

# A New Record Wheat Crop: Will It Reduce Farm Income?

by Gene D. Sullivan

Since 1972 the size of the annual wheat crop has aroused much more public interest than in many years before. The grain shortage of 1972 and the subsequent sales of our surplus stocks, largely to the Soviet Union, created a heightened awareness of the dependency of food supplies on annual agricultural production.

Food prices have risen sharply during the past two years in response to competing demands for limited grain supplies as well as other foodstuffs. Although wheat production has risen each year since 1972, supplies have not yet returned to their former abundant level. Consumers look expectantly to each new crop for signs of renewed bounty that will set food prices on a lower course.

At the beginning of 1975, the USDA released estimates of acreages planted to winter wheat, along with projected production of each state and the nation. Winter wheat accounts for all of the crop in this District, but other types account for about one-fourth of the nation's total wheat crop. Based on those indications, both District and U. S. productions were projected to increase by 15 percent or more in 1975.

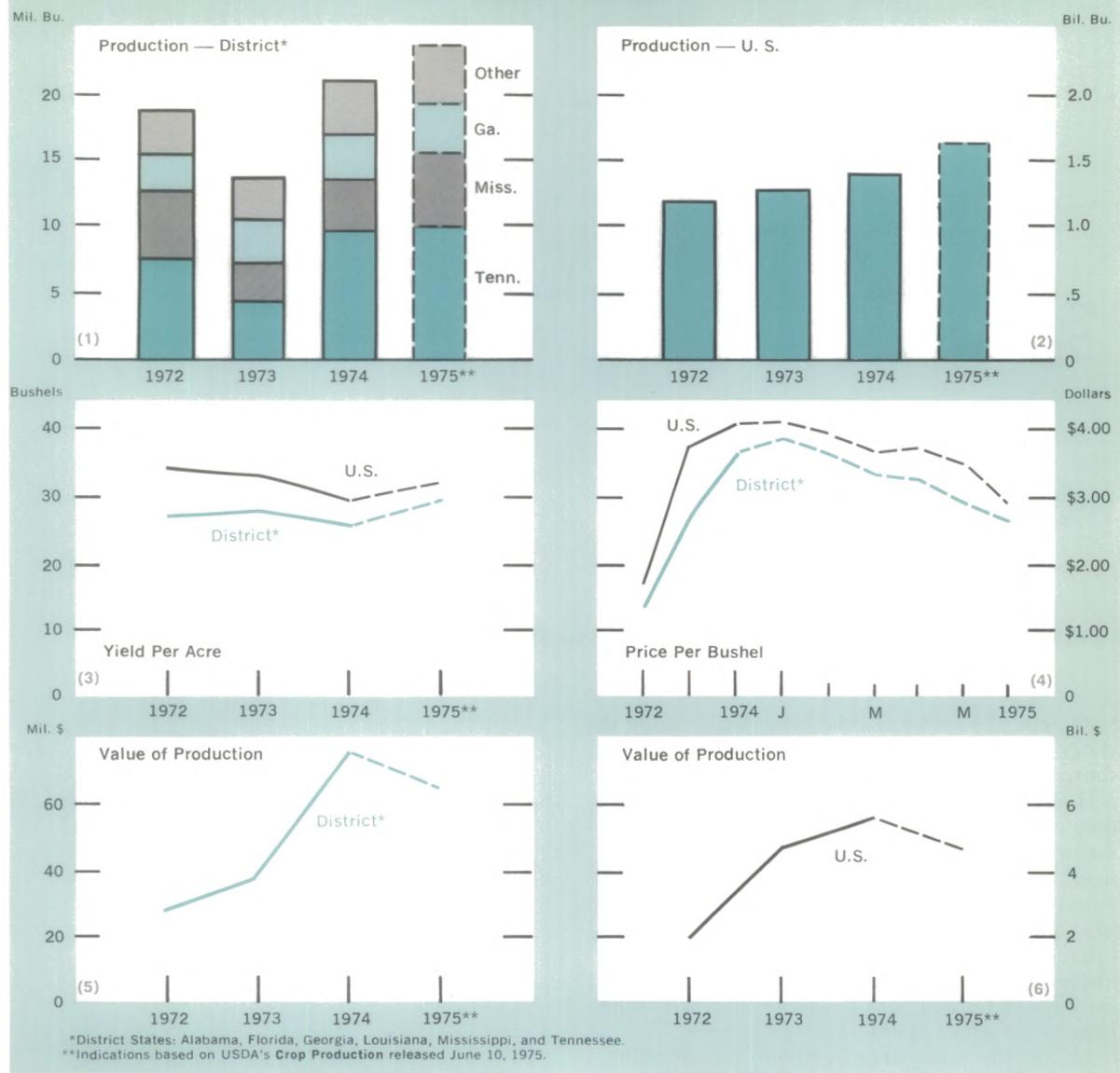
On June 10, with most of the crop having reached maturity (and largely harvested within the District), total U. S. production was indicated to have increased by 16 percent, or 272 million bushels, over 1974's level, while the District's gain had fallen to 12 percent, or 2.5 million bushels (see Figures 1 and 2). This is still by far the largest winter crop ever produced and nearly double the 1973 District crop.

