

Input Prices: Long Term Trends and Short Term Realities

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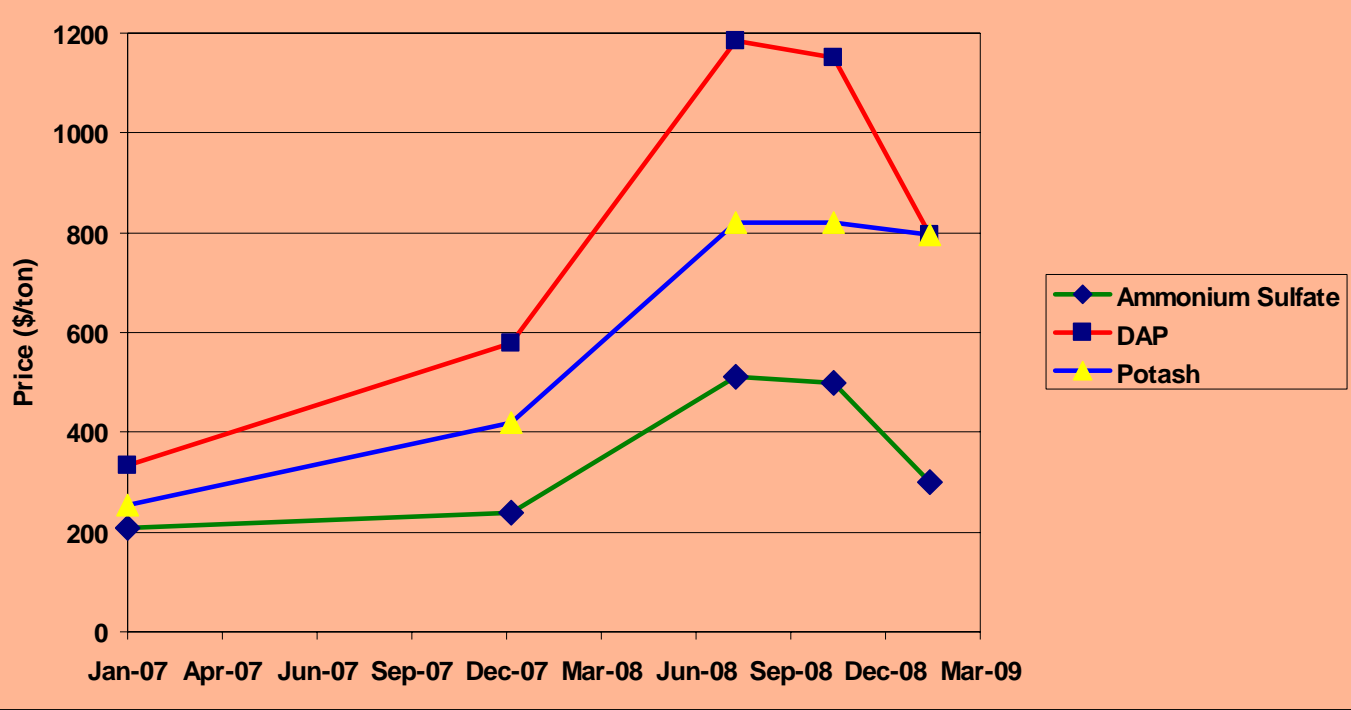
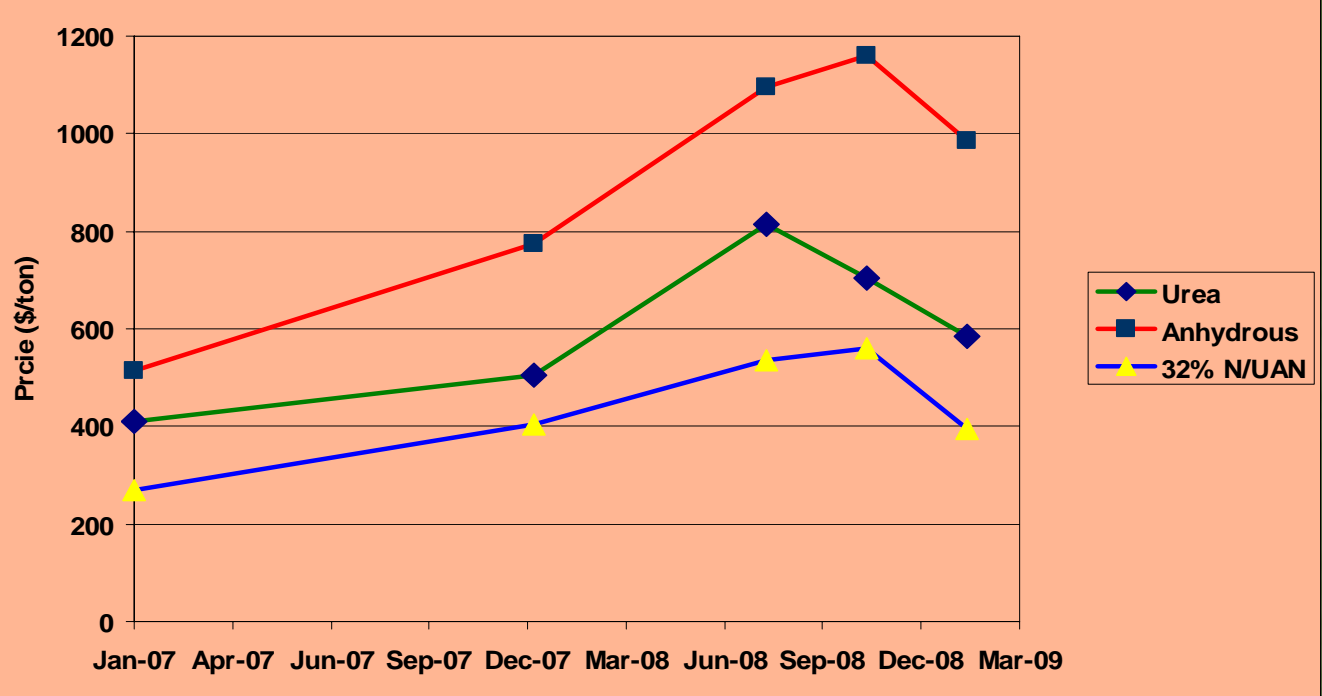
Goal Today

