Revised Estimates of China Rice Consumption and Ending Stocks

Supply and demand estimates for rice published in the July 12, 2006, *World Agricultural Supply and Demand Estimates (WASDE)* report incorporate significant revisions to USDA’s estimates of China’s consumption and stocks. The revisions are largely based on recently received data from China National Grain & Oils Information Center (NGOIC) indicating lower total annual domestic use of rice than estimated in the June 2006 WASDE by USDA. While NGOIC does not provide estimates of China’s ending stocks, lower domestic use estimates since 2003/04 imply higher ending rice stocks than reported by USDA in the June 2006 WASDE.

Although the revised rice stock levels are higher than previously estimated, they are consistent with China’s policy of holding large stocks of rice as insurance against catastrophic grain failures, regional imbalances, or other disruptions that could constrict food supplies or force heightened reliance on imports. China’s target stock levels, relative to yearly needs, are much higher than those of other countries or levels recommended for optimum food security by the Food and Agriculture Organization of the United Nations (FAO).

Domestic consumption and ending stocks of rice for China were revised beginning with the 1997/98 marketing year. Revised supply and demand estimates for rice are available in spreadsheet format. The table summarizes rice consumption and stocks revisions for both China and the world since 1997/98.

- From 1997/98 to 2002/03, the NGOIC data indicated slightly higher total domestic use and lower ending stocks of rice than estimated by USDA.

- From 2003/04 to 2006/07, the NGOIC data indicated lower domestic use than estimated by USDA. Changes in feed use of rice account for most of the annual variation in total domestic use since 1997/98 reported by NGOIC.

- From 2004/05 to 2006/07, the smaller annual domestic use reported by NGOIC is responsible for substantially larger ending stocks of rice than estimated by USDA.

China’s ending stocks of rice (milled basis) in 2006/07 are now estimated at 37.4 million metric tons, or 29 percent of annual domestic consumption. Prior to this month’s revisions, the June WASDE placed ending stocks of rice in China at 18.8 million tons, or 14 percent of domestic consumption. The table shows the impact of the revisions for China on global rice use and ending stocks. The revisions of China’s rice ending stocks raised world rice stocks to 79.1 million tons for 2006/07, an increase of 19.1 million tons from last month. The global 2006/07 rice stocks-to-use ratio is 19 percent, up from 14 percent last month.

USDA’s stock estimates for China include only that portion of total rice supplies likely to enter commercial channels. Components include rice stocks acquired and held by government agencies, inventories in the commercial sector, and a portion of the grain
that China's farmers grow and store locally for their own use. USDA assumes that 20 percent of the estimated on-farm rice supplies are likely to enter the market in response to price fluctuations. The assumption is supported by findings of a 1995/96 survey of on-farm grain storage and farmer attitudes.

USDA's decision to revise stock estimates was based on a variety of indicators. First, domestic use estimates by category from NGOIC for 1991/92-2005/06 indicated smaller annual domestic use of rice since 2003/04 than estimated by USDA. The NGOIC data indicated declining total rice consumption since 2003/04, with feed use accounting for almost all of the decline.

Second, data from a 2005 United Nation's report—*Integrated Assessment of the Impact of Trade Liberalization: A Country Study on China’s Rice Sector*—indicated declining annual total domestic rice consumption in China since the late 1990s. In addition, the UN study reported smaller annual total domestic rice use in China since the late 1990s than reported by USDA. Before the July revisions, USDA's annual consumption estimates for China had been nearly flat since 2002/03.

Third, while USDA has reported declining rice stock levels for China since 2000/01—with 2006/07 ending stocks projected to be the lowest since 1974/75—the government of China has given no indications that current stock levels are dangerously low and it has not revealed any plans to make large rice purchases in 2006 or 2007, and even reduced rice imports in 2005. China did boost its rice imports in 2004 in the face of tighter supplies (due to a weather-reduced crop in 2003) and rising prices. However, with increasing production each year since 2004/05, China is again nearly self-sufficient in rice. China is currently importing primarily high-quality fragrant rices—varieties not grown domestically—for urban consumers, indicating adequate rice supplies in China.

Finally, while the upward revisions in China’s ending stocks since 2004/05 are substantial, little impact on global trading prices is expected as these revisions primarily represent statistical adjustments and not changes in market fundamentals. Global trading prices likely already reflect larger ending stocks in China than reported in the June 2006 WASDE. Excluding China, global ending stocks have been rather stable since 2002/03, indicating neither a surplus nor deficit market condition for rice in the global market. While the June WASDE reported global ending stocks in 2006/07 to be the lowest since 1982/83 and the sixth consecutive year of decline, international trading prices have increased only modestly in the past 2 years, with currency fluctuations and Thailand’s intervention purchases accounting for much of the increase.

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