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- U.S. Farmers Heat into Key Stretch for Harvest -

By SCOTT KILMAN

The world is consuming grains faster than farmers are growing them, draining reserves and pushing prices to the levels that fueled food riots in poor countries three years ago.

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A past harvest in Burkburnett, Texas.

The U.S.'s role in keeping a global food shortage at bay hinges in large measure on harvests over the next several months as farmers in the U.S., the world's biggest agricultural exporter, coax wheat, soybeans and other crops from their fields. That outlook is likely to be reinforced Thursday when the U.S. Agriculture Department releases its monthly update on world agricultural markets.

Economists expect world wheat production to recover this year as drought conditions ease in the Black Sea, which would reduce U.S. wheat exports and cause prices to moderate. While economists expect grain prices to ease somewhat if world harvests climb this year, prices would still be expected to remain high for years. What's more, anything less than big crops could cause wild price swings.

"The stage is set for very serious disruptions, should weather disasters happen," said Keith Collins, the former chief economist of the U.S. Department of Agriculture. "It seems clear to me that the chance of a more widespread global food crisis has increased."

With emerging-market economies surging, food prices are soaring along with global demand.

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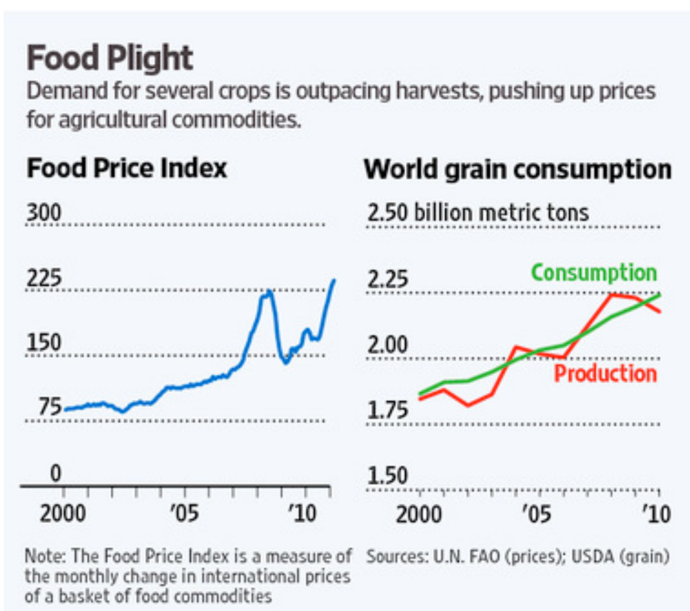
U.N. Says World Vulnerable to Food Crises

Today, wheat prices are up 80% from a year ago. High food prices were among the triggers of street protests that recently swept North Africa, where wheat dominates the region's diet. Egypt is the world's biggest importer of the grain. Governments across Asia are using subsidies and price controls to shield their consumers from inflation.

In the U.S., retail food prices are expected to climb about 4% this year, far faster than in 2010, when the government's consumer-price index for food rose 0.8%, the slowest rate since 1962. Higher food prices are setting in just as consumers are paying more at the pump. Surging energy prices unleashed by unrest in the Arab world also could add to food-production costs.



Chief executives of supermarkets and other food businesses such as restaurants are reluctant to pass along all their rising costs as long as the U.S. unemployment rate, now 8.9%, remains high. That could change if the economy improves.

Evidence of what could lie ahead abounds in the nation's farm belt. Commodity prices are climbing, partly because food-importing nations have few other places to shop.The U.S. controls 55% of the world trade in corn, as well as 44% of the soybean trade, 41% of the trade in cotton and 28% in wheat.

The USDA's February farm-products price index, covering 48 commodities, was 24% higher than in February 2010. That increase translates into a windfall for U.S. grain farmers but pain for cattle feedlot owners, who fatten their livestock with grain.