Per acre yields, though improving in District states, lagged substantially behind those of the nation which fully recovered from 1974's sharp dip (see Figure 3). Yield improvement accounted for all of the increase in this region's wheat production in 1975, since planted acreage changed only slightly from 1974's level.

Prospects for the bumper crop, combined with a weakening demand for wheat throughout the first half of the year, were responsible for a rather sharp decline in prices from 1974's average. By June, prices had fallen 25 percent or more in both the District and the nation as a whole (see Figure 4).

As a result of sinking prices, the value of the 1975 winter wheat crop was estimated in June to shrink from 1974's level in both the District and the U. S. despite the sharp increase in output (see Figures 5 and 6). Based on June's average price per bushel in the Southeast, the District crop value would drop about \$10 million, or 14 percent, in sharp contrast to last January's projected increase of \$20 million. In the U. S., the crop value would drop

## Winter Wheat



by 16 percent, or \$930 million. However, this would be a reduction of nearly \$2.0 billion from the anticipated crop value based on prices when farmers decided to increase plantings.

In early July the news broke that the Russian wheat crop was suffering from dry weather and that Soviet agricultural representatives were negotiating with grain traders in the U. S. and Canada for substantial quantities of wheat. By midmonth the size of the first purchases was made public. Grain prices reacted sharply to this news and wheat had risen 50 cents per bushel by mid-July. The sudden appearance of this unforeseen demand for grain reversed the downward trend in wheat price movements, at least temporarily.

The lasting effect of renewed export demand will depend on the total volume of grain eventually purchased as well as on further developments in domestic crops as the season progresses. From this vantage point (late July), it seems certain that despite bumper crops in prospect, the rapid decline in grain prices has been halted. The stimulus to increase livestock feeding will in turn be weakened, possibly delaying the anticipated growth in meat supplies that lower feed prices would have encouraged. Consumers may now have to look beyond 1975 for any food supply bulge that brings lower prices. But the income prospects of wheat farmers who have not already sold their crop are brighter than at the end of June. ■

TENNESSEE

MISSISSIPPI

LOUISIANA

## The Sixth District Share of Personal Income in Mississippi, Louisiana, and Tennessee

Sixth District Portions of Louisiana, Mississippi, and Tennessee Shown in Color

Sixth Federal Reserve District boundaries divide the states of Louisiana, Mississippi, and Tennessee, as shown in the accompanying map. Banking data accumulated and published by this Bank cover only commercial banks within the District. Employment, income, and production data, on the other hand, are typically published on a statewide basis, either by state agencies or by the U. S. Departments of Labor and Commerce. In statistics such as those listed at the end of this Review (page 130), for instance, the reader is comparing financial data for three states and parts of three others with other data for six whole states.

To provide some rules of thumb for offsetting this inconsistency in coverage, we have estimated the percentage of income received within the Sixth District portion of the three split states. To do this, we made these calculations with county census data for the entire years of 1950, 1959, 1967, 1972, and 1973.

These percentages are fairly stable: We found that about three-fourths of Louisiana's personal income, six-tenths of Mississippi's, and seven-tenths of Tennessee's is received on the Sixth District side of the line. It should be emphasized that a higher percentage for one state than another is no indication of superior economic performance. The percentages are basically the result of historical and political considerations which determined Federal Reserve District boundaries almost 60 years ago.

**Percent of State Personal Income Received Within Sixth District Portion**

