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U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE

FEBRUARY 17, 2011

Mr. Chairman, members of the Committee, thank you for the invitation to discuss recent developments in and prospects for the farm economy. As we enter 2011, the farm economy continues to remain strong with U.S. agricultural exports, farm cash receipts and net farm income projected at or above previous record levels. Farm household debt levels appear to have stabilized despite increasing land values. While prospects generally look bright, recent sharp increases in prices for major crops are generating a range of concerns. I will describe the prospects and recent developments in output and input markets and the challenges and opportunities they present for U.S. agriculture.

Agricultural Export Developments

Despite modest domestic economic growth, economic growth, especially in less developed countries, and the reduced value of the dollar are likely to support global commodity demand, keeping pressure on global supplies and prices for a wide range of agricultural products.

U.S. agricultural exports setting records. Supported by foreign economic growth particularly in developing countries and crop production shortfalls around the world, U.S. agricultural exports are expected to be record high this fiscal year. USDA's forecast for U.S. agricultural exports for FY 2011 is a record high $126.5 billion, up from $108.7 billion in FY 2010, and the previous record of $114.9 billion in FY 2008. Imports, too, continue to grow and are expected to reach $85.5 billion this fiscal year compared with $79 billion last year. Nearly half of imports are horticultural products and another fifth are sugar and tropical products such as

cocoa, coffee and rubber. This year, the agricultural trade balance is forecast to be a record $41 billion, up from $29.7 billion last year.

Soybean and wheat exports are forecast to be up in volume and value because of less foreign competition due to adverse weather conditions in other countries. Corn exports are forecast up in value due to lower U.S. production and weather concerns in South America, while higher cotton export volume and value reflects tightening global stocks and strong Chinese demand. Livestock exports are forecast to rise as the volume and value of beef, pork and poultry exports increase. Horticultural exports are being helped by the decline in the value of the dollar.

Canada is our number 1 agricultural export market, accounting for 14 percent of expected exports this year. China has moved up to number 2, also with a 14 percent share. Mexico is now number 3 with an expected 13 percent share followed by Japan at number 4 with a 10 percent share and the European Union at number 5 with a 7 percent share.

Farm Income and Retail Food Price Developments

U.S. farm income consistently strong. Cash receipts for producers are forecast at a record $341 billion in 2011, up $28 billion from 2010 and $57 billion from 2009. Cash production expenses are forecast to be a record $274 billion in 2011, up $20 billion from 2010 and $25 billion from 2009. With receipts rising faster than expenses, net cash farm income is forecast at a nominal record of $99 billion this year, up $7 billion from last year and nearly $30 billion from 2009. After adjusting for inflation, five of the highest income years since 1976 have occurred during 2004-11 (2004, 2005, 2008, 2010, and 2011).

Cash receipts for both crops and livestock are forecast to reach new record highs in 2011. Crop cash receipts are forecast to reach $195 billion in 2011, exceeding the previous record set in 2008 by $18 billion. Cash receipts for corn, soybeans, cotton, and fruits and nuts are all

expected to rise to all-time highs. Cash receipts for wheat will likely be up in 2011 but remain below the record level set in 2008.

Cash receipts from all livestock species are forecast to reach $146 billion in 2011, exceeding the previous record by $4 billion. Receipts for cattle, hogs and poultry are all expected to set record highs. Dairy receipts are forecast to increase in 2011, but remain below 2007 and 2008 levels. Government payments to producers in 2011 are expected to total $10.6 billion, down $1.6 billion from 2010. In 2011, producers are forecast to receive $4.7 billion in direct payments, $3 billion in conservation payments, $1.9 billion in disaster payments, and $0.8 billion in tobacco transition program payments. With major crop prices forecast to be near or above previous record high levels in 2011, counter-cyclical payments and marketing loan benefits are projected to be only $20 million in the coming year.

The $20 billion increase in cash production expenses since 2010 is mainly due to a $4 billion increase in farm origin inputs (livestock, feed), $6 billion more in energy-based input costs (fuel, fertilizer, electricity, and pesticides), and $6 billion more in other operating expenses. The year-over-year increase in feed expenses is projected to slightly exceed the increase in livestock cash receipts. If this occurs, livestock and dairy producers could be under added financial pressure in 2011.