- Overview of Input and Output Prices
- Where they are now (short-term)
- Where they are going (long-term)

Fertilizer prices are still high

Fertilizer	Jan 2007 ^a	Jan 2008 ^a	Feb 2008 ^b	Aug 2008 ^c	Nov 2008 ^a	Feb 2009 ^a	Mar 2009
Urea	410	505	500	815	---	585	500
Anhydrous	515	775	715	1095	1160	985	
32% N Solution	270	405	405	535	560	395	445
Ammonium Sulfate	210	240	325	510	500	300	315
DAP	335	580	625	1185	1150	795	860
Potash	255	420	515	820	820	795	850

^aLandmark Coop ^bFrontier FS Coop ^cInformal Survey Average



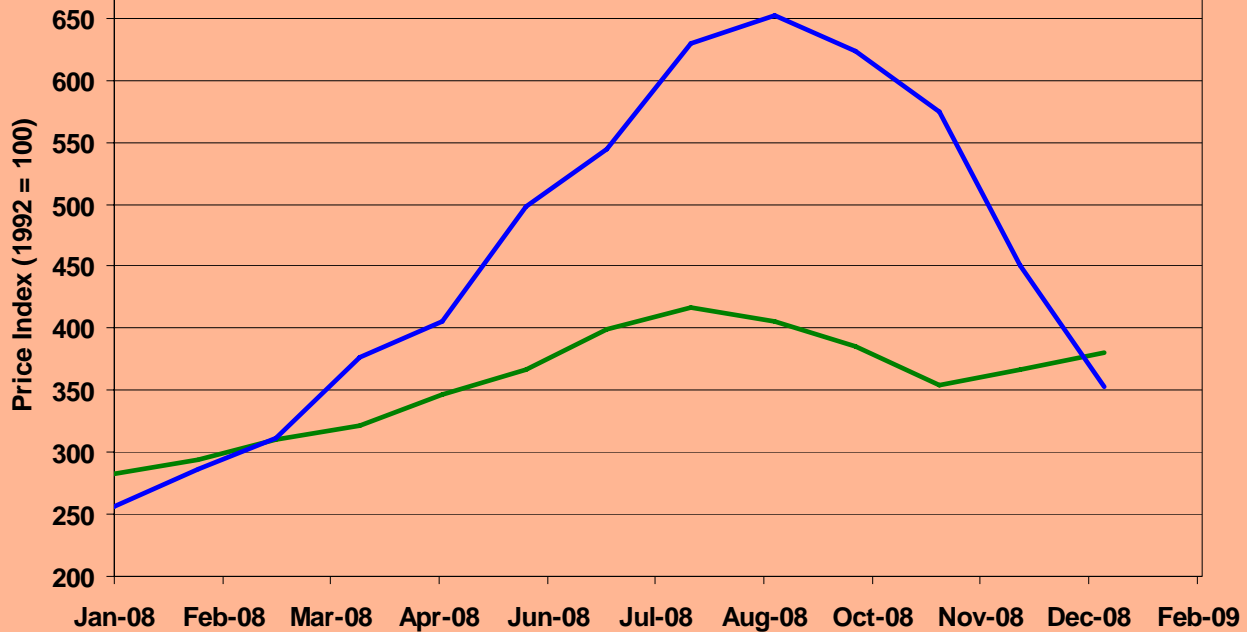
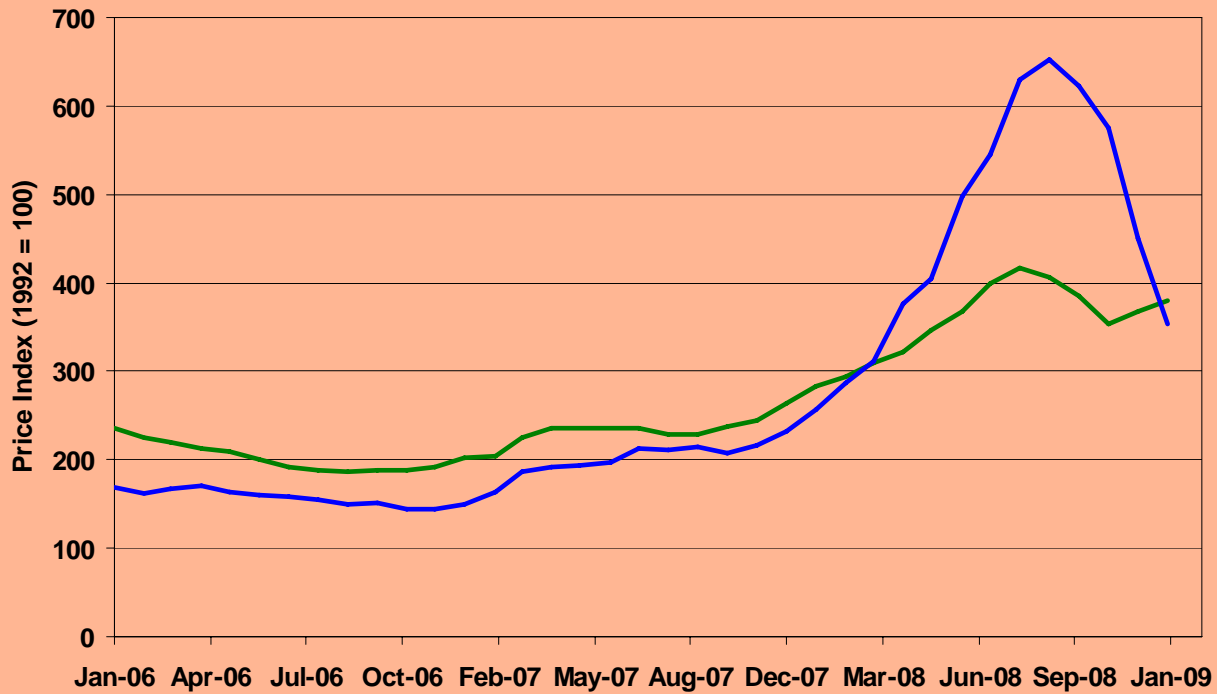
Higher than last year, but not as high as last summer

