Research Department
Federal Reserve
Bank of
San Francisco

September 14, 1973

Staff of Life

A U.S. Senator recently stood in front of a San Francisco bakery and told assembled newsmen that it was outrageous that the price of the city's world-famous sour-dough French bread had gone up from 51 to 59 cents a loaf. His remark was not especially newsworthy, except that it was coupled with a demand for an embargo on the export of U.S. wheat—an increasingly popular demand today among bakers, millers and exporters. Conditions obviously have changed in little over a year's time. In mid-1972, this country was offering cut-rate prices to move its extra stocks of wheat, but today it is hard-pressed to meet its own requirements and at the same time act as supplier for nearly one-half of the world's wheat trade.

The worst pressures may have been reached about mid-August. At that time, the farm price of wheat jumped to $4.45 a bushel, almost double the July figure and triple the year-ago figure. This reflected the mid-August wheat-export report, which showed that the amount contracted for shipment already equaled the Department of Agriculture's projected total of export supplies for the entire marketing year. (However, the figures may have been inflated by over-booking by some purchasers.) Prices generally have been lower since then, but there is no doubt that we are still witnessing a universal scramble for supplies in a world market which is afflicted by the lowest wheat inventories of the past 20 years.

At the retail level, the average price of cereals and bakery products jumped at a 12.4-percent annual rate between January and July. This was less than one-half as rapid as the increases in the fruits-and-vegetables and meat-poultry-fish categories, but it contrasted with gains of 4.5 percent or less in prices of services and non-food commodities. More importantly, further sharp increases are now occurring on the heels of the recent upsurge in the farm price of wheat.

Last year disastrous

The reason for all this can be found in last year's disastrous grain situation—the first reduction in total world production in modern history. The disaster, unappreciated at the time by U.S. policymakers, was highlighted by the crop failure in the U.S.S.R., which normally produces one-fourth of the world's total wheat supply. This crop failure required the Soviet Union to import some 25 to 30 million tons of grains and oilseeds in the 1972-73 period, after being a small net exporter for many years.

The 1972-73 marketing year in the U.S. opened with a very substantial carryover of wheat stocks from the preceding year—863 million bushels. In this situation, the Department of Agriculture announced a new wheat program designed to reduce acreage by 5 million acres and production by 150 million bushels. However, the picture began to change dramatically soon thereafter, with the July 8th agreement by the Soviet Union to purchase $750 million worth of wheat

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and other grains over a three-year period. In the 1972-73 period alone, the Soviets paid $566 million for 345 million bushels of U.S. wheat—about $1.64 a bushel.

This history-making deal was followed by a large Chinese order, then by large orders from other Asian countries. These orders came about partly because of a decline in the rice crop in India and Southeast Asia, which forced many communities to shift to wheat consumption instead. Then there was a supply problem in one of the major exporting countries, Australia, which lost about one-fourth of its total crop to drought. The U.S. market meanwhile was beset by falling inventories, clogged distribution systems, excessive demand stemming from the sharply devalued dollar, and in addition, intense speculative pressures.

Next year hopeful

Nonetheless, by this July the Department of Agriculture was relatively hopeful, forecasting a 10-percent increase in the 1973-74 world wheat harvest to a record 335 million tons. This forecast was based on a recovery of production in the Soviet Union and Australia and substantial output boosts in the U.S. and Canada, offset partly by declines in Argentina and the EEC.

U.S. production for the 1973-74 growing year was estimated this week at a record 1,727 million bushels. Both output and acreage (54 million acres) were forecast as up 12 percent over the comparable year-ago figures. Winter-wheat output should increase 11 percent, and spring wheat should rise even more (19 percent), because of last January's suspension of acreage set-aside requirements.

U.S. domestic use is likely to be off slightly from last year's 796 million bushels. Less wheat may be used for feed, because of a reduction in the number of consuming animals and a possible switch away from this now very high-priced feed. Food usage, on the other hand, may increase slightly as consumers substitute wheat products for even higher-priced food, such as meat.

U.S. exports in the 1973-74 marketing year could exceed last year's unprecedented record of 1,185 million bushels, despite the sharp drop expected in Soviet purchases. The tightness in world export supplies and crop uncertainties abroad have already led to a very substantial commitment of U.S. wheat for delivery in this new marketing year. Export bookings through late August amounted to 1,300 million bushels, roughly equal to the amount predicted for the entire marketing year.

