

## US warns extreme food prices will stay



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The **world faces a protracted bout of extremely high food prices**, the US government has warned, overwhelming farmers' ability to cool commodity markets by planting millions of additional hectares with crops.

The US Department of Agriculture on Thursday **forecast nominal record farm-gate prices** for corn, wheat and soybeans in the crop year that begins with the 2011 harvests. It added that food inflation would surge in the second half of this year as wholesale prices filtered through the supply chain, affecting consumers.

The warning at the USDA Outlook Forum in Washington, the biggest annual gathering of the agribusiness sector, is likely to fuel global concerns about rising inflation and the potential for destabilising food riots in developing countries.

Joseph Glauber, USDA chief economist, told the conference that in spite of higher planting for corn and soybeans this spring, grain and oilseed markets were "still forecast to be tight" in 2011-12 due to strong export and biofuel demand.

"While it is often said that the cure for high prices is high prices, even with additional supplies expected this year, it is likely that the tight stocks-to-use situation will not be entirely mitigated over the course of one or even two growing seasons," he said.

Mr Glauber forecast that the heavily subsidised US ethanol industry's demand for corn would continue to grow in spite of higher input costs, consuming about 36 per cent of the domestic crop.

The ethanol industry has been **criticised for driving food prices higher**. But Tom Vilsack, US secretary of agriculture, ruled out any change in US ethanol policy. "There is no reason for us to take the foot off the gas," said Mr Vilsack, the former governor of Iowa, a state in the US corn belt.

Farm-gate prices received by growers for corn, soybeans and wheat will hit average nominal records in 2011-12 of \$5.60 a bushel, \$13 a bushel and \$7.50 a bushel respectively, the forecast said. Farm-gate prices are an indicator of wholesale prices.

Analysts said the USDA forecasts for production, demand and stocks for the 2011-12 season and Mr Vilsack's affirmative comments about ethanol meant agricultural commodities prices could surge even higher this year. "No pullback for agricultural commodities," said Richard Feltes, a respected grain analyst with RJ O'Brien brokers in Chicago. "The speech [of Mr Vilsack] should be alarming to any corn consumer."

The USDA said that the country's farmers would sow 92m acres with corn in the spring, the second-highest yet, and 78m with soybeans, another record.

As the US exports half of the world's corn and a third of the world's soybeans, changes in US acreage and hence the potential supply has a global impact, affecting international buyers such as China.

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