

**Statement of Joseph Glauber, Chief Economist**

**Before the**

**Joint Economic Committee, U.S. Congress**

**May 1, 2008**

Mr. Chairman, members of the Committee, thank you for the opportunity to discuss recent developments and prospects for retail food prices. In 2007, the Consumer Price Index (CPI) for food in the U.S. increased by 4 percent. This was the largest annual increase in retail food prices since 1990. In 2008, the Department of Agriculture's Economic Research Service (ERS) projects retail food prices will increase by 4 to 5 percent. Several key factors are shaping the current situation, including domestic and global economic growth; global weather; rising input costs for energy; international export restrictions; and new product markets, particularly biofuels. I will describe recent developments in commodity markets, the effects on retail food prices, and the implications for food price inflation, family food expenditures, and domestic food assistance.

**Recent Developments in Commodity Markets**

Higher commodity prices are contributing to the increase in food price inflation, even though, on average, the farm value accounts for only about 20 cents of each dollar spent on food. For highly processed foods, such as cereal and bakery products, the farm component of the retail value is less as processing costs account for a higher portion of the retail value. In contrast, food products that undergo little processing prior to being consumed, such as eggs and fresh fruits and vegetables, the farm value accounts for a much larger share of the retail value.

The index of prices received by farmers for all products increased by 18 percent in 2007, as farm prices for several major crops, beef, milk, broilers, and eggs either reached new record

highs or posted large annual gains. Compared to one year ago, the index of prices received by farmers for all products was up 15 percent during the first quarter of 2008. During the first quarter of 2008, the prices received for all crops were up 20 percent, reflecting continued strong prices for major crops. Meanwhile, the prices received for livestock and livestock products, while up 10 percent during the first quarter compared to one year ago, have moderated in recent months as record large supplies of red meat and poultry have lowered farm prices for cattle and hogs.

**Wheat & Coarse Grains:** The CPI for cereal and bakery products increased 4.4 percent in 2007, and is projected to rise 7.5-8.5 percent in 2008. The increase in the CPI for cereal and bakery products reflects higher prices for wheat, rice, corn, and other grains as well as higher marketing costs.

In marketing year 2007/08, domestic food use is projected to account for nearly two-thirds of U.S. rice production, slightly less than 50 percent of U.S. wheat production, and about 10 percent of U.S. corn production. The remaining uses of wheat, rice, and corn include feed use, seed use, industrial use, primarily biofuels, and exports. All of these different uses form the demand for these commodities along with production, imports, and beginning and ending stocks to determine the farm prices of wheat, rice, and corn.

The 2007/08 **wheat** market reflects a third straight year in which global production has fallen short of consumption, driving expected world stocks to their lowest level in 30 years. Back-to-back years of lower production in the major exporting countries, including Australia, Canada, and the European Union have combined with below-trend yields in the United States to reduce the availability of exportable supplies. Tight supplies in competitor countries and restrictions on exports in major producing countries such as Argentina, Ukraine, and Russia have

boosted export demand for U.S. wheat. U.S. ending stocks are projected at their lowest level in 60 years. As a consequence, wheat prices have increased to record levels. Farm prices for 2007/08 are projected at a record \$6.55-\$6.75 per bushel, sharply higher than last year's \$4.26 and the previous record of \$4.55 per bushel.

Wheat producers indicated in March they intend to plant 63.8 million acres in 2008, up 6 percent from 2007. Yield prospects for the 2008 crop remain mostly favorable, but persistent dryness remains a concern in the southwestern portions of the hard red winter wheat belt in western Kansas and the panhandle areas of Texas and Oklahoma. In addition to higher production in the U.S., wheat production in other major wheat producing countries is expected to rise sharply as planted area is up around the world, spurred by record prices and encouraged by favorable fall sowing weather. If trend yields are achieved, world production could set a new record, rising as much as 50 million tons from 2007/08. Global production is expected to exceed global consumption for the first time in four years leading to some recovery in global wheat stocks. Nonetheless, the average farm price is projected to increase in 2008/09, supported by forward sales made at prices well above last year's level. Cash wheat prices during the first quarter of the marketing year are also expected to be supported by strong competition between domestic mills and foreign buyers.

The U.S. **corn** market in 2007/08 is characterized by record production and farm prices driven by strong domestic and export demand, which is boosting use to record levels. U.S. producers planted 93.6 million acres to corn in 2007, the largest plantings since 1944. Domestic use for 2007/08 is estimated at a record 10.6 billion bushels, up 1.5 billion or 17 percent from last year. Ethanol use, projected at 3.1 billion bushels, is expected to surpass exports for the first time ever, accounting for 24 percent of total corn use. Despite high prices, export demand

remains strong with growing world demand for animal protein and tight supplies of feed quality wheat, particularly in the European Union. Exports are projected at a record 2.5 billion bushels, up 18 percent from last year. The farm-level price of corn for 2007/08 is expected to average a record \$4.10-4.50 per bushel, up substantially from \$3.04 per bushel in 2006/07.