The balance sheet of U.S. agriculture is expected to strengthen again in 2011. Consistent with recent trends, increases in debt are forecast to be offset by larger increases in farm asset values. As a result, the farm sector's debt-to-asset ratio should drop further below last year's 11.3 percent in 2011.

Retail food price inflation to remain modest. In 2010, the Consumer Price Index (CPI) for all food increased by 0.8 percent, the lowest annual food inflation rate since 1962. The

CPI for food-at-home (grocery store) prices increased 0.3 percent, while food-away-from-home (restaurant) prices increased by 1.3 percent. Higher commodity and energy prices are expected to lead to a stronger increase in retail food prices in 2011. For 2011, the CPI for food is currently forecast to increase by 2 to 3 percent. During the previous spike in commodity and energy prices in 2007 and 2008, the CPI for food rose by an average of 4.7 percent over the two years. The Economic Research Service will update its forecast for the CPI for food for 2011 later this month.

Developments in Farm Output Markets

Major crops: global supplies tight. For the 2010/11 marketing year, global demand is forecast to exceed global production causing global stocks of grains and oilseeds as a percent of use to fall and crop prices to rise. Global wheat production is forecast to decline by 5.5 percent in 2010/11, due primarily to adverse weather and reduced output in Russia, Kazakhstan and Ukraine. For corn, increasing global use and lower production in the United States is forecast to lead to a 15.6 percent decline in global ending stocks. And, weather-reduced soybean production in Argentina is projected to reduce global soybean stocks.

For the United States, strong export demand for crops has supported above average farm income in recent years. Market fundamentals continue to look strong as growth in demand, limited carryover and weather concerns have contributed to rising prices for most major crops. U.S. carryover of corn, wheat, soybeans and cotton could all decline in 2010/11 as total use is forecast to exceed production.

Higher crop prices will likely lead to increased area seeded to major crops in the U.S. this spring and increased crop production this fall. Assuming normal rainfall over the spring and

summer, production of major crops will likely be up in 2011, leading to some rebuilding of carryover and reduced pressure on crop prices.

Corn carryover tight in 2010/11. Under nearly ideal planting conditions this past spring, corn producers planted 88.2 million acres, up from 86.4 million in 2009 and the second largest area planted to corn in more than 60 years. Despite the higher acreage, corn production dropped by 5 percent from last year to 12.4 billion bushels. Total corn use is forecast to reach a record 13.5 billion bushels in 2010/11, reflecting the expanding ethanol industry and continued strong global demand for corn. Stocks of corn at the end of 2010/11 marketing year are forecast to decline by 60 percent to 675 million bushels, resulting in the lowest stock-to-use ratio since 1995/96. The farm price of corn is forecast to average a record $5.05-$5.75 per bushel during 2010/11, compared with $3.55 per bushel in 2009/10 and the previous record of $4.20 in 2007/08.

Corn acreage likely up in 2011. Corn planted area for 2011 is expected to increase as prices and returns have improved considerably in recent months. December 2011 futures prices for corn are currently more than $2 per bushel above the peak of December 2010 futures last February. Current cash prices are more than $3 per bushel above February 2010 levels. Given the current outlook for the 2010-crop corn and competing crop prices, corn planted area next spring could increase 3 to 5 percent from 2010. Higher plantings combined with a return to trend yields could lead to a record corn crop in 2011 and higher carryover stocks in 2011/12.

Ethanol growth expected to slow. U.S. ethanol production capacity is now estimated at 14 billion gallons. Production capacity is expected to increase modestly over the coming 18-24 months. New construction could add 560 million gallons of additional ethanol production capacity, bringing total capacity to about 14.6 billion gallons.

