



## International Agricultural Trade Report

July 14, 1998

### 1998/99 U.S. Rice Outlook: Down But Not Out

#### Summary

Although 1998/99 U.S. rice exports are expected to slightly surpass the previous year's level, a projected surge in production is likely to result in increased ending stocks and lower prices in the upcoming marketing year. The 1998/99 projected season average price of \$9.00/cwt is still historically high, and if realized, would be the fourth highest since 1982. However, it comes on the heels of three years of near record farmgate prices.

#### Current High Prices Boost Plantings, Especially Southern Long Grain

Strong prices, especially relative to alternative crops, have lured an estimated 5 percent more acreage in the United States into rice production in 1998/99. The increase is primarily in Southern long grain production, where area is estimated up nearly 10 percent from 1997/98. The production surge is expected to add 9.5 million cwt to long grain stocks, boosting stocks-to-use to 15.5 percent, the highest level since 1992/93. Meanwhile, area devoted to medium grain is estimated down due to adverse weather at planting time in California, and a shift away from medium grain in the South. As a result, medium grain stocks are forecast to tighten.

#### Exports Forecast to Increase, But Competition Is Up and Demand is Down

U.S. exports are forecast to increase by 1 million cwt in 1998/99 on continued demand of regular customers such as the EU, Mexico, the Middle East, and Latin America. The lingering effects of El Niño and the Southern Hemisphere crop cycle will likely keep U.S. exports moving to Latin America through the end of the calendar year. However, U.S. producers were not alone in responding to high prices. Virtually all of the major exporters are expected to have increased exportable supplies in 1998/99. More importantly, a return to normal weather should lead to production increases for the importers that are driving 1998 trade to record levels. As a result, world import demand is projected to contract in 1999, and prices are likely to soften. It was heavy purchasing from Indonesia and the Philippines that revived Asian rice prices after the currency devaluations of 1997. As that demand subsides, the full, but delayed, impact of the Asian economic situation may be felt in the rice market.

#### But it's Still Early

The U.S. crop is not yet made, and extreme heat in the South has raised concerns. Furthermore, the world rice situation can change rapidly and dramatically due to borderline self-sufficiency in many key nations. Small drops in production can have a major impact on the world rice market -- as demonstrated by Japan in 1994 and Indonesia in 1998. Finally, the main 1998/99 crops of many of the Asian exporters, as well as key importer Indonesia, will not even be planted for several months.

For more information, please contact Linda Kotschwar at 202-690-1147.