

MARKET SNAPSHOT Small Grains

Dec. 31, 2022

Executive summary

AgWest Farm Credit's 12-month profitability outlook for small grains and pulse crops suggests slightly profitable returns. The 2022 Northwest wheat and pulse crop improved following drought recovery, but the national winter wheat crop was the smallest since 1970. Wheat producers are in a strong financial position to withstand tighter margins driven by high production costs and softening wheat prices.

12-Month Profitability Outlook



Industry drivers

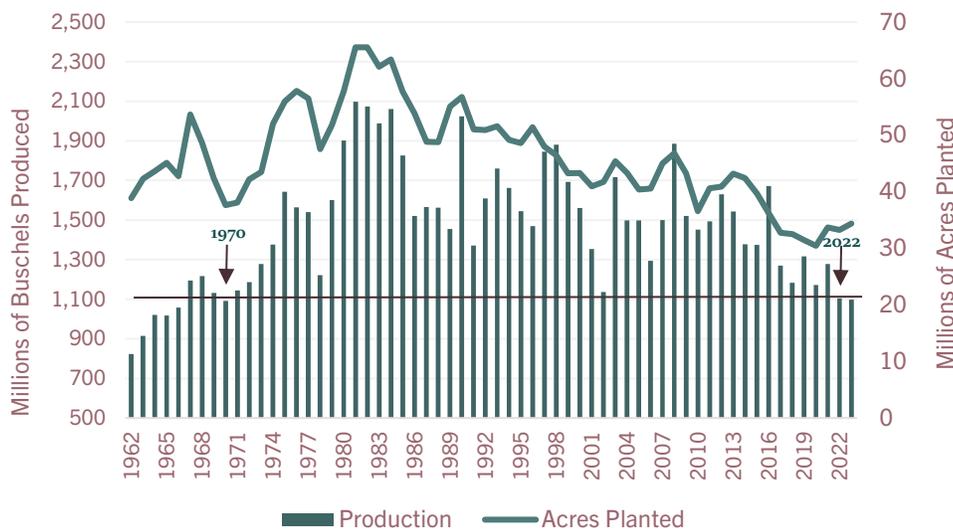
Improved Northwest drought conditions benefit 2022 crop

The Northwest's winter wheat crop and pulses fared better than the national crop, improving to 2019 production levels. Total Northwest bushels produced from the crop harvested in 2022 were up 27.8% because of less severe drought conditions and an additional 370,000 planted winter wheat acres (incentivized by strong prices and substantial crop insurance payments the year before). Drought recovery increased soft white wheat and durum production, up 53% and 66% respectively from the 2021 Northwest crop. Garbanzo beans, lentils and mustard production also improved.

Smallest national winter wheat crop in 50 years

At 1.104 billion bushels, the 2022 U.S. winter wheat crop was the smallest crop since 1970 (1.092 billion bushels). Winter wheat production centers around the Northwest and Central Plains (17% and 61% of national production, respectively). Drought impeded Hard Red Winter (HRW) Wheat production in the Central Plains with more than 80% of Kansas (the largest winter wheat producer) in moderate to exceptional drought causing Kansas HRW production to decrease by 30% year over year. In response, national HRW production fell 28.9% year over year.

National Winter Wheat Production and Acres Planted, 1962-2022



Drought hindered winter wheat production to smallest crop since 1970.

Source: USDA, Compiled by AgWest FC.

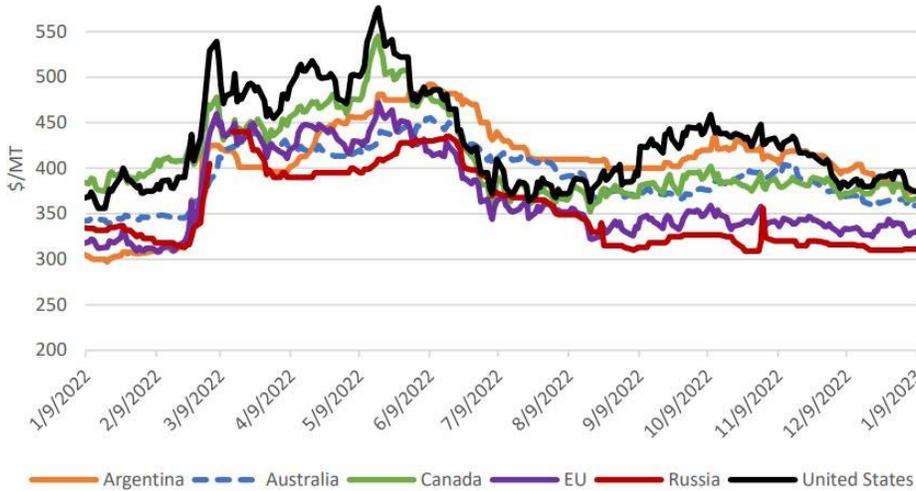
*2023 is a forecast based on 5-year average yield and current planted acres considering wheat conditions.

Looking forward, the USDA forecasts fewer planted winter wheat acres with headwinds from lingering drought. As of Dec. 1, national winter wheat is in the worst condition in over a decade, with only 34% of winter wheat is in good or excellent condition. Drought conditions in the Central Plains are worse than a year ago. If conditions do not improve, the 2023 HRW wheat crop will be negatively impacted by less-than-ideal conditions and lower yields.

Strengthening U.S. dollar slows trade

Of the six largest global wheat exporters, the U.S. has the most second expensive wheat at \$374 per ton (\$43 per ton more than the European Union). A strengthening U.S. dollar and the possibility of a global recession have diverted global wheat demand away from the U.S. Even though U.S. export prices have decreased by more than \$150 per ton since the summertime high, expensive wheat prices combined with a strong dollar will slow trade. Foreign buyers continue to source purchases from Russia, France and Australia.

International FOB Prices for Wheat



At \$374 per ton, U.S. wheat is the second most expensive of the six major wheat exporters.

Source: USDA.

Profitability

Some Northwest wheat producers have yet to sell their 2022 crop. While not uncommon, producers holding out for higher prices will likely be disappointed as prices are looking bearish. On Dec. 12, the February Dark Northern Spring wheat bid price was \$9.96 per bushel, down \$1.21 from a year ago. Small grain producers are in a solid financial position which has allowed them to hold out for higher prices, but the prospects for higher prices look bleak. The war in Ukraine could provide some tailwinds for wheat prices due to the uncertainty of their 2023 wheat production prospects. Potential record wheat production in Australia will most likely keep a lid on any significant increase in world wheat prices; however, there are some quality concerns due to excessive rainfall in the Eastern production regions that grain importers are monitoring. Farm expenses increased by 11.8% (adjusted for inflation) with the largest increases in fertilizer, fuel and interest expense. Grain producers will continue to face elevated costs across nearly every input category while likely receiving lower grain prices.

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Additional information

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Columbia Grain

www.columbiagrains.com

GrainNet News
www.grainnet.com

Merchants Exchange of Portland, Oregon
www.pdxmex.com

Minneapolis Grain Exchange
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National Grain and Feed Association
www.ngfa.org

Pacific Northwest Grain and Feed Association
www.pnwgfa.org

Port of Portland
www2.portofportland.com

U.S. Wheat Associates
www.uswheat.org

USDA – U.S. Department of Agriculture
www.usda.gov

USDA National Agricultural Statistics Service
www.nass.usda.gov/Publications

USDA Weekly Weather and Crop Bulletin
www.usda.gov/sites/default/files/documents/wwcb.pdf

USDA World Agricultural Supply and Demand Estimates
www.usda.gov/oce/commodity/wasde/index.htm

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