

High Crop Prices Seen
(Wall Street Journal, IL)
By SCOTT KILMAN

The government's first forecast of U.S. farm prospects suggests food makers will struggle with relatively high crop prices at least into next year.

The Agriculture Department said Tuesday in its first official projections of this year's crops -- many of which have yet to be planted -- that it expects a season-average price of corn to be harvested in the fall of \$4.10 a bushel, give or take 40 cents a bushel. While that price is far less than the \$7.50 that corn briefly neared last June, it is just a dime less than the record season-average price for the 2007 crop.

Likewise, the USDA expects the season-average price of the 2009 soybean crop to fluctuate around \$9.45 a bushel, give or take a dollar, a midpoint that is just 4% less than the price of the crop harvested last fall.

The high-price environment bodes well for commodity-processing giants such as Archer Daniels Midland Co. and Bunge Ltd., but is a headache for the food brands that typically spend hundreds of millions of dollars annually on raw ingredients.

For consumers, the USDA report signals little relief at the supermarket. Michael Swanson, a Wells Fargo & Co. agricultural economist, said he expects U.S. food prices to climb 4% to 4.5% this year. While that would be slower than the 5.5% rise in the government's consumer-price index for food in 2008, it is far higher than what consumers were accustomed to earlier this decade. In 2005 and 2006, for instance, food prices climbed 2.4%.

Commodity supplies are expected to remain tight in part because the global recession and tight credit are prompting growers to plant less high-cost crops such as corn, wheat and cotton in favor of crops such as soybeans that don't need expensive fertilizers. Weather problems also are pinching the harvest potential of farmers across the Great Plains and Midwest.

The USDA is projecting that U.S. wheat farmers will harvest 2.03 billion bushels, down 19%. While the USDA expects corn farmers to produce 12.1 billion bushels this year, almost as much as last year, some economists say corn farmers might run out of time to plant nearly two million acres, which would shave production. The USDA expects U.S. farmers to produce 3.2 billion bushels of soybeans, up 8%. 5-13-09