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THE FOOD CHAIN

A Global Need for Grain That Farms Can't Fill

By [DAVID STREITFELD](#)

LAWTON, N.D. — Whatever Dennis Miller decides to plant this year on his 2,760-acre farm, the world needs. Wheat prices have doubled in the last six months. Corn is on a tear. Barley, sunflower seeds, canola and soybeans are all up sharply.

“For once, there’s great reason to be optimistic,” Mr. Miller said.

But the prices that have renewed Mr. Miller’s faith in farming are causing pain far and wide. A tailor in Lagos, Nigeria, named Abel Ojuku said recently that he had been forced to cut back on the bread he and his family love.

“If you wanted to buy three loaves, now you buy one,” Mr. Ojuku said.

Everywhere, the cost of food is rising sharply. Whether the world is in for a long period of continued increases has become one of the most urgent issues in economics.

Many factors are contributing to the rise, but the biggest is runaway demand. In recent years, the world’s developing countries have been growing about 7 percent a year, an unusually rapid rate by historical standards.

The high growth rate means hundreds of millions of people are, for the first time, getting access to the basics of life, including a better diet. That jump in demand is helping to drive up the prices of agricultural commodities.

Farmers the world over are producing flat-out. American agricultural exports are expected to increase 23 percent this year to \$101 billion, a record. The world’s grain stockpiles have fallen to the lowest levels in decades.

“Everyone wants to eat like an American on this globe,” said Daniel W. Basse of the AgResource Company, a Chicago consultancy. “But if they do, we’re going to need another two or three globes to grow it all.”

In contrast to a run-up in the 1990s, investors this time are betting — as they buy and sell contracts for future delivery of food commodities — that scarcity and high prices will last for years.

If that comes to pass, it is likely to present big problems in managing the American economy. Rising food prices in the United States are already helping to fuel inflation reminiscent of the 1970s.

And the increases could become an even bigger problem overseas. The increases that have already occurred are depriving poor people of food, setting off social unrest and even spurring riots in some countries.

In the long run, the food supply could grow. More land may be pulled into production, and outdated farming methods in some countries may be upgraded. Moreover, rising prices could force more people to cut back. The big question is whether such changes will be enough to bring supply and demand into better balance.

“People are trying to figure out, is this a new era?” said Joseph Glauber, chief economist for the [United States Department of Agriculture](#). “Are prices going to be high forever?”

Competition for Acres

At a moment when much of the country is contemplating recession, farmers are flourishing. The Agriculture Department forecasts that farm income this year will be 50 percent greater than the average of the last 10 years. The flood of money into American agriculture is leading to rising land values and a renewed sense of optimism in rural America.

“All of a sudden farmers are more in control, which is a weird position for them,” said Brian Sorenson of the Northern Crops Institute in Fargo, N.D. “Everyone’s knocking at their door, saying, ‘Grow this, grow that.’ ”

Mr. Miller’s family has worked the Great Plains for more than a century. One afternoon early last month, he turned on the computer in his combination office and laundry room to see what commodity prices were up to.

“Oh, my goodness, look at that,” Mr. Miller said. Barley was \$6.40 a bushel, approaching a price that would tempt him to plant more. Soybeans were \$12.79 a bushel, up from \$8.50 in August.

The frozen earth outside was only a few weeks from coming to life, but Mr. Miller was happily uncertain about what to plant. Last year, the decision was easy for Mr. Miller and everyone else: prices of corn were high because of new government mandates for production of ethanol, a motor fuel. This year, so many crops look like good bets, and there is so little land on which to plant them.

“I’m debating between spring wheat, durum wheat, canola, malting barley, confection sunflowers, oil sunflowers, soybeans, flax and corn,” Mr. Miller said.

The biggest blemish on this winter of joy is that farmers’ own costs are rising rapidly. Expenses for the diesel fuel used to run tractors and combines and for the fertilizer essential to modern agriculture have soared. Mr. Miller does not just want high prices; he needs them to pay his bills.

Until recently, he could expect around \$3 a bushel for his wheat — far less than his parents and

grandparents received, when inflation is taken into account. Consumption in the United States was dropping as Americans shunned carbohydrates. The export market, while healthy, faced competition.

Now prices have more than tripled, partly because of a drought in Australia and bad harvests elsewhere and also because of unslaked global demand for crackers, bread and noodles. In seven of the last eight years, world wheat consumption has outpaced production. Stockpiles are at their lowest point in decades.