Fertilizer	Jan 2008	Summer Max	Feb 2009	%Δ from 2008	%Δ from Max
Urea	505	935	585	16%	-37%
Anhydrous	775	1235	985	27%	-20%
32% N Solution	405	535	395	-2%	-26%
Ammonium Sulfate	240	539	300	25%	-44%
DAP	580	1244	795	37%	-36%
Potash	420	930	795	89%	-15%
10-34-0		1385	988		-29%

Price Indexes

- USDA NASS publishes monthly price indexes for many ag outputs and inputs
- <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1002>
- National average price for the many items in a category, weighted by sales volumes
- Many categories not reported here
- Normalized so 1990-1992 Average = 100

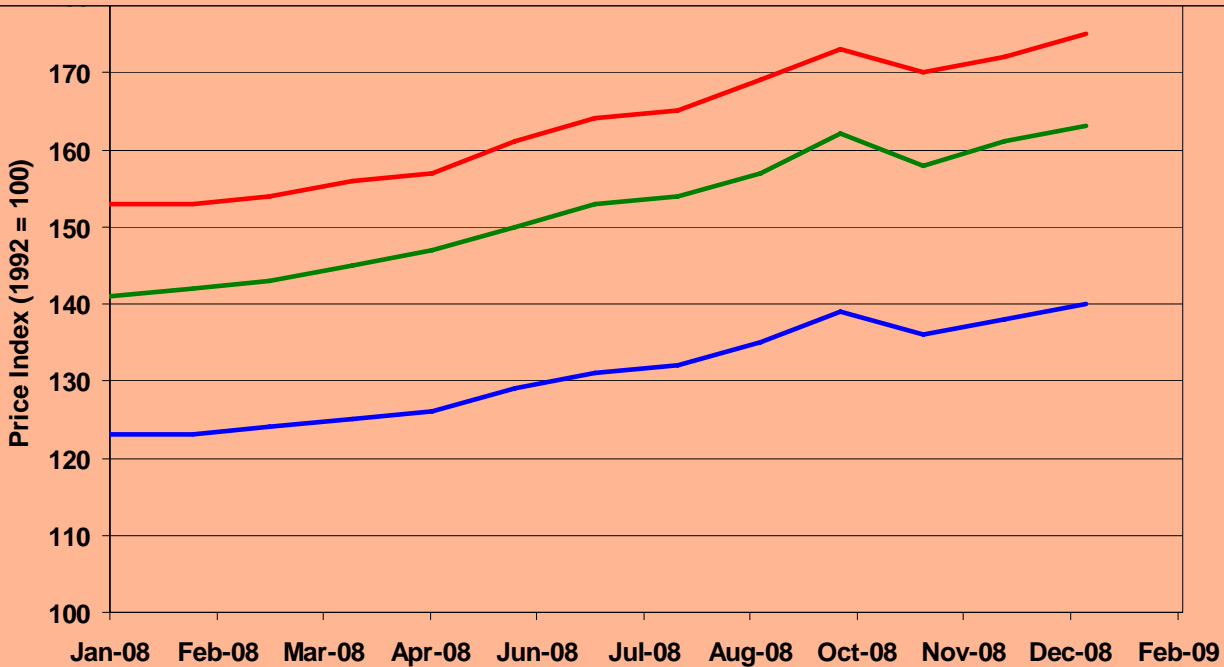
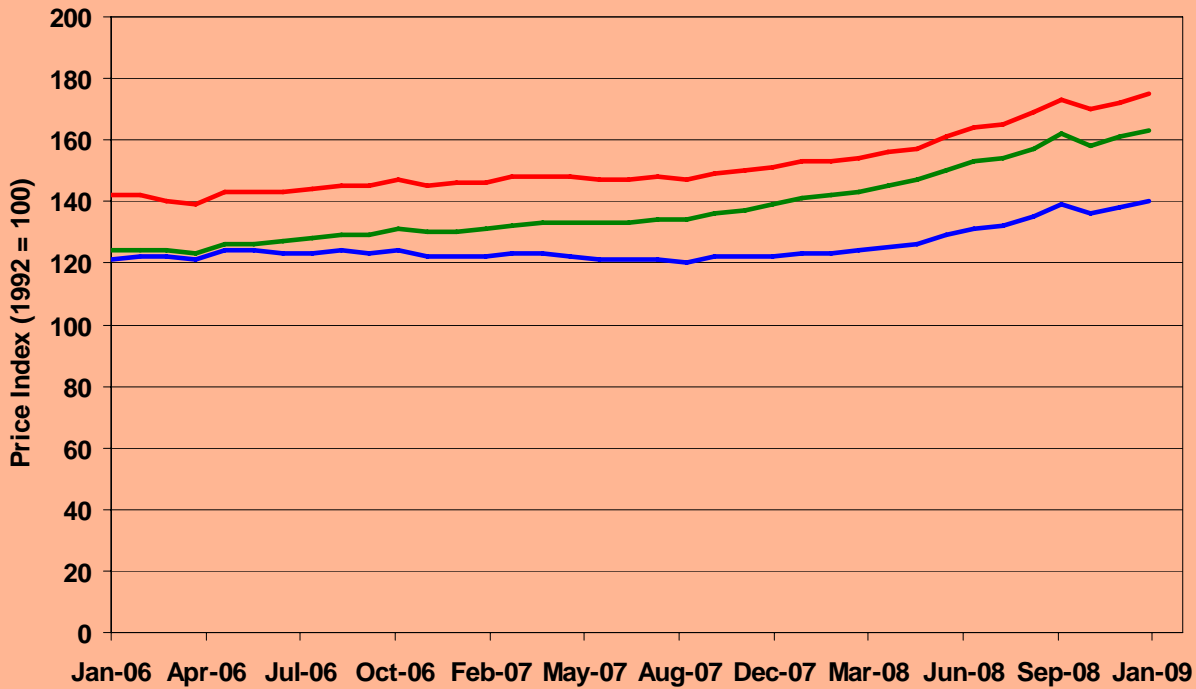
Fertilizer Prices