Corn prices are expected to rise again in 2008/09, with the Department releasing an official forecast on May 9. Demand is expected to remain strong, supported by expanding use for ethanol. Corn area and production are expected to be lower in 2008/09 as record soybean prices and high input costs for corn encourage a rebound in soybean plantings. Producers indicated in March they intend to plant 86.0 million acres of corn in 2008, down 8 percent from last year. In addition, cool, wet weather has slowed planting progress, which could also contribute to lower corn plantings in 2008. With higher use and lower production, ending stocks are expected to decline, keeping upward pressure on prices.

**Rice:** Tighter domestic rice supplies, higher global rice prices, and higher grain and oilseed prices have helped to boost rice prices in 2007/08. Producers in much of the South cut back on rice area in 2007 because they could earn higher returns by planting alternative crops such as wheat, corn, sorghum and soybeans. Exports in 2007/08 are projected to increase 23 percent to 112 million hundredweight (cwt). Larger exports are expected to markets in the Western Hemisphere, Europe, and the Middle East. Tight global supplies and self-imposed export bans in Egypt, Vietnam, and India are helping to support U.S. exports. Rice ending stocks are forecast at 21.6 million cwt, down from carry-in stocks of 39 million cwt. The season-average farm price is forecast at \$12.05-\$12.35 per cwt, up from \$9.96 in 2006/07 and the highest since 1980/81. Rice prices in 2008/09 are expected to be higher than 2007/08 due to tighter domestic and global supplies and higher world prices.

**Soybeans:** The CPI for fats and oils increased 2.9 percent in 2007. In 2008, the CPI for fats and oils is expected to increase by 8-9 percent. The primary domestic oil in this CPI category is soybean oil. Strong soybean oil exports and increased use of soybean oil for biodiesel production have pushed up the price of soybean oil. In addition, higher transportation, labor, and other marketing costs are contributing to the increase in retail prices for fats and oils.

U.S. soybean prices are record high this year, reflecting lower production and strong demand. The farm price received for soybeans is expected to average \$10.00-\$10.50 per bushel during 2007/08, compared with \$6.43 last marketing year and the previous record of \$8.73 per bushel set in 1983/84. Lower production was brought about by sharply lower planted area as producers shifted some soybean acres to corn in 2007. Lower stocks are projected in part due to strong export demand for U.S. soybeans resulting from record imports by China and limited growth in South American supplies despite high prices.

U.S. soybean crush is also a contributing factor to declining stocks as foreign demand for U.S. soybean meal remains exceptionally strong. Wheat shortages in many parts of the world are leading to strong export demand for soybean meal protein which can be used to replace wheat in feed rations. Soybean crush is also supported by growing demand for biodiesel, production of which is expected to account for 14 percent of total soybean oil use for 2007/08. The prices of both soybean meal and soybean oil are up sharply in 2007/08. The price of soybean meal is projected to average \$315-\$335 per ton in 2007/08, up from \$205 per ton in 2006/07 and the price of soybean oil is projected to average 50-54 cents per pound, compared with 31 cents per pound in 2006/07.

U.S. producers indicated in March they intend to plant 74.8 million acres to soybeans in 2008, up 18 percent from last year. If these intentions are realized, soybean supplies for 2008/09

could increase as larger production more than offsets sharply lower beginning stocks. Reflecting the increase in projected soybean production, soybean ending stocks are expected to rebound in 2008/09 from this year's very low level. Forward sales at prices above last year's average and high corn prices are likely to push soybean prices higher in 2008/09.

**Fruits and Vegetables:** Retail prices for fruits and vegetables increased 3.8 percent in 2007, as fresh fruit and vegetable prices rose by 3.9 percent and processed fruit and vegetable prices rose by 3.6 percent. Price spikes in these commodities are often linked to drought or freeze damage. In 2008, the CPI for fruits and vegetables is projected to increase by 3-4 percent.

**Livestock and Poultry:** The CPI for meat, poultry and fish increased by 3.8 percent in 2007 and is forecast to increase by 2-3 percent in 2008. In 2007, prices were particularly strong for cattle and broilers. These strong prices generally reflected production adjustments made prior to the recent increase in feed costs. U.S. production of meat and poultry is expected to be a record 94 billion pounds in 2008. This large supply of meat is expected to limit gains in prices for cattle, hogs, broilers, and turkeys in 2008. In addition, the demand for red meat and poultry could be affected by consumers' economic concerns.

