120 | 118 | 96 |
| Exports | 205 | 217 | 161 | 206 | 147 | 147 | 192 | 207 | 175 | 200 |
| Total use | 309 | 314 | 248 | 322 | 236 | 242 | 311 | 327 | 293 | 296 |
| Ending stocks | 90 | 88 | 91 | 75 | 73 | 75 | 72 | 63 | 78 | 46 |

P = projected.

1/ ERS estimates of area, yield, and domestic use.

Source: USDA, Economic Research Service, Wheat Outlook.

White Wheat Production Down

White winter wheat production for 2006, the largest part of U.S. total white-wheat production, is down from a year earlier by 34 million bushels, to 226 million bushels (table 4). White spring production was down 10 million bushels year-to-year to 28 million bushels in 2006. The NASS *Crop Production 2006 Summary* reported that yields in the Pacific Northwest States (Idaho, Oregon, and Washington) were at or below last year's level. In Idaho, yields were down from last year due to a lack of timely rains during the growing season. Crop development and harvest progress in Washington and Oregon were accelerated due to hot and dry weather during June and July. Yields in these States were down from last year mostly due to these weather conditions. Yields of white winter were down in 2006 by 2.6 bushels per acre, while white spring yields were up 4.1 bushels per acre. The lower average yields, combined with reduced harvested area to decrease production year-to-year. Of 2006 total white-wheat production, 234 million bushels is soft wheat and 20 million bushels is hard wheat.

According to the Pacific Northwest harvest survey published by the U.S. Wheat Associates in its *Crop Quality Report 2006*, protein percentages for the soft white and club crops, at 10.5 and 10.1 (12-percent moisture basis), respectively, are higher than 2005's 9.9 and 9.4 percent. The 5-year averages for the soft white and the club wheat crops are 10.4 and 9.9 percent, respectively. The 2006 test weights for the soft white and club wheat are 60.2 pounds and 60.0 pounds per bushel, respectively, compared with 60.1 pounds and 60.4 pounds in 2005. The 5-year averages for the soft white and club wheats are 59.9 pounds and 60.1 pounds. The 2006 soft white and club wheat extraction rate percentages are 70.3 and 71.3, respectively. These extraction rate percentages are higher than 2005, which were 67.3 percent and 67.6 percent, respectively, and the 5-year averages of 67.9 percent

and 69.2 percent. The 2006 soft white wheat crop's falling number of 341 seconds is lower than last year's 353 and the 5-year average of 351 seconds. The 2006 club wheat falling number of 343 seconds is lower than the prior year's 356 seconds and the 5-year average of 348 seconds.

The projected 2006/07 total white wheat supplies are down 29 million bushels from 2005/06 because production is down 44 million bushels, while beginning stocks are 16 million bushels higher. Total projected use is up 3 million bushels compared with 2005/06. Exports are projected up 25 million bushels, in part, due to the Australian drought. Domestic use is down 22 million bushels, almost entirely because of reduced feed and residual use with the higher prices. White wheat food use is unchanged. Ending stocks are down 32 million bushels from a year earlier. The projected ending stocks-to-use ratio is 16 percent, sharply less than the 27 percent and less than the 19 percent for 2004/05 and 23 percent for 2003/04.

Importantly for soft white wheat prices, current Australian production is sharply reduced by 57 percent due to a very severe drought. U.S. soft white wheat benefited from the Australian shortfall as its price rose sharply with respect to SRW. In the first half of calendar 2006, soft white prices were as much as \$.33 below soft red winter prices, but by September soft white prices were \$.56 over SRW. Monthly soft white prices increased throughout the marketing year to the present from a June low of \$3.40 per bushel to \$4.39 per bushel as export demand remained strong and the prices of corn and soybeans soared.

Soft Red Winter (SRW) Production Is Up

Slightly higher acreage and higher yields combined to raise SRW production in 2006 to 390 million bushels, 81 million bushels more than in 2005/06 (table 5). Both planted and harvested areas for SRW were up year-to-year by 1.3 million acres and 1.0 million acres, respectively. SRW yields averaged 63.3 bushels per acre, 3.3 bushels above 2005.