Short-Term Fertilizer Prices

- Don't expect prices to go much lower
 - Companies believe they are priced about right for world demand and grain markets
- Supply going to be the issue
 - Pre-purchased/contracted are in good shape
 - Poor fall application window, lots of waiting
 - Warehouses full, no slack in system
 - Companies not holding excesses anymore
 - Decide what you want and get it ordered asap
 - If waiting to buy, could be serious trouble

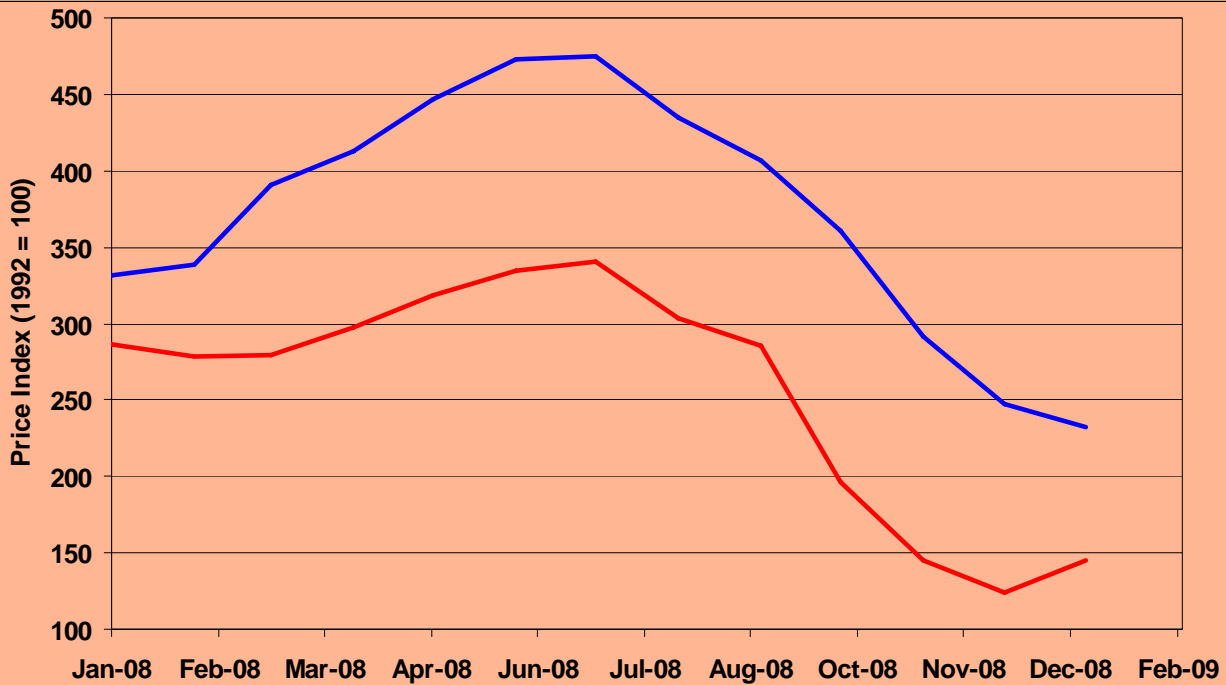
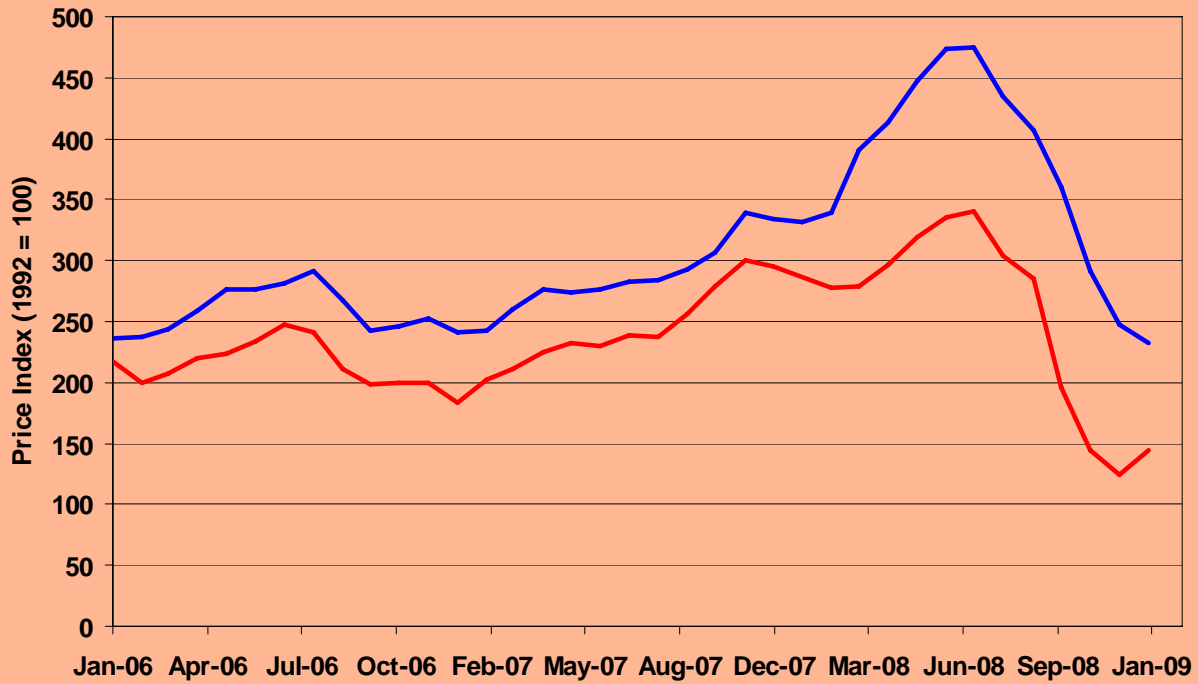
Chemical Prices