Around the world, wheat is becoming a precious commodity. In Pakistan, thousands of paramilitary troops have been deployed since January to guard trucks carrying wheat and flour. Malaysia, trying to keep its commodities at home, has made it a crime to export flour and other products without a license. Consumer groups in Italy staged a widely publicized (if also widely disregarded) one-day pasta strike last fall.

In the United States, the price of dry pasta has risen 20 percent since October, according to government data. Flour is up 19 percent since last summer. Over all, food and beverage prices are rising 4 percent a year, the fastest pace in nearly two decades.

The American Bakers Association last month took the radical step of suggesting that American exports be curtailed to keep wheat at home, though the group later backed off.

If all this suggests a golden age for American growers, it could well be brief, said Bruce Babcock, an economist at [Iowa State University](#). He predicted that farmers would do their best to ramp up production, possibly to the point of pulling land out of conservation programs so they could plant more. "Give farmers a price incentive, and they'll produce," he said.

The Agriculture Department forecasts that world wheat production will increase 8 percent this year. In the United States, spring and durum wheat plantings are expected to rise by two million acres, helping to drive prices down to \$7 a bushel, the government said.

Yet the competition among crops for acreage has become so intense that some farmers think the government and analysts like Mr. Babcock are being overly optimistic.

Read Smith, a farmer in St. John, Wash., thinks a new era is at hand for all sorts of crops. "Price spikes have usually been short-lived," he said. "I think this one is different."

His example is plain old mustard. Two years ago, Mr. Smith would have been paid less than 15 cents a pound for mustard seeds. As more lucrative crops began supplanting mustard, dealers raised their offering price to 20 cents, then 30 cents, then 48 cents early this year. Mr. Smith gave in, agreeing to convert up to 100 acres of wheat fields to mustard.

Mr. Smith said it was inevitable that supermarket mustard, just like flour, bread and pasta, would become more expensive.

"We've lulled the public with cheap food," he said. "It's not going to be a steal anymore."

Bread to Be Had, for a Price

As the newly urbanized and newly affluent seek more protein and more calories, a phenomenon called “diet globalization” is playing out around the world. Demand is growing for pork in Russia, beef in Indonesia and dairy products in Mexico. Rice is giving way to noodles, home-cooked food to fast food.

Though wracked with upheaval for years and with many millions still rooted in poverty, Nigeria has a growing middle class. Median income per person doubled in the first half of this decade, to \$560 in 2005. Much of this increase is being spent on food.

Nigeria grows little wheat, but its people have developed a taste for bread, in part because of marketing by American exporters. Between 1995 and 2005, per capita wheat consumption in Nigeria more than tripled, to 44 pounds a year. Bread has been displacing traditional foods like eba, dumplings made from cassava root.

Nigeria's wheat imports in 2007 were forecast to rise 10 percent more. But demand was also rising in many other places, from Tunisia to Venezuela to India. At the same time, drought and competition from other crops limited supply.

So wheat prices soared, and over the last year, bread prices in Nigeria have jumped about 50 percent.

Amid a public outcry, bakers started making smaller loaves, hoping customers who could not afford to pay more would pay about the same to eat less. Sales have dropped for street hawkers selling loaves. With imports shrinking, mills are running at half capacity.

At [Honeywell](#) Flour Mills, one of the largest in Nigeria, executives were glued one recent day to commodity screens. The price of wheat ticked ever upward. “Even when you see a little downturn, you wait for some few hours or a day, and before you know it, it's gone way up again,” said the production director, Nino Albert Ozara.

Despite the crisis, there is little sense of a permanent retreat from wheat in Nigeria. The mills are increasing their capacity, hoping for a day when supply is sufficient to stabilize prices. “The moment you develop a taste, you are hooked,” said a confident Muyiwa Talabi, director of an American wheat-marketing office in Lagos.

Mr. Ojuku, the man who buys fewer loaves, and one of his fellow tailors in Lagos, Mukala Sule, 39, are trying to adjust to the new era.

“I must eat bread and tea in the morning. Otherwise, I can't be happy,” Mr. Sule said as he sat on a bench at a roadside cafe a few weeks ago. For a breakfast that includes a small loaf, he pays about \$1 a day, twice what the traditional eba would have cost him.

To save a few pennies, he decided to skip butter. The bread was the important thing.

“Even if the price goes up,” Mr. Sule said, “if I have the money, I’ll still buy it.”

Will Connors contributed reporting from Lagos, Nigeria, and Salman Masood from Pakistan.

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