Table 5--SRW supply and demand 1/

| Item | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/076P |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| Million acres | | | | | | | | | | |
| Area: | | | | | | | | | | |
| Planted | 9.9 | 10.2 | 9.1 | 9.5 | 8.6 | 8.1 | 8.3 | 8.2 | 6.1 | 7.4 |
| Harvested | 8.7 | 9.1 | 8.0 | 8.1 | 7.1 | 6.5 | 6.8 | 7.0 | 5.1 | 6.2 |
| Bushels per harvested acre | | | | | | | | | | |
| Yield | 54.2 | 48.9 | 56.3 | 57.9 | 55.8 | 49.6 | 55.7 | 54.1 | 60.0 | 63.3 |
| Million bushels | | | | | | | | | | |
| Supply: | | | | | | | | | | |
| Beg. stocks | 45 | 80 | 136 | 133 | 135 | 78 | 55 | 64 | 88 | 106 |
| Production | 472 | 443 | 452 | 469 | 397 | 321 | 380 | 380 | 309 | 390 |
| Imports | 0 | 0 | 4 | 3 | 3 | 13 | 22 | 22 | 27 | 15 |
| Total supply | 517 | 524 | 592 | 605 | 535 | 412 | 457 | 466 | 424 | 511 |
| Domestic use: | | | | | | | | | | |
| Food | 155 | 150 | 155 | 153 | 155 | 165 | 153 | 155 | 155 | 165 |
| Seed | 20 | 17 | 18 | 16 | 16 | 16 | 16 | 12 | 14 | 17 |
| Residual | 82 | 119 | 111 | 120 | 87 | 72 | 87 | 88 | 72 | 100 |
| Total domestic | 257 | 287 | 285 | 290 | 258 | 253 | 256 | 256 | 241 | 282 |
| Exports | 180 | 100 | 174 | 180 | 200 | 105 | 138 | 122 | 76 | 130 |
| Total use | 437 | 387 | 459 | 470 | 457 | 357 | 393 | 378 | 318 | 412 |
| Ending stocks | 80 | 136 | 133 | 135 | 78 | 55 | 64 | 88 | 106 | 100 |

P = projected.

1/ ERS estimates of area, yield, and domestic use.

Source: USDA, Economic Research Service, Wheat Outlook.

The NASS *Crop Production 2006 Summary* reported that SRW harvested acreage is was up about 20 percent from 2005/06 due to ideal conditions during the fall that resulted in dramatically increased planted acreage from the previous year.

Excessively wet conditions prevented many acres from being seeded in the eastern portions of the SRW belt. Harvested area was at or above previous year's level in all States in the growing region except for a band of Atlantic Coast States from Georgia to New Jersey. In Wisconsin, harvested acreage was at a record high level. The crop's yield potential was good throughout the growing season despite dry conditions across much of the growing area during the early spring months. Growing conditions were ideal during the late spring and summer months. Yields were at or above last year's level in all States in the growing region except Florida and Indiana. Yields were record high in the Delta States, Alabama, Tennessee, Kentucky, North Carolina, Illinois, West Virginia, Virginia, Maryland, Pennsylvania, New Jersey, Wisconsin, and Michigan.

According to the midwestern harvest survey published by the U.S. Wheat Associates in its *Crop Quality Report 2006*, the average protein percentage in 2006 for SRW is 9.9 percent (12-percent moisture basis), higher than the 9.5 percent in 2005, but lower than the 5-year average of 10.1 percent. The average extraction rate of the 2006 crop is 68.0 percent, lower than 2005's 70.1 and the 5-year average of 69.8 percent. Test weight for 2006 is 59.8 pounds per bushel, lower than the 60.1 pounds in 2005. The 5-year average for SRW test weight is 59.1 pounds. The average 2006 falling number of 318 seconds is worse than the 2005 crop's 360 seconds and the 5-year average of 355 seconds.

The projected 2006/07 SRW supplies are up 88 million bushels from 2005. The production increase and higher beginning stocks are only partially offset by a 12-million-bushel decrease in projected imports. Total projected use is up 94 million bushels compared with the previous year as exports and domestic use are projected

up 54 million bushels and 40 million bushels, respectively. All domestic uses are up: feed and residual use is up 28 million bushels; food use is up 10 million bushels; and seed use is up 3 million bushels. Ending stocks are projected down 6 million bushels to 100 million. The projected ending stocks-to-use ratio for 2006/07 is 24 percent, less than the 33 percent for 2005/06, nearly the same as the 23 percent for 2004/06, but higher than the 16 percent in 2003/04.