Short-Term Chemical Prices

- Chemicals higher than last year (~15%)
 - Fairly flat since summer
- Supply also going to be the issue
 - Pre-purchased/contracted are in good shape
 - Lots of waiting by farmers, companies not overstocking or over producing
 - If acres shift to soybeans, shortages will occur
 - If wait too long, get "shotgun" of chemicals, not your specific needs, and cost more
 - Decide what you want and get it ordered asap

Fuel Prices



Short-Term Energy Prices

- Diesel: Prices about same as 2 years ago
 - Jan 2009: 30% lower than in Jan 2008
 - Jan 2009: 4% lower than in Jan 2007
- LP: Prices lower than have been for awhile
 - Jan 2009: 49% lower than in Jan 2008
 - Jan 2009: 20% lower than in Jan 2007
- Both may have lower to go

Long-Term Input Prices

- Depends on interrelated factors
- World demand for meat/grain
- Energy prices
- Exchange rates
- All three depend significantly on how bad the global meltdown is/becomes and how long it lasts

Global Input Demand

- China, India, Brazil: major drivers of increased demand that increased prices, but demand slowed now with meltdown
 - Export driven economies hit hard
 - Less money for meat/grain demand
 - Farmers have less access to credit than in US
 - Exchange rates further increasing input prices and prices of imported meat/grain

Energy and Exchange Rates

- Energy Prices: Transportation and N Prices
 - Driven by global demand, so how bad will the global meltdown be and when will it end?
 - New natural gas plants around world on line, U.S. seen as place to soak up excess supply
 - Expect some downward pressure on N prices
- Exchange rates: dollar strengthening, so increase costs of inputs and imports for other nations

Long Term: What to Expect from Suppliers

- Shift in willingness to hold excess supply
- More formality in pre-pricing/contracting
- Will expect growers to be very specific on needs in advance and take what order
- Plan ahead & place your orders, don't wait and expect them to have what you want
- Want to push some of the input price risk on to farmers

Land Rents

- Landlords may be playing catch up
- With input and output price uncertainty, margin risk larger than before
- Flexible Cash Leases more popular
 - FSA changed the rules, so don't need to share govt. payments as in years past
 - Check with FSA to be sure your lease qualifies as not needing to share payments

Flexible Cash Leases

Formula: $\text{Base rent} \times \frac{\text{Act. Yld} \times \text{Act. Price}}{\text{Base Yld} \times \text{Base Price}}$

- Set max rent and/or min rent to share upside and/or downside risk
- Examples: Google “Flexible Cash Lease”
- Contact me, I’ve sent links/examples
- If must use fixed rent, set final rate in Mar/Apr or ask to renegotiate then
 - Input and output prices more clear by then