Beef production is currently forecast to increase by 0.6 percent in 2008 due to continued strong cow slaughter. Drought conditions in the Southeast led to strong increases in cow slaughter last year and, even with a return to normal weather in 2008, cow slaughter is expected to remain relatively high in 2008. The January *Cattle* report indicated the cow herd continued to contract during 2007. Beef cow numbers were estimated about 0.6 percent lower than a year ago, and the number of beef cows expected to calve was down 1 percent. In addition, the number of beef heifers to be retained for the breeding herd was down 3.5 percent. Nebraska

Direct steer prices averaged a record \$91.82 per cwt in 2007 but are expected to decline slightly in 2008 to average \$88-\$92 per cwt.

Pork production in 2008 is expected to increase 7 percent due to expansion triggered by positive returns to producers in 2006 and 2007 and strong productivity gains. However, the growth in production is expected to slow later in the year as producers respond to much higher feed costs. The most recent *Quarterly Hogs and Pigs* report indicated that producers farrowed 5 percent more sows during December 2007-February 2008, but intend to farrow 2 percent fewer sows during June 2008-August 2008. The strong increase in pork production has pressured hog prices in recent months. In 2008, hog prices are expected to decline from 2007's \$47.09 per cwt to \$40-42 per cwt.

Broiler producers reacted to low returns in 2006 and pulled back broiler production during the last two quarters of 2006 and the first two quarters of 2007. As broiler prices hit record levels in mid-2007, broiler producers responded by expanding production. Since last fall, weekly estimates of chicks placed for growout were consistently 3 to 5 percent above a year earlier, but the increase in placements has dropped below 3 percent in recent weeks. However, little to no expansion in broiler production is expected during the second half of 2008 as producers respond to higher corn and soybean meal prices. Broiler prices for 2008 are forecast to average 78 to 82 cents per pound in 2008, compared with a record 76.4 cents in 2007.

U.S. red meat and poultry exports are expected to reach a record 12 billion pounds in 2008. Pork exports are again forecast to lead the way, increasing for the 18th consecutive year to 3.7 billion pounds carcass weight, which is equal to 16 percent of production.

In 2007, broiler exports recovered from a couple of years of sluggish sales and reached a record 5.8 billion pounds on strong sales to Canada, China, and Russia. Broiler exports are

expected to increase to 6.0 billion pounds in 2008. Beef exports are expected to increase to about 1.5 billion pounds in 2008, still well below the 2003 pre-bovine spongiform encephalopathy level of 2.5 billion pounds. A variety of markets expanded access to U.S. beef recently, but beef exports are still hampered by Japan's age limits on imported beef from the United States and other continuing restrictions on foreign markets.

**Eggs:** The CPI for eggs rose by 29 percent in 2007 and projected to increase by 3-4 percent in 2008. In 2007, table-egg producers cut production. The decision to reduce production likely took place prior to the recent run-up in feed costs.

In 2007, the wholesale price for a dozen grade A large eggs in the New York market averaged \$1.14 per dozen, 43 cents higher than the previous year. The strong increase in egg prices reflected lower production and strong domestic demand. In 2007, table-egg production was down 1 percent, as producers lowered production in order to increase the hatching-egg flock.

Given the current size of the table-egg flock and the number of birds available to add to the flock, no significant expansion in production is expected before the second-half of 2008. Wholesale table-egg prices (New York area) averaged \$1.59 per dozen in the first-quarter, up 51 percent from the previous year. Prices are expected to decline seasonally in the second quarter and average \$1.25-\$1.32 per dozen in 2008.

**Milk:** The CPI for dairy products increased by 7.4 percent in 2007 and is projected to increase by 3-4 percent in 2008. Very strong international dairy product prices, robust domestic demand and modest expansion in domestic production in response to very low milk prices in 2006 were the primary factors pushing up dairy product prices in 2007. The recent increase in feed costs probably had only a minimal effect on milk production in 2007.

Although higher feed costs are expected to temper later-year expansion plans, milk producers are expanding herds in response to generally favorable returns during much of 2007. Production in 2007 increased about 2 percent as the herd increased fractionally. Milk per cow increased but lagged its historical growth. Driven by strong domestic demand and sharply higher international prices in response to declining milk production in Australia due to drought and limited surpluses of dairy products in the European Union, the all-milk price averaged a record \$19.13 per cwt, over \$6.00 above 2006. Cow numbers are expected to increase further in 2008 but high feed costs may slow the growth in milk per cow. Milk production in 2008 is expected to increase 2.4 percent. Demand for dairy products, both domestically and for export, may lag production growth, resulting in weaker prices in 2008. The all-milk price for 2008 is forecast to decline to between \$17.65 and \$18.15 per cwt.

### **Key Factors Behind the Increase in Retail Food Prices**

As the above discussion suggests, many factors have converged to increase commodity prices. I will now review some of these factors.

Global economic growth, weather problems in some major grain producing countries, and depreciation in the trade weighted-dollar helped boost FY 2008 U.S. agricultural exports. In FY 2008, the value of U.S. agricultural exports is projected to reach a record \$101 billion, up from last year's record of \$81.9 billion.