Soft wheat prices began the 2006/07 marketing year much lower than the hard wheats because their supplies were relatively more abundant. Then, in late 2006 when corn and soybean prices began a very rapid rise due to the booming demand for corn for ethanol production the soft wheat prices followed. The result is much higher SRW wheat prices for 2006/07 compared to the previous year.

Monthly SRW prices rose from a low of \$3.10 in August to \$4.28 in December as export demand remained strong and the prices of corn and soybeans soared. The relatively low prices at the start of the marketing year led to more exports than a year earlier.

Harvested area in 2006 was down 0.9 million acres to 1.8 million acres. This is the lowest harvested area since 1961. Yields were down 7.7 bushels per acre to 29.5 bushels. Durum production of 53 million bushels is the lowest production since 1988.

The NASS Crop Production 2006 Summary reported that in the northern Great Plains, hot and dry weather during June and July accelerated crop development but

Durum Production Down Sharply

Durum wheat production for 2006 is down 48 million bushels from 2005 with decreases in both planted and harvested area and yields (table 6).

Table 6--Durum supply and demand 1/

| Item | 1997/98 | 1998/99 | 1999/00 | 2000/01P | 2001/02P | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07P |
|----------------------------|---------|---------|---------|----------|----------|---------|---------|---------|---------|----------|
| Million acres | | | | | | | | | | |
| Area: | | | | | | | | | | |
| Planted | 3.3 | 3.8 | 4.0 | 3.9 | 2.9 | 2.9 | 2.9 | 2.6 | 2.8 | 1.9 |
| Harvested | 3.2 | 3.7 | 3.6 | 3.6 | 2.8 | 2.7 | 2.9 | 2.4 | 2.7 | 1.8 |
| Bushels per harvested acre | | | | | | | | | | |
| Yield | 27.6 | 37.0 | 27.8 | 30.7 | 30.0 | 29.5 | 33.7 | 38.0 | 37.2 | 29.5 |
| Million bushels | | | | | | | | | | |
| Supply: | | | | | | | | | | |
| Beg. stocks | 31 | 26 | 55 | 50 | 45 | 33 | 28 | 26 | 38 | 40 |
| Production | 88 | 138 | 99 | 110 | 84 | 80 | 97 | 90 | 101 | 53 |
| Imports | 29 | 33 | 28 | 26 | 34 | 30 | 21 | 29 | 32 | 40 |
| Total supply | 148 | 197 | 182 | 185 | 163 | 143 | 145 | 145 | 171 | 134 |
| Domestic use: | | | | | | | | | | |
| Food | 73 | 68 | 71 | 81 | 83 | 82 | 73 | 70 | 79 | 85 |
| Seed | 7 | 4 | 9 | 4 | 5 | 5 | 3 | 5 | 3 | 3 |
| Residual | -10 | 30 | 1 | 0 | -6 | -4 | -3 | 2 | 2 | -10 |
| Total domestic | 69 | 101 | 81 | 85 | 81 | 82 | 73 | 77 | 84 | 78 |
| Exports | 53 | 41 | 51 | 56 | 49 | 33 | 46 | 31 | 47 | 30 |
| Total use | 122 | 143 | 133 | 140 | 130 | 115 | 119 | 108 | 131 | 108 |
| Ending stocks | 26 | 55 | 50 | 45 | 33 | 28 | 26 | 38 | 40 | 26 |

P = projected.

1/ ERS estimates of area, yield, and domestic use.

Source: USDA, Economic Research Service, Wheat Outlook.

reduced the yield from 2005. Yields were at or below last year's level in all States except Idaho and California.

