

**Statement on the Drought**  
**Leland A. Strom, Chairman and CEO**  
**Farm Credit Administration Board Meeting**  
**July 12, 2012**

A severe drought, which has enveloped much of the country, has dramatically changed the near-term outlook for agriculture. In some areas of the Southwest and Southern Plains regions, this has been an expansion of last year's drought conditions.

An unusually warm spring enabled many farmers to plant their crops early this year, and a large harvest was expected just a month ago. Livestock and dairy producers were looking forward to significantly lower feed costs. Within a matter of weeks the outlook has changed from favorable or record yields to drastically reduced production prospects. USDA recently confirmed what many observers anticipated by reducing the projected corn harvest by over 1.8 billion bushels to 12.97 billion bushels. The projected national corn yield was revised from what would have been a record 166 bushels per acre to just 146 bushels per acre. The expected yields for soybeans and other crops have also been adversely affected by the drought and excessive heat. If the conditions persist, more cuts in production may be reflected in USDA's August crop report.

The adverse weather conditions will have ramifications for many farmers and agribusinesses. Most grain farmers have crop insurance and some will benefit from higher prices for the crops they harvest. However, some producers anticipated the expected bumper crop and locked prices that are far lower than they would have received had they waited. Many livestock, dairy and ethanol producers have gone through very difficult times over the past few years. Now they face yet another period of high production costs and reduced incomes. Some may face severe financial hardship. Those involved with grain marketing will face lower throughput and more volatile prices—a challenging risk management environment.

Having been involved in production agriculture for more than 30 years, I fully understand the risk associated with the industry. Just last week, I toured some of the affected areas to see firsthand the current status of the corn and soybean crops. Hopefully, some timely rains might still help some of the affected areas, but time is running short, especially for the corn crop.

As CEO of the Agency, I have asked our Examination Office to survey Farm Credit System institutions over the next several weeks to gather more detailed information on conditions in the most affected regions and report back to the FCA Board. As the growing season continues, we will be monitoring conditions and any other significant changes that may impact grain producers, the protein sector, and ethanol producers.