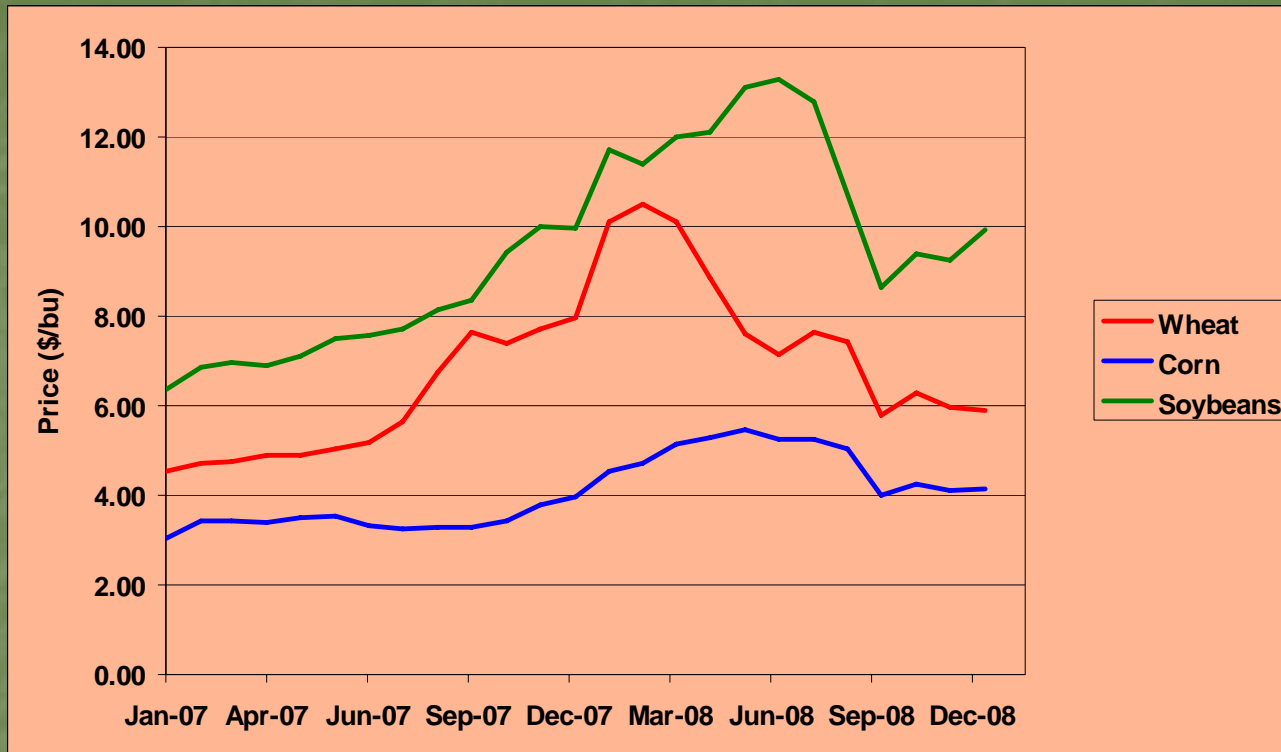
Credit: Another Input

- Banks are getting tighter on credit
- Anecdotes only, no data
- Farmers going to bank to ask for operating credit to buy inputs
 - "Sell 80 acres and come back in"
 - "Won't lend you the money if you pay that rental rate"
- Talk to your banker!!!

What's Going on with Output Prices?

- Grain prices have decreased and become more volatile
 - Ethanol/biodiesel prices falling as crude oil and diesel prices decline
 - Dollar stronger, so export demand declined
 - Livestock prices falling, so less grain demand
 - World demand uncertainty increased with the financial crisis/recession

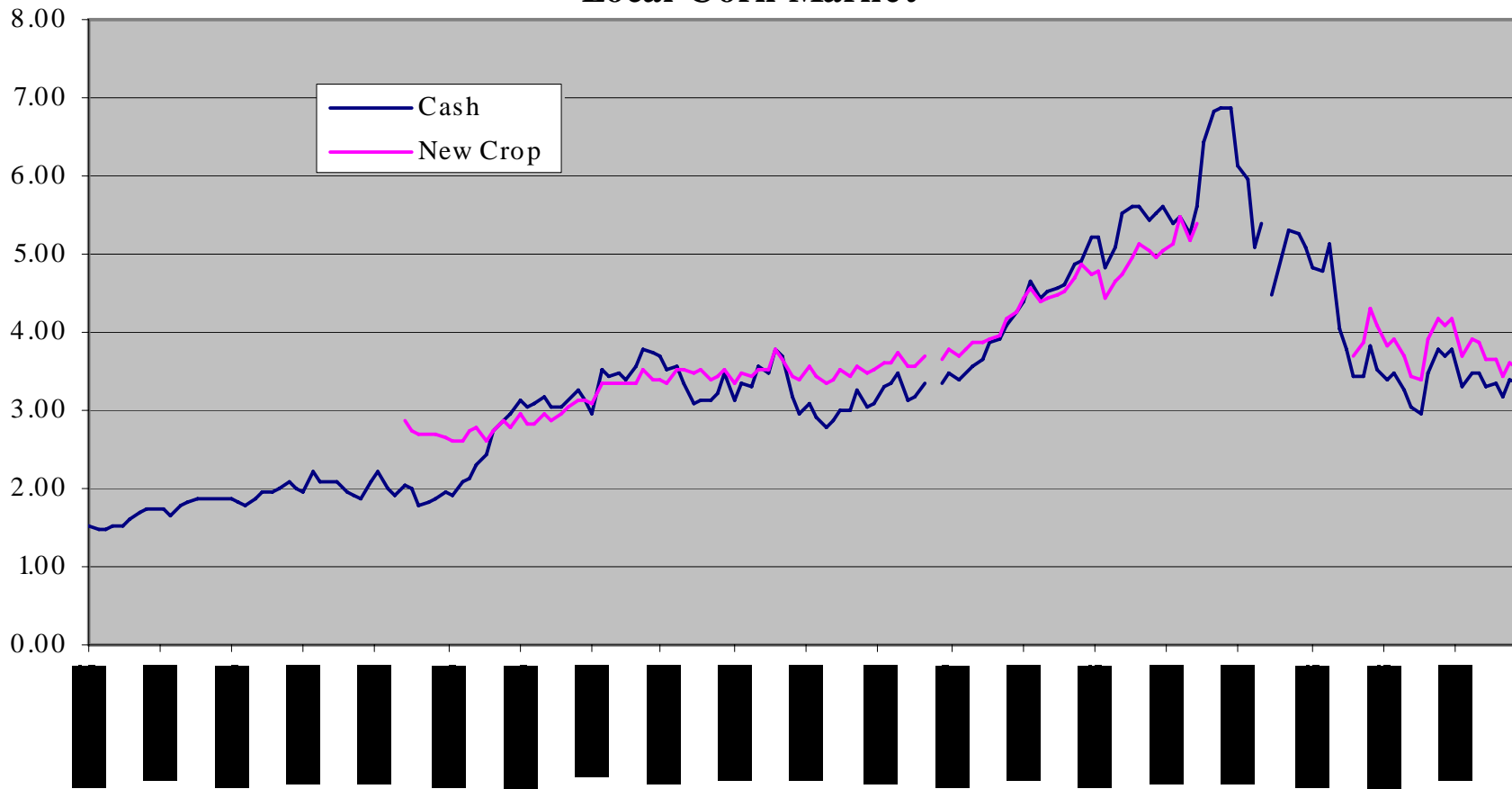
USDA Monthly Average Prices Received by Farmers