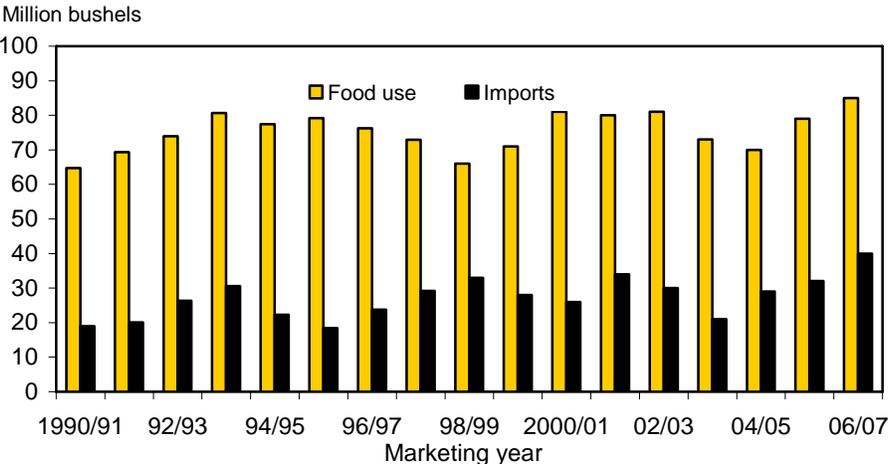
The protein percentage of the 2006 durum crop grown in the Great Plains averaged 15.1 (12-percent moisture basis), higher than the previous-year crop's 13.4 percent, according to the U.S. Wheat Associates in their Crop Quality Report 2006. The 5-year average for protein percentage is 13.9. The average extraction rate of the 2006 crop is 65.1 percent, lower than last year's 66.4 percent, but higher than the 5-year average of 64.2 percent. Average test weight for the 2006 crop is 59.5 pounds per bushel, less than last year's 60.8 pounds and the 5-year average of 60.4 pounds. The average 2006 falling number of 385 seconds is higher than the 2005 crop's 378 seconds. The 5-year average falling number is 354 seconds.

California and Arizona Desert Durum accounted for 26 percent of the country's durum production in 2006, a much larger percentage than normal because of the unusually small production in the Northern Plains. In 2005, Desert Durum production accounted for 14 percent of the national total. This Desert Durum is grown primarily in California's Imperial Valley and adjoining areas in Arizona and is usually delivered "identity preserved" to buyers because of its unique qualities.

The U.S. Wheat Associates in their *Crop Quality Report 2006* reported that the 2006 Desert Durum crop's protein percentage is 13.6, lower than last year's 14.3 percent. The 2006 crop's test weight, at 62.0 pounds per bushel, is slightly lower than the 62.2 pounds for the 2005 crop.

The projected 2006/07 durum supplies are 37 million bushels lower than a year earlier primarily because of the 48-million-bushel decrease in production. Projected imports and beginning stocks are higher by 8 million bushels and 3 million bushels, respectively. Total projected use is down 23 million bushels from 2005/06 as exports and domestic use is projected down 17 million bushels and 6 million

Figure 20
U.S. durum wheat: Food use and imports



Imports include products converted to grain equivalent units.
 2006/07 projected.
 Source: USDA, Economic Research Service, *Wheat Outlook*.

bushels, respectively (fig. 20). Projected food use for 2006/07 is up by 6 million bushels from the previous year, but is more than offset by a 12-million-bushel decrease in feed and residual use. Ending stocks, projected at 26 million bushels, are down 15 million bushels year-to-year. The projected ending stocks-to-use ratio for 2006/07 is 24 percent, lower than the 31 percent a year earlier and the 35 percent for 2004/05, but below the 22 percent for 2003/04.

Durum prices in the spring of 2006 were very low relative to HRS and encouraged farmers to plant less durum and more HRS. The result was durum had its lowest harvested area since 1961 and the lowest production since 1988. Durum prices rose throughout the 2006/07 marketing year. The monthly, farm-gate price of durum rose from \$3.81 per bushel in June to \$4.77 per bushel in December. The price for the remainder of the year is expected to be limited by abundant Canadian supplies.

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Wheat Data: Yearbook Tables

Appendix tables The yearbook tables are available online at <http://www.ers.usda.gov/Data/Wheat/WheatYearbook.aspx>. They will be updated monthly as new data are available.

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<http://www.ers.usda.gov/Data/Wheat/YBtable01.asp>

Table 2--Rye: Planted acreage, harvested acreage, production, yield and farm price,

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<http://www.ers.usda.gov/Data/Wheat/YBtable03.asp>

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Table 5—Wheat: Supply and disappearance

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