**Global economic growth** is boosting global demand for food. Real foreign economic growth declined in 2007 to 4.0 percent from 2006's robust rate of 4.2 percent. Foreign economic growth is expected to be 3.9 percent in 2008, down slightly from 2007, but well above trend, as has been the case beginning in 2004 (ERS). Asia, excluding Japan, will likely grow at over 7 percent in 2008, above trend for the fifth consecutive year. Higher incomes are increasing the

demand for processed foods and meat in rapidly growing developing countries, such as India and China. These shifts in diets are leading to major changes in international trade. For example, China's corn exports are projected to fall from 5.3 million metric tons in 2006/07 to 0.5 million metric tons in 2007/08, as more corn is used for domestic livestock feeding.

Agricultural production depends on the **weather**. The multi-year drought in Australia reduced wheat and milk production and that country's exportable supplies of those commodities. Drought and dry weather have also adversely affected grain production in Canada, Ukraine, European Union, and the United States. Thus, weather events have helped to deplete world grain stocks. With world stocks for wheat at a 30-year low, grain importers are increasingly turning to the U.S. for supplies. Furthermore, the tight stocks situation is leading to increasing concerns that prices could move sharply higher if this year's harvest falls below expectations. These concerns are causing some importers to purchase for future needs, pushing prices higher.

Many exporting countries have put in place **export restrictions** in an effort to reduce domestic food price inflation. The United Nations FAO recently noted the cereal import bill of the world's poorest countries is forecast to rise by 56 percent in 2007/2008, which comes after a significant increase of 37 percent in 2006/2007. Exporting countries as diverse as Argentina, China, India, Russia, Ukraine, Kazakhstan, and Vietnam have placed additional taxes or restrictions on exports of grains, rice, oilseeds, and other products. By reducing supplies available for world commerce, these actions only exacerbate the surge in global commodity prices. Export restrictions are ultimately self-defeating, reducing the incentives for producers to increase production.

Higher **food marketing, transportation, and processing costs** are also contributing to the increase in retail food prices. Record prices for diesel fuel, gasoline, natural gas, and other

forms of energy affect costs throughout the food production and marketing chain. Higher energy prices increase producers' expenditures for fertilizer, chemicals, fuel, and oil driving up farm production costs. Higher energy prices also increase food processing, marketing, and retailing costs. These higher costs, especially if maintained over a long period, tend to be passed on to consumers in the form of higher retail prices. ERS estimates direct energy and transportation costs account for 7.5 percent of the overall average retail food dollar. This suggests that for every 10 percent increase in energy costs, the retail food prices could increase by as much as 0.75 percent if fully passed on to consumers.

In recent years, the conversion of corn and soybean oil into **biofuels** has been an important factor shaping major crop markets. The amount of corn converted into ethanol and soybean oil converted into biodiesel nearly doubled from 2005/06 to 2007/08. The growth in biofuels production has coincided with rising prices for corn, soybeans, soybean meal, and soybean oil. From 2005/06 to 2007/08, the farm price of corn more than doubled and the price of soybeans nearly doubled.

While much of the increase in the farm prices for corn and soybeans can be attributed to increased biofuels production, other factors have also contributed to the sharp increase in prices for these commodities. The strength in exports resulting from global economic growth and drought and dry weather in some major grain producing countries has boosted prices for corn and soybeans. For example, corn exports are projected to reach 2.5 billion bushels in 2007/08, up from 2.1 billion bushels in 2005/06, and soybean exports are projected to increase by 14 percent over the same period.

The recent increase in corn and soybean prices appears to have little to do with the run-up in prices of wheat and rice prices. Corn and soybean prices began increasing during the fourth

quarter of 2006. By this time, producers had already planted the 2007 winter wheat crop. Rice and spring wheat plantings could have been affected by increasing corn and soybean prices but weather problems, low stocks, and strong global demand likely had a much greater impact on wheat and rice prices than increasing corn and soybean prices. In 2008, U.S. wheat producers indicate they intend to plant more acreage to wheat while rice acreage is projected to remain flat, suggesting that higher corn and soybean prices have not greatly altered wheat and rice producers' planting decisions.

It is unlikely that retail prices for milk, meat, poultry, and eggs were greatly affected by higher corn and soybean prices in 2007. Higher corn and soybean prices increase livestock and dairy producers' feed costs. The increase in feed costs, with no offsetting increase in livestock prices, reduces livestock producers' margins. Livestock producers react to these lower margins over time by reducing the breeding herd. In the short term, higher feed costs lead to an increase in livestock slaughter and lower livestock prices. For milk and eggs, higher feed costs may have lowered production somewhat 2007, partially contributing to the increase in retail prices for these food products. However, as pointed out earlier, other factors (weather, low returns, strong demand, etc.) contributed to the bulk of the increase in retail food prices for these commodities in 2007.