Consequently, wheat "disappearance"—U.S. consumption plus exports—should total 1,880 million bushels, well above the amount expected to be produced in the 1973-74 period. Thus, carryover by next July 1 should drop to a very low 298 million bushels, less than one-half of the average for the past decade. That assumes that output will be up to bumper-crop expectations and that there will be no further unexpected rise in foreign demand.

Prices and supplies
With supplies tight worldwide, a price upsurge has been practically inevitable. In mid-July the U.S. farm price of wheat was a dollar higher than a year ago, and by mid-August it was up two dollars more, to a peak $4.45 a bushel. In this tight world market, Australia, Argentina and the Common Market countries have all acted to halt further wheat exports, and Canada has been selling cautiously only to its traditional customers.

Not surprisingly, Agriculture Secretary Butz recently lifted all government planting restrictions for next year, and offered "target price" protection of $2.05 a bushel on 55 million planted acres for 1974-75. In addition, farmers are now free to plant additional acreage under the spur of record prices and with the secondary support of price-support loans. With this stimulus, total production in the next marketing year might exceed 1,850 million bushels —even higher than this year's bumper-crop projection of 1,727 million bushels.

The worldwide crisis could be overcome with a succession of bumper crops, especially with a recovery of production in the Soviet Union, the world's largest producer. Some skeptics even envision another boom-and-bust cycle, leading to the type of oversupply situation that developed in 1967. On the other hand, the wheat market henceforth will be lacking two features which helped maintain an "ever normal granary" for several decades—that is, substantial reserves in the major exporting nations (the U.S., Canada, Australia, and Argentina) and substantial amounts of crop land idled under U.S. farm programs.

People + affluence = demand
Meanwhile, demand pressures should continue because of growing population and growing affluence worldwide. Population, growing inexorably by 2 percent annually, has created an ever-growing demand for wheat and other cereals, although the neo-Malthusian specter has been held off in recent decades by the Green Revolution, with its emphasis on new varieties of wheat and improved production techniques. In the past two decades, world wheat production has risen 80 percent, as against a 52-percent increase in population.

The effect of increasing affluence can be seen from the relative consumption of wheat and other cereals, which dominate the world food economy. In poor countries today, per capita grain consumption averages about 400 pounds per year; in North America, per capita utilization approaches one ton per year, with over 90 percent of this consumed not directly as cereals but indirectly in the form of meat, milk and eggs. Should the poorer countries ever approach the North American consumption standard, the demand for wheat and other grains could rise astronomically.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 8/29/73	Change from 8/22/73	Change from year ago Dollar	Change from year ago Percent
Loans adjusted and investments *	74409	+ 168	+ 10756	+ 16.90
Loans adjusted—total*	57587	+ 98	+ 10957	+ 23.50
Securities Loans	1287	+ 157	+ 13	+ 1.02
Commercial and industrial	20250	− 133	+ 3579	+ 21.47
Real estate	17151	+ 112	+ 2979	+ 21.02
Consumer instalment	8583	+ 27	+ 1326	+ 18.27
U.S. Treasury securities	5043	+ 17	− 902	− 15.17
Other securities	11779	+ 53	+ 701	+ 6.33
Deposits (less cash items)—total*	72109	+ 192	+ 9325	+ 14.85
Demand deposits adjusted	21144	+ 226	+ 1313	+ 6.62
U.S. Government deposits	382	− 79	− 43	+ 10.12
Time deposits—total*	49530	+ 130	+ 8064	+ 19.45
Savings	17459	− 107	− 741	− 4.07
Other time I.P.C.	23333	+ 252	+ 7112	+ 43.84
State and political subdivisions	5991	+ 16	+ 831	+ 16.10
(Large negotiable CD's)	12338	+ 241	+ 6607	+ 115.29

Weekly Averages of Daily Figures	Week ended 8/29/73	Week ended 8/22/73	Comparable year-ago period
Member Bank Reserve Position			
Excess reserves	56	11	− 8
Borrowings	295	126	25
Net free (+) / Net borrowed (−)	− 238	− 115	− 33
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (−)	− 527	0	− 1025
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (−)	124	142	− 5

*Includes items not shown separately.

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