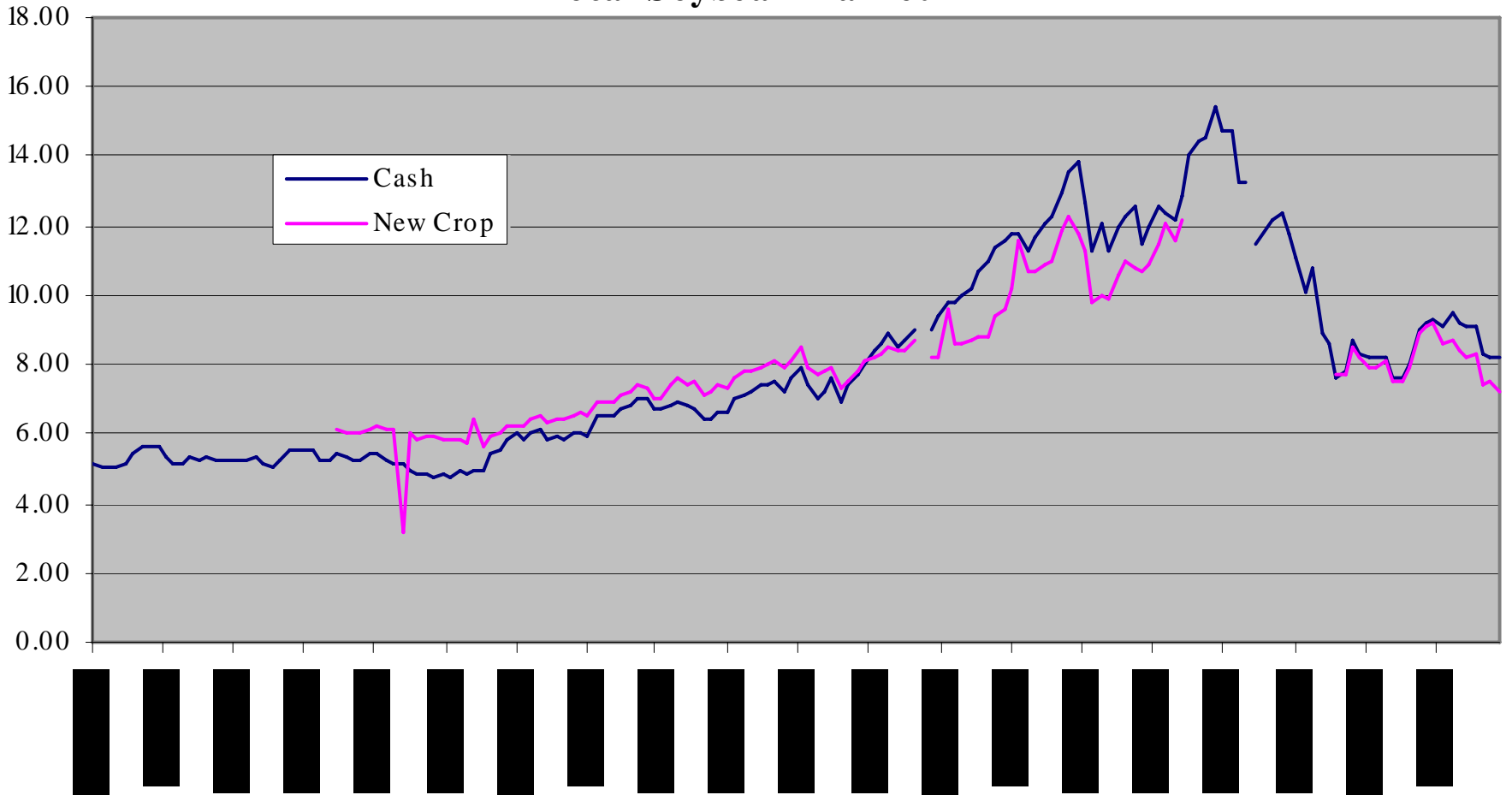
CBOT Contract	Peak	Price*	Current	Decrease
Dec. Corn	June	7.99	4.16	-48%
Nov. Soybeans	July	16.37	9.25	-43%
Dec. Wheat	March	12.75	6.33	-50%

Source: *Darrel Good (U of IL)