In 2008, higher feed costs are likely to lead to lower prices for livestock as producers react to higher feed costs by reducing the number of breeding animals. In contrast, dairy producers react to higher feed costs by cutting back on the number of dairy cows and adjusting rations. In 2008, higher feed costs are expected to dampen the growth in milk production per cow but the dairy herd is expected to continue to expand in response to strong milk returns in 2007.

## **Retail Food Price Review and Outlook**

There is a cyclical pattern to retail food price inflation. For example, in 2000, we were experiencing year over year monthly increases in the all food price index of 1.5 to 2.5 percent. During 2001 and early 2002, the year over year monthly increases in the all food price index ranged from 2.5 to 3.5 percent before falling to 1.0 to 1.5 percent by mid 2002 through mid 2003. In the middle of 2004, the all food price index increased by 4 percent before dropping to less than 2.5 percent by mid 2005. Our most recent increase in the rate of food price inflation began in early 2007. From March 2005 to March 2006, the all food price index increased by 2.6 percent. In contrast, the all food price index increased by 3.3 percent from March 2006 to March 2007 and from March 2007 to March 2008, the all food price index increased by over 4.5 percent.

The CPI for food away from home is projected to increase by 3.5 to 4.5 percent in 2008, slightly higher than the 3.6-percent increase in 2007. Prices for food away from home are largely determined by processing, transportation, and marketing costs which are subject to volatile energy costs and trend inflation.

The CPI for food at home is projected to increase by 4 to 5 percent in 2008 compared to 4.2 percent in 2007. While the forecasted change in the price for food at home in 2008 is similar to 2007, the food categories contributing to food price inflation are different. In 2007, the retail price of eggs increased 29 percent, retail dairy product prices rose by over 7 percent and the retail price of poultry posted a more than 5 percent gain. These three product categories accounted for over 35 percent of the annual increase in the CPI for food at home. In addition, retail prices for beef, pork, cereal and bakery products, and nonalcoholic beverages increased by nearly 4 percent or more in 2007.

In 2008, retail prices for only three product categories are projected to increase by 4 percent or more. These product categories include: fats and oils up 8 to 9 percent, cereals and bakery products up 7.5 to 8.5 percent, and nonalcoholic beverages up 3.5 to 4.5 percent. In total, cereal and bakery products, fats and oils, and nonalcoholic beverages have a weight of 16 percent in the all food CPI and 28 percent in the food at home CPI.

Higher corn and soybean prices have contributed to increases in the retail prices of cereal and bakery products and fats and oils. In addition, higher corn prices have increased the price of high fructose corn syrup, an ingredient in soft drinks and many other products. In 2007, the CPI for these three retail food product categories increased, on average, by 4.1 percent and is projected to increase by 6.3 percent in 2008. If we assume a normal price increase in these three retail product categories of 2.5 percent, the food at home CPI would have been about 0.4-0.5 percentage points lower in 2007 and the forecast for 2008 would be about 1 percentage point lower. These figures overstate the contribution of higher corn and soybean prices to the CPI for food at home, since higher prices for other commodities may also be contributing to above average increases in retail prices for cereal and bakery products, fats and oils, and nonalcoholic beverages.

The Department's current long-term projections indicate that retail food price inflation will gradually moderate over the next several years. Continued expansion of biofuels production will likely maintain corn and soybean prices at historically high levels and livestock producers will adjust to the increase in feed costs by reducing production, leading to higher retail prices for beef and pork in the longer term. In contrast, future upward movements in retail dairy product prices may be limited following the strong increase in 2007. In addition, global agricultural production is expected to rebound, especially for wheat, relieving some of the pressure on retail

food prices for cereal and bakery products. Of course, future increases in retail food prices depend heavily on energy prices and other food marketing costs.

### **Impacts on Consumers**

In 2006, consumers spent \$551 billion on food consumed at home, almost 6 percent of their total disposable personal income. They spent an additional \$396 billion, about 4 percent of their disposable personal income, on food consumed away from home. In total, consumers spent almost \$950 billion, almost 10 percent of their disposable personal income on food in 2006.

More important than the overall impact higher food prices may have on the share of income allocated for food expenditures are the distributional impacts of higher food prices. While consumers, on average, may spend only 10 percent of their disposable income on food, families with less than \$20,000 in income spend over 20 percent of their after-tax income on food. Thus, a 4-percent increase in retail food prices would increase the share of income spent on food for families with less than \$20,000 in income by about 1 percentage point.

### **Impacts on Domestic Food Programs**

The Department's food programs, including the Food Stamp Program, the WIC program, child nutrition programs, and purchases for food banks and food pantries, are affected by higher retail food prices. The Department is monitoring the programs closely, and at a recent Senate Appropriations hearing, Secretary Schafer outlined the Department's budget requests for these programs, which take higher food prices into account.