Most ethanol production in the United States currently uses corn as the feedstock. In 2010/11, 4.95 billion bushels of corn are expected to be used to produce ethanol, with ethanol use accounting for 37 percent of total use and 40 percent of corn production. In comparison, 4.57 billion bushels of corn were converted into ethanol in 2009/10 accounting for 35 percent of total use and 35 percent of corn production. In contrast to the increase in ethanol use of 382 million bushels between 2009/10 and 2010/11, corn ending stocks are projected to fall by over 1 billion bushels between the two crop years. These figures indicate that declining corn production is the primary factor contributing to the drop in corn carryover this year and the primary factor contributing to the recent increase in corn prices. Furthermore, each bushel of ethanol produced from corn yields byproducts, such as distiller dried grains, which substitute for corn and other feed ingredients in livestock rations.

The profitability of producing ethanol from corn depends on the price of corn, the price of gasoline and the cost of converting corn into ethanol. The returns from producing ethanol from corn increase as the price of gasoline increases providing an incentive to expand ethanol production capacity and to use additional corn for ethanol production. If petroleum and gasoline prices move higher over the next several months, this will increase the demand for ethanol leading to additional corn being used for ethanol production.

Soybean production down slightly in 2010/11. Soybean planted area remained essentially unchanged in 2010 but the average yield per acre fell slightly, causing soybean production to fall to 3.33 billion bushels, down 1 percent from last year's record production but still the second largest crop on record. U.S. soybean exports are expected to increase about 6 percent from last year's record to 1.6 billion bushels, reflecting lower production and reduced competition from South America and increasing U.S. exports to China. Meanwhile, soybean

crush is forecast to decline by 5.5 percent as increasing availability of distiller dried grains and stable livestock production lower the demand for soybean meal. With lower production and little change in total use, carryover levels are forecast to decline 7 percent from last year. The farm price of soybeans is forecast to average a record $11.20-$12.20 per bushel for the 2010/11 marketing year, compared with $9.59 last year and the previous record high of $10.10 in 2007/08.

Soybean area forecast to increase slightly in 2011. U.S. soybean planted area is forecast to increase slightly in 2011. Current futures imply a soybean to corn price ratio of 2.2, slightly favoring corn over soybeans. However, rotational practices favor soybeans and strong soybean prices could encourage farmers to plant soybeans on cropland previously planted to rice, sorghum, barley and oats.

Returns to biodiesel improve. Fifteen percent of 2010/11 soybean oil production is expected to be used to produce about 380 million gallons of biodiesel. Soybean oil is the feedstock for about 50 percent of domestically produced biodiesel. The amount of soybean oil used in biodiesel production fell by 17 percent in 2009/10 to 1.7 billion pounds, but is expected to increase to 2.9 billion pounds in 2010/11.

Wheat acreage down, prices up in 2010/11. For 2010/11, wheat acreage continued its long term decline falling by nearly 6 million acres to 53.6 million, the lowest since 1970. U.S. wheat production is estimated at 2.2 billion bushels, essentially unchanged from the previous year as lower harvested acreage was offset by improved yields per acre. In 2010/11, favorable weather pushed the average yield per harvested acre to a new record high of 46.4 bushels per acre, up 1.5 bushels from the previous record.

Total wheat supplies for 2010/11 are estimated at 3.3 billion bushels, up from 3.0 billion bushels in 2009/10, with higher beginning stocks accounting for all of the increase. Higher forecast exports, reflecting lower production in competitor countries, could increase total use from 2.0 billion bushels in 2009/10 to 2.5 billion in 2010/11, causing U.S. ending stocks to decline 16 percent to 0.8 billion bushels. The average farm price of wheat is forecast to average $5.60-$5.80 per bushel in 2010/11, compared with $4.87 per bushel for the 2009/10 crop and the record high of $6.78 in 2008/09.

Wheat area to expand in 2011/12. Winter wheat seeded area this past fall totaled 41.0 million acres, up from 37.3 million acres the previous year. Despite the recovery in area, wheat production could be down in 2011 as yield per acre drops off from last year's record high. Current winter wheat conditions on the Central and Southern Plains are not as favorable compared with this time a year ago, because of the lack of soil moisture. A much higher percentage of the winter wheat crops in Kansas, Oklahoma and Texas are currently rated poor to very poor than one year ago.