WSJ's Jon Hilsenrath reports world demand for grains is outpacing farmers' production, draining reserves and pushing prices to the levels that fueled food riots in poor countries three years ago.

China is gobbling up nearly a quarter of the U.S. soybean crop in order to fatten hogs and chickens craved by its middle class. The country's textile mills are buying nearly a third of America's cotton exports. U.S. wheat exports are up 46% from last year because weather problems knocked competitors such as Russia and Canada out of some markets.

Due to rising gasoline prices, as well as federal mandates, about 40% of corn—America's biggest crop—is being brewed into ethanol. By the time the fall harvest begins, the Agriculture Department expects the U.S. to have enough corn left to satisfy the country's appetite for 18 days. The country marked a supply this tight just once since the 1930s Dust Bowl era.

Farmers have long responded to high prices by planting more land and then producing price-depressing gluts. But this cycle appears to be breaking down, which means high food prices could stick much longer than in the past.

Farmers are still producing bigger crops. The USDA is predicting U.S. farmers will increase the area planted with the nation's eight biggest crops this year by 9.8 million acres, or 4%, the biggest change in 15 years. The department expects corn farmers to harvest a record 13.73 billion bushels this fall.

But demand for corn is so strong that this 10% increase in the harvest would lengthen the country's reserves by merely five days. As a result, the USDA expects the price of this year's yet-to-be-planted corn crop to average a record $5.60 a bushel.

Global coffee production was at a record last year, but prices are rising because reserves are stretched thin. Sugar prices are the highest in nearly 31 years despite a record-large crop last year. The potential for civil war in cocoa-exporting giant Ivory Coast has lifted prices to the highest level in 32 years despite record production last year.

Due to weather problems last year in major wheat-producing nations such as Canada and Russia, world wheat production dropped 5.5%, but output was the third biggest ever.

"Demand strength has increased to the point that good years are not filling bins to compensate for bad years," said Keith Flury, a senior commodity analyst at Rabobank, London.

A solution is for farmers to ramp up production even faster than they have been. But that is hard to do in farming powers such as the U.S., where prices for cropland are soaring and the best land is already taken. Much of theforeign land that could be brought under plow is located in regions where the weather is volatile, such as the Black Sea wheat belt.

"The era of (crop) surpluses is over," said Dan Glickman, who was Agriculture Secretary during the Clinton administration, and is now a senior fellow at the Bipartisan Policy Center, a Washington think tank.

David Cleavinger, a 53-year-old farmer who raises 3,500 acres of grain and cotton near Wildorado, Texas, in the state's panhandle, said, "Prices are high but everything about farming seems to be getting riskier."

Many economists worry about what would happen to food prices if a long-overdue drought were to hit the Midwest's corn and soybean-growing states this summer. Most meteorologists aren't forecasting one for the Midwest, but are watching dry weather in the Southern Plains with concern.

The 1988 drought slashed the size of the U.S. corn crop by 31%. The food system absorbed that shock because the U.S. had seven months of corn in reserve when farmers harvested their shriveled fields. With this year's puny crop reserves, such a drought could cause the per-bushel prices of corn and soybeans to roughly double to $12 and $27, respectively, from their current sky-high levels, says Dan Basse, president of AgResource Co., a Chicago commodity-forecasting concern.

Economists say the political pressure to strip the ethanol industry of federal support could build if U.S. food prices soared and the high cost of feeding livestock crippled the production of milk, pork, beef and chicken. Overseas, the numbers of malnourished people would climb even as the buying power of U.S. funds to feed the hungry around the world—an amount estimated at $2.1 billion in fiscal 2010—weakened.

Drought is on the minds of many U.S. analysts because dry weather is already shrinking the potential of the winter wheat crop on the Southern Plains, which is planted in the fall and harvested in early summer. Meteorologists see a good chance for unusually dry weather to persist across much of the southern U.S. this spring. In Texas, a major wheat-growing state,56% of the crop is rated in poor to very-poor condition by the USDA.