

Wheat Market Pricing

General Mills recently alerted their bakery flour customers that they would move from monthly to weekly pricing, would reserve the right to limit orders and that pricing would not be locked in beyond a two week window for shipment/ pickup.

Fitch Ratings (globally recognized as a leading agency to provide independent ratings on fixed income markets reports: "Increased pricing will not offset all of the higher costs for industry participants" and that commodity-oriented companies will be hit the hardest.

Bloomberg.com reports surges in wheat future trading and historically low inventories of wheat.



What is causing these increases?

- U.S. wheat carryover is at the lowest level that it has been in 60 years. Worldwide drought and weather conditions have accelerated the already strong foreign grain exports.
- In addition, corn is being diverted to ethanol production further strengthening the demand for grain. A Presidential mandate to convert 15 billion gallons of gas to ethanol by 2015 insures that this factor will not go away. Consequently, farmers who were planting wheat have converted their fields to corn, in anticipation of increased profitability.
- Farmers that may have been growing wheat have converted to corn in the hopes that with increased demand they will gain better rewards for their labor.
- Demand has not shown elasticity. The finished goods affected are staples in the American diet. Vance Taylor, president of the North Dakota Mill & Elevator says, "We are not seeing a slack off in demand. With prices increasing three times, it is a little surprising to see demand at about the same levels as last year."
- Grains continue to shipped overseas to feed underdeveloped countries or to be sold on the world market.
- Increased cost of fuel and production are effecting food costs in all categories.

What varieties of wheat are effected?

Spring wheat (the source of high gluten flour used in specialty artisan breads, bagels and pizza doughs) has reached an all-time high never imagined by industry experts. Recently a bushel of this wheat sold on the Minneapolis exchange for \$25. This is five times a year ago. Hard winter wheat, the standard used in bread flour and soft red winter wheat used in cookies, crackers and cake flour have both doubled in price since the same time last year. This translates into increased flour prices across the board, which in turn indicates significant increases in virtually all grain-based finished goods. The three major wheat exchanges took action to limit the daily price increases to 60 cents per bushel above or below the previous day price (the previous limit was 30 cents per bushel).

What can we do about it?

These increases, combined with climbing energy costs have, and will continue to present a challenge to our customers. Thousands of bakeries, restaurant and manufacturing owners and employees are promising to march on Washington, D.C in protest of the increased cost of doing business.

Although you may not be among those able to rally for *decreased export of wheat* and for a *less aggressive requirement for ethanol production*, there **are** steps that you can take. It is clear that effective marketing, creative menu-ing and comprehensive distributor partnership/ programs will be imperative to insure the success and profitability of our customers.

Think positively! Americans still spend the smallest portion of their dollar (10%) on food as compared to the remainder of the world and it is unlikely that they will revert to cooking all their meals at home. Keep you menu new and exciting and they will come....and we can help.