Cotton area and production up as prices increase. In 2010/11, cotton producers responded to improved returns by increasing planted area by 20 percent. The area planted to cotton, 10.97 million acres, was the highest in four years. Cotton area increased across each region of the Cotton Belt in 2010. Higher plantings, reduced abandonment and improved yields are projected to increase cotton production to 18.3 million bales in 2010/11, up 50 percent from the previous year and the highest in 3 years.

U.S. cotton use for the 2010/11 season is forecast at 19.35 million bales, 25 percent above last season. U.S. mill use is forecast to increase slightly while U.S. exports are forecast to increase by nearly one-third. With larger U.S. exportable supplies available this season and

foreign import demand rising, U.S. cotton exports are forecast to increase to their second highest level on record. U.S. ending stocks are forecast to drop to 1.9 million bales in 2010/11, the lowest since 1924/25. Reflecting the low level of stocks, cotton prices have remained relatively high through the early months of the current season. The 2010/11 farm price is forecast to average 79-84 cents per pound, up from last season's price of 62.9 cents and the previous record high of 76.5 cents in 1995/96.

More cotton area in 2011/12. Rising cotton prices will likely attract additional acreage back to cotton production in the United States, despite improved returns for corn and soybeans. Cotton planted area in the United States could increase as much as 10-15 percent in 2011. Improved returns could lead producers to plant cotton on cropland previously planted to sorghum, rice and other crops as well as producing cotton on cropland previously left unplanted due to low returns.

Rice production up, prices moderate. For 2010/11, rice planted area increased to 3.64 million acres, up from 3.14 million acres the previous year, and the second highest on record. Total rice production is up about 11 percent from last year to a record 243 million cwt. Total use is forecast to increase by 5 percent in 2010/11, reflecting improvements in both domestic use and export prospects. However, the strong increase in production is expected to lead to a sharp increase in ending stocks, despite higher total use. U.S. ending stocks are projected at 52.8 million cwt. for 2010/11, up 44 percent from last year. The farm price of rice is forecast to average $12.15-$12.65 per cwt. in 2010/11, down from $14.40 per cwt. last season.

Sugar market remains tight. World and U.S. sugar prices have remained high, as potentially tight global supplies continue to weigh on the market. In mid-December, Florida's sugarcane producing region experienced a severe freeze. According to processor reports, this

freeze resulted in widespread damage to existing sugarcane crops awaiting harvest and recently planted sugarcane meant for harvest next year. Nearly all of Australia's sugarcane production is in the northeast. That region received very heavy rainfall in November and December damaging that country's sugarcane crop.

U.S. sugar production for 2010/11 is currently estimated at 8.01 million short tons, up from last year's crop of 7.97 million tons. With import quotas for sugar set at the minimum amount to which the United States is committed under the WTO for 2010/11, U.S. sugar imports are forecast to fall to 3.25 million tons, down from 3.32 million tons last season. U.S. sugar ending stocks are projected to decline about 10 percent to 1.35 million tons resulting in a stock-to-use ratio of 11.8 percent, down from 13.3 percent last year.

Specialty crop sales stabilize. In 2011, specialty crops will continue to provide a significant source of cash revenues for U.S. producers. Cash receipts for fruits, nuts, vegetables and melons in 2011 are forecast at $41 billion, unchanged from 2010. Higher cash receipts for fruits and nuts are expected to be more than offset by lower receipts for vegetables and melons.

Livestock & livestock products: U.S. production and prices stable. Total U.S. production of meat and poultry is forecast to remain stable in calendar year 2011, with slight growth forecast in supplies of pork and poultry but reduced supplies of beef. Stable production, increased exports and some recovery in domestic demand should help maintain livestock prices near last year's historic highs.

For livestock and poultry producers, increasing feed costs will be an important component of producer production decisions in the upcoming year. In January, the price-feed cost ratios for cattle, broilers, hogs and milk, as reported by NASS, were all well below year ago levels. While livestock prices are expected to remain strong and further improvement in milk

prices is likely in the months ahead, higher feed costs could lead to below average margins for livestock and dairy producers in 2011.