Higher food prices are driving up costs of the Food Stamp Program, which is managed based on the value of the "Thrifty Food Plan," a low-cost market basket of foods that provides a diet consistent with dietary guidelines. Food Stamp Program benefits are indexed to annual changes in the cost of the Thrifty Food Plan. Higher food costs will increase the average benefit,

adding to program costs. In addition, the slowdown in the U.S. economy could increase program participation. Therefore, the Department has requested an additional \$1.8 billion for the Food Stamp Program for FY 2009.

Unlike the Food Stamp Program, the WIC program is discretionary and spending depends on annual appropriations. WIC costs go up when food prices go up, regardless of the cause. If food costs go up and there is no corresponding increase in appropriations, program participation is adversely affected. WIC costs jumped in 2007 due to strong increases in retail prices for dairy products and eggs and are running higher each month in 2008 than in the same month in 2007. The Department has requested \$6.1 billion for WIC for FY 2009, the highest request ever.

Federal payments for school breakfasts and lunches are indexed every July to food-price changes reflected in the “Food Away From Home” component of the CPI over the 12-month period ending each May. The increases in the index have resulted in annual increases in program costs of about 3 percent in recent years.

There have also been concerns expressed about the Department’s funding for purchases of commodities for The Emergency Food Assistance Program (TEFAP). Recently, The Department implemented a “Stocks-for-Food” initiative, whereby the Department barter Government–owned commodities such as wheat, corn, and soybeans for processed foods suitable for distribution in domestic and international food programs. States are distributing these products, such as canned vegetables, vegetable oils, peanut butter, and canned meats, to thousands of local agencies, including food banks, soup kitchens and food pantries. The donated food products can supplement millions of meals for low income Americans.

## **Conclusion**

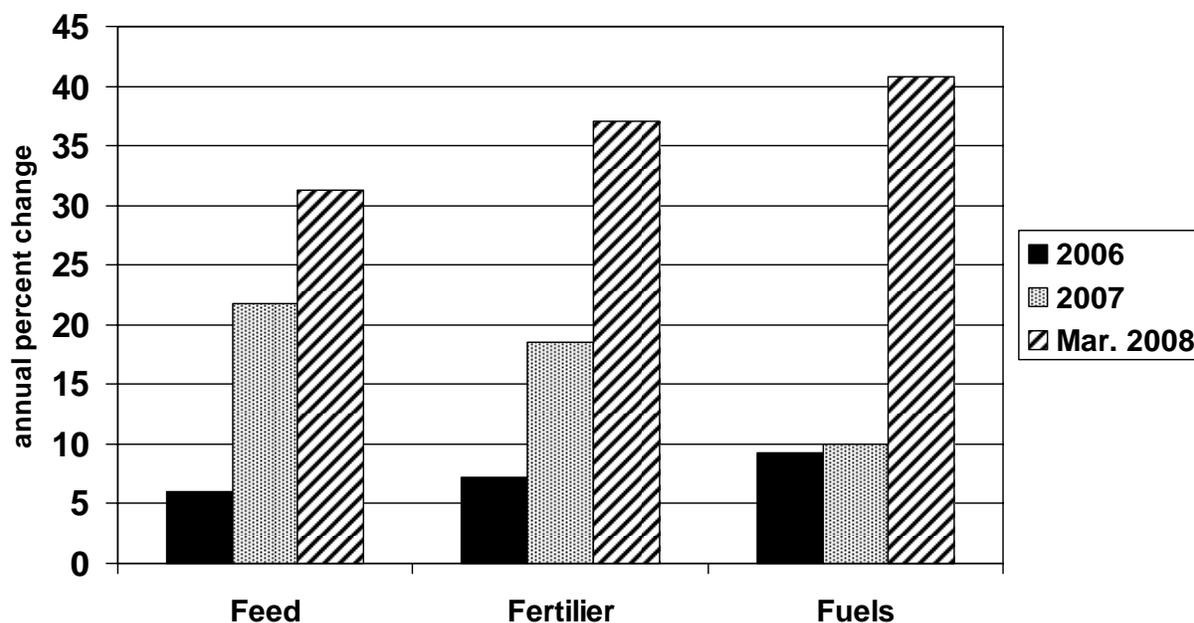
Futures market prices suggest that grain and oilseed prices will remain high over the next few years. The rapid expansion of biofuel production, high input costs, and strong foreign demand will continue to play a major driving force in U.S. and world agriculture. Yield growth and supply response both in the U.S. and abroad will help moderate crop prices in the long run, but for the near term, tight supplies will keep markets volatile with much attention paid to growing conditions worldwide.

Mr. Chairman, that completes my statement.