Cattle prices forecast record high. Commercial cow slaughter maintained a high pace during all of 2010. Cow slaughter was the largest in well over a decade, even though the U.S. cow herd on January 1, 2010 was the smallest since 1951. While cattle marketings for the last half of 2011 are expected to be lower year-over-year, net placements in feedlots during 2010 will likely maintain beef supplies during the first half of 2011 near previous year levels. For all of 2011, beef production is currently forecast to decrease 1.5 percent, following a 1.4 percent increase in 2010. Steer prices are expected to average a record $102-$109 per cwt. this year, compared with $95 per cwt. in 2010.

Total North American cattle inventories are at their lowest levels in decades. With smaller Canadian and Mexican inventories expected in 2011, U.S. cattle imports are forecast at 2.1 million head for the year, down from 2.3 million in 2010.

Pork production to increase slightly. Pork production in 2011 is estimated to increase by 0.4 percent after falling by 2.4 percent in 2010. While hog prices were up 34 percent in 2010 and are expected to average higher in 2011, increases in feed costs are expected to temper expansion over the next several months. The *Quarterly Hogs and Pigs* report released by USDA on December 27, 2010, showed lower swine inventories and lower farrowing intentions for the first half of 2011. During the first-half of 2011, sow farrowings could be about 1.4 percent lower than in the same period last year.

While smaller breeding animal inventories and lower farrowing intentions often translate into lower pig crops, continued gains in sow productivity are expected to largely offset lower farrowing numbers in 2011. Moreover, continually improving swine genetics and enhanced

nutrition management practices are expected to continue to move average dressed weights slightly ahead of last year's average, helping to push pork production slightly ahead of last year's level. Hog prices are forecast to average $58-$61 per cwt. in 2011, up from $55 in 2010 and $41 in 2009.

Broiler production to post modest increase in 2011. The outlook for growth in broiler meat production for the beginning of 2011 has changed considerably over the last several weeks, due to sharp changes in both the weekly number of broiler eggs placed in incubators and the number of chicks being placed for growout. At the end of November, the number of chicks being placed for growout was averaging 5.5 percent higher than the previous year. By the first week of January, the average number of chicks placed for growout was only 0.8 percent higher than in the same period the previous year. This abrupt slowdown is likely the result of sharp increases in feed prices, especially coming at a time when wholesale prices for many broiler products have been declining. Reflecting this slowdown, broiler production is projected to increase by about 1 percent in 2011 following a 4 percent increase in 2010. The price of broilers is forecast to range from 80-85 cents per pound in 2011, compared with 83 cents in 2010 and 78 cents in 2009.

Milk prices to move higher. Milk production is estimated to increase by 1.8 percent in 2011 to 196.1 billion pounds. While feed costs are up considerably in recent months, a decline in cow numbers may not occur until later this year because of the large number of replacement heifers available. Milk per cow is forecast to increase again this year but at less than the pace for 2010. The gain in output per cow last year was due to good weather in addition to moderate feed prices.

In recent weeks, both the domestic and international markets for dairy products have tightened considerably leading to a sharp increase in wholesale dairy product prices and futures prices for milk. Milk output has been affected by cold weather in the U.S. and Europe and heavy rains in New Zealand and Australia. Since early January, the wholesale prices of cheddar cheese, butter and nonfat dry milk have increased by 25-50 percent.

The all-milk price is forecast to average $17.70-$18.40 per cwt. this year, compared with $16.29 in 2010 and $12.93 in 2009. While milk prices are forecast to be higher in 2011, increasing feed costs could continue to put financial pressure on dairy producers, especially those producers that purchase feed at current price levels.

Developments in Farm Credit and Land Markets

Credit conditions appear to be improving. Third quarter 2010 Federal Reserve Bank surveys indicate moderately improving farm credit conditions nationwide. Commercial banks across the country indicated ample availability of loan funds, increased loan repayment by farm borrowers, increased farm incomes, and fewer requests for renewals and extensions than in 2009. Exceptions include regions dominated by livestock, milk and poultry production which indicated slightly worsening farm credit conditions.

Banks in all Federal Reserve Bank districts reported lower demand for farm loans in 2010, despite historical lows for farm interest rates. Capital spending was up, especially for larger items (100-HP tractors and combines). The increased capital spending and reduced loan demand suggests that these items were being financed with cash or nonbank credit.