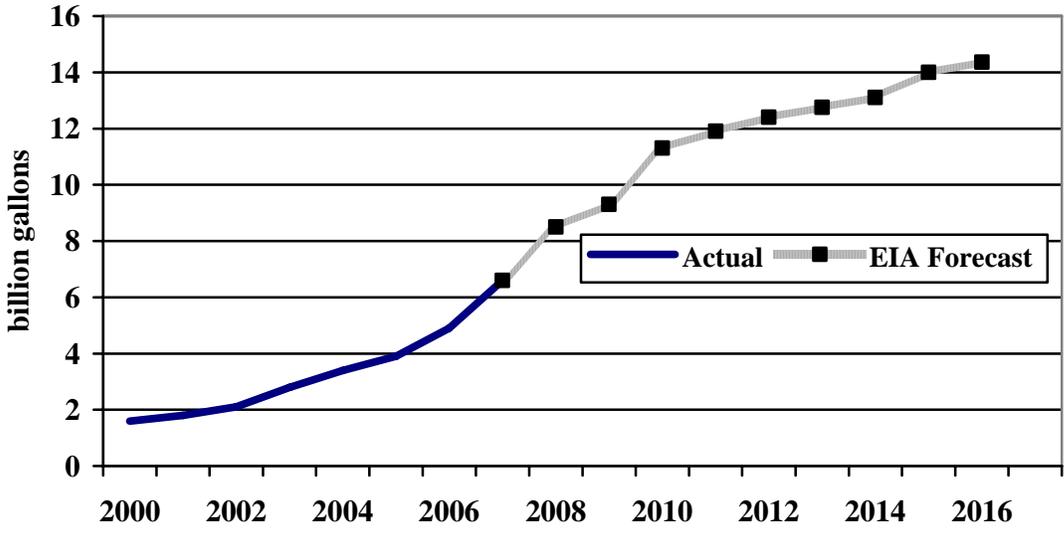
### Farm Prices for Crops, Livestock, and Livestock Products, 2006-08.

	2006	2007	2008F
<b>Livestock</b>			
Steers (\$/cwt)	85.41	91.82	88-92
Hogs (\$/cwt)	47.26	47.09	40-42
Broilers (\$/cwt)	64.4	76.4	78-82
Milk (\$/cwt)	12.97	19.13	17.65-18.15
Eggs (cents/doz)	71.8	114.4	125-132
<b>Crops</b>			
	2005/06	2006/07	2007/08F
Wheat (\$/bu)	3.42	4.26	6.55-6.75
Rice (\$/cwt)	7.65	9.96	12.05-12.35
Corn (\$/bu)	2.00	3.04	4.10-4.50
Soybeans (\$/bu)	5.66	6.43	10.00-10.50
Soybean Oil (cents/lb)	23.41	31.02	50.00-54.00

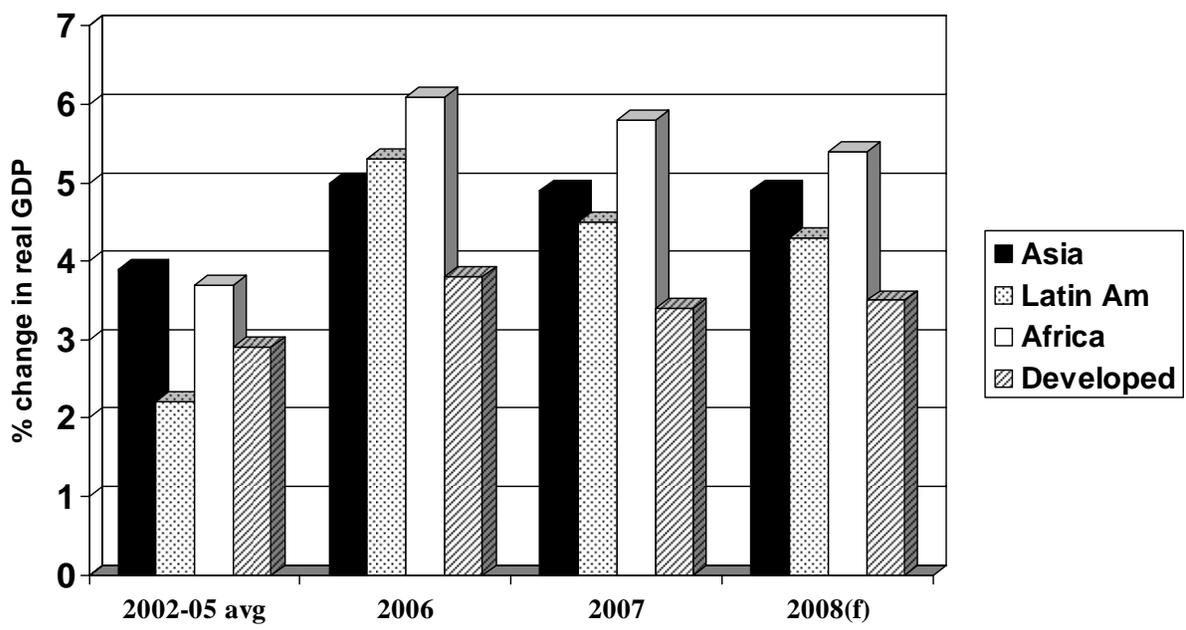
### Prices Paid by Farmers for Selected Inputs, 2006-08.