While farm incomes and credit conditions showed improvement in 2010, Federal Reserve Bank surveys indicate credit standards for banks remain tight. Bankers in all regions except the Kansas City Federal Reserve District reported increased collateral requirements on farm loans.

Farmland costs move higher. The value of farm real estate rose by an estimated 3 percent in 2010, to a record $1.8 trillion. Strong prices for major crops and record farm income will likely cause the value of farm real estate to move higher in 2011. Farm real estate accounts for 84 percent of total U.S. farm assets and is the principal source of collateral for farm loans. While a benefit for existing landowners, high farm real estate values make it difficult for individuals who may wish to enter farming and increases operating expenses for individuals who rent farmland.

Conclusion

As we enter 2011, the U.S. farm economy is coming off unprecedented increases in U.S. agricultural exports, farm cash receipts, farm income, and asset values the past few years. Prospects for coming year generally look bright. More normal weather and production increases worldwide should lead to improved supply-demand balance in key markets, such as wheat, corn and soybeans. With biofuel demand expected to continue growing, although at a slower pace in the future, a big challenge will be responding to that demand by producing on more acres and producing more per acre while protecting the environment. I have the utmost confidence that our farmers and ranchers along with the assistance of USDA will be able to meet these challenges.

Mr. Chairman that completes my statement.

Farm Economic Indicators

Ag. Trade (Bil. $)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11F
Total exports	56.0	62.4	62.5	68.6	82.2	114.9	96.3	108.7	126.5
Asia	21.6	24.3	22.5	24.9	29.4	43.2	37.6	45.7	54.8
Canada	9.1	9.5	10.4	11.6	13.3	16.3	15.5	16.6	18.0
Mexico	7.7	8.4	9.3	10.4	12.3	15.2	13.3	13.9	16.0
Total imports	45.7	52.7	57.7	64.0	70.1	79.3	73.4	79.0	85.5
Farm Income (Bil. $)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010F**	**2011F**
Cash receipts	216.0	237.9	240.9	240.6	288.5	318.3	283.4	312.3	340.7
Gov't payments	16.5	13.0	24.4	15.8	11.9	12.2	12.3	12.2	10.6
Gross cash income	246.8	266.5	279.7	273.2	318.0	352.0	317.6	345.6	372.5
Cash expenses	174.7	182.9	193.1	204.8	240.3	261.6	248.5	254.2	273.9
Net cash income	72.1	83.7	86.7	68.4	77.7	90.4	69.1	91.3	98.6

Commodity Prices 1/	Unit	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11F
Wheat	$/bu	3.40	3.40	3.42	4.26	6.48	6.78	4.87	5.60-5.80
Corn	$/bu	2.42	2.06	2.00	3.04	4.20	4.06	3.55	5.05-5.75
Soybeans	$/bu	7.34	5.74	5.66	6.43	10.10	9.97	9.59	11.20-12.20
Rice	$/cwt	8.08	7.33	7.65	9.96	12.80	16.80	14.40	12.15-12.65
Cotton (Upland)	cents/lb	61.8	41.6	47.7	46.5	59.3	47.8	62.9	79.0-84.0
		2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011F**
Hogs	$/cwt	52.51	50.05	47.26	47.09	47.84	41.24	55.06	58-61
Steers	$/cwt	84.75	87.28	85.41	91.82	92.27	83.25	95.38	102-109
Broilers	cents/lb	74.1	70.8	64.4	76.4	79.7	77.6	82.9	80-85
Milk	$/cwt	16.13	15.19	12.96	19.21	18.45	12.93	16.30	17.70-18.40
Gasoline	$/gallon	1.85	2.27	2.58	2.81	3.26	2.35	2.78	3.15
Diesel	$/gallon	1.81	2.40	2.70	2.88	3.80	2.46	2.99	3.43
Natural gas (wlhd)	$/K cu.	5.45	7.26	6.39	6.26	7.98	3.72	4.14	3.97

1/ Agricultural commodity price forecasts are from USDA, World Agricultural Supply and Demand Estimates report, February 9, 2011. Energy prices are from Energy Information Administration, Short Term Energy Outlook, February 8, 2011.
F=forecast.