Actual and Department of Energy, Energy Information Agency, Forecast of Corn-Based Ethanol Production, 2000-16.



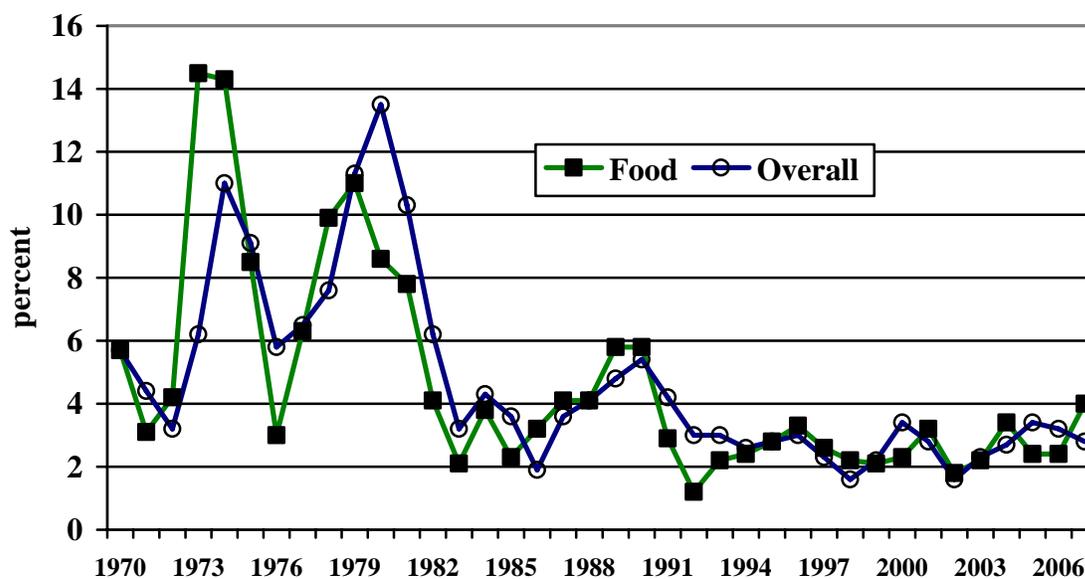
World Economic Growth, 2000-08.



### Changes in Retail Food Price Indexes, 2006, 2007, and 2008 Forecast.

	Relative Importance	2006	2007	Forecast 2008
All food	100.0	2.4	4.0	4.0 to 5.0
Food away from home	44.6	3.1	3.6	3.5 to 4.5
Food at home	55.4	1.7	4.2	4.0 to 5.0
Meats, poultry, fish	12.2	0.8	3.8	2.0 to 3.0
Eggs	0.9	4.9	29.2	3.0 to 4.0
Dairy products	6.4	-0.6	7.4	3.0 to 4.0
Fats and oils	1.5	0.2	2.9	8.0 to 9.0
Fruits and vegetables	8.4	4.8	3.8	3.0 to 4.0
Sugar and sweets	2.0	3.8	3.1	3.0 to 4.0
Cereals and bakery products	7.4	1.8	4.4	7.5 to 8.5
Nonalcoholic beverages	6.7	2.0	4.1	3.5 to 4.5
Other foods	9.9	1.4	1.8	2.5 to 3.5

### Annual Percentage Change in the CPI for All Food and All Items, 1970-2007.



**Food Spending by Income Class, 2006.**

Income Category	Income after taxes	Food at home	Food away from home	Total Food Expenditure	Total Food Expenditures
	\$ per consumer unit	% of income after taxes			
All	58,101	3,417	\$2,694	\$6,111	10.5
Less than \$5,000	316	1,802	1,246	3,049	na
\$5,000 to \$9,999	8,019	1,894	966	2,860	35.7
\$10,000 to \$14,999	12,630	2,159	940	3,099	24.5
\$15,000 to \$19,999	17,411	2,476	1,155	3,631	20.9
\$20,000 to \$29,999	24,743	2,605	1,531	4,136	16.7
\$30,000 to \$39,999	33,916	2,719	1,970	4,689	13.8
\$40,000 to \$49,999	43,573	3,061	2,269	5,330	12.2
\$50,000 to \$69,999	57,358	3,603	2,892	6,496	11.3
\$70,000 and more	119,298	4,798	4,502	9,300	7.8

Source: U.S. Department of Labor. Bureau of Labor Statistics. Consumer Expenditure Survey.