Local Corn Market



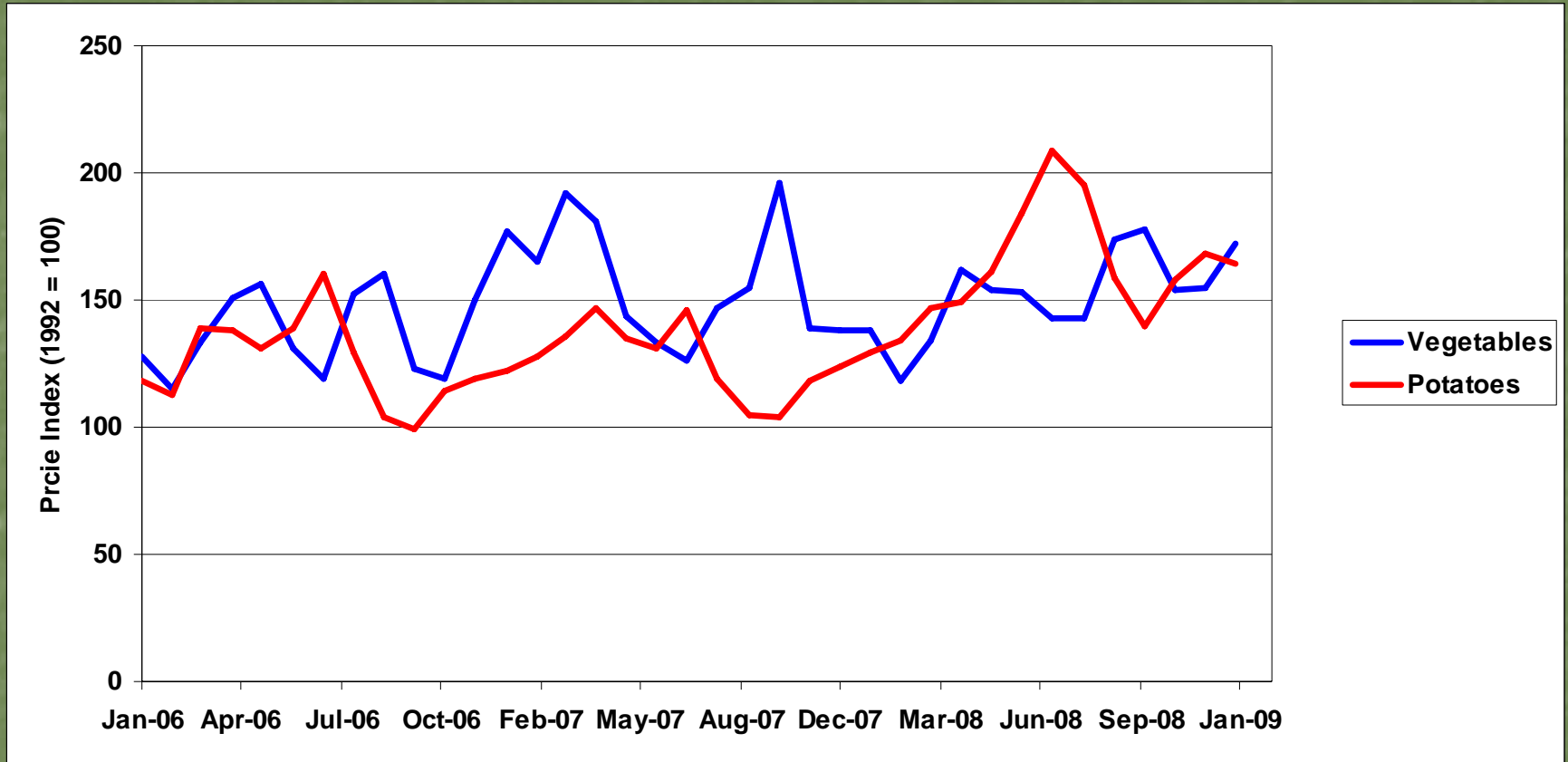
Local Soybean Market



Grain Prices

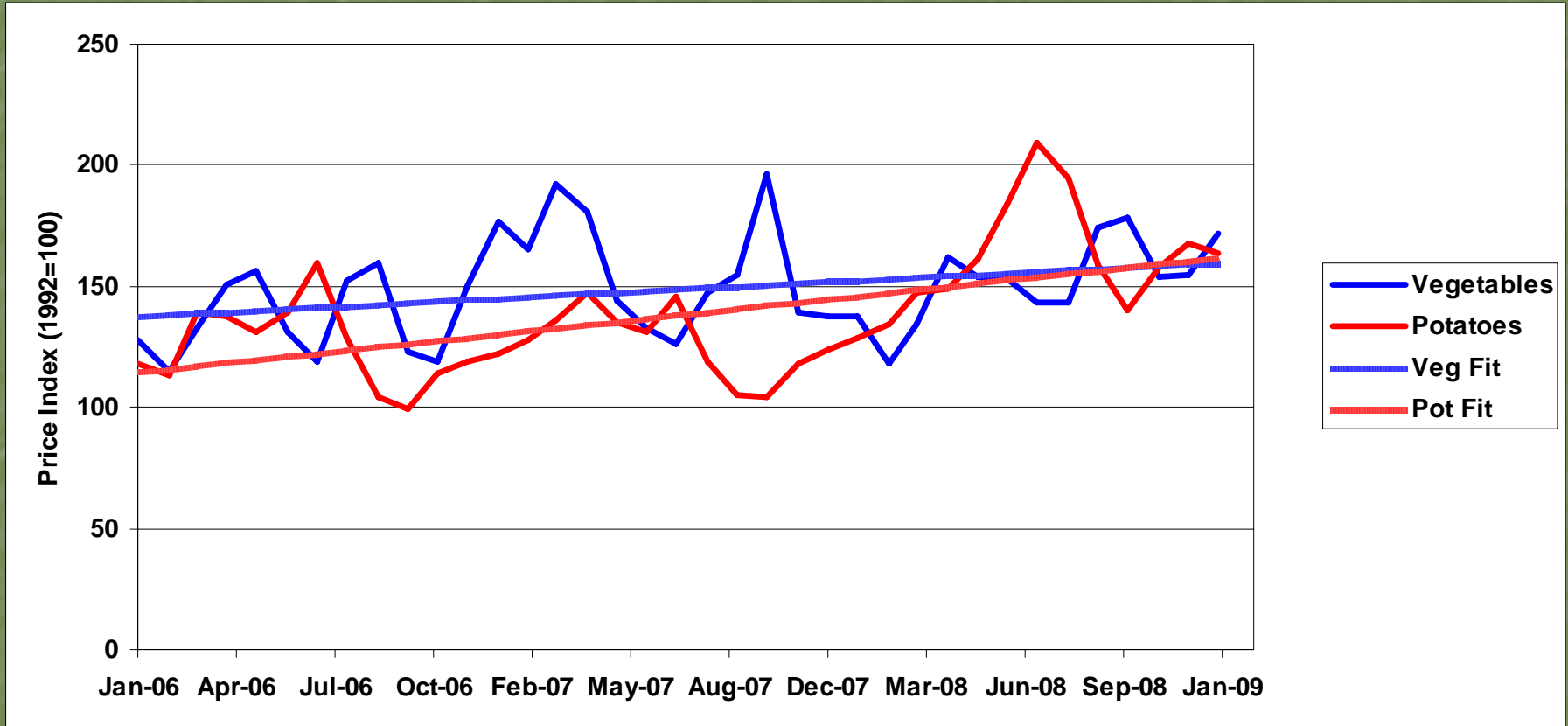
- Soybean futures prices fell less and have been climbing relative to corn and wheat
- Will there be a significant acreage shift to soybeans in 2009?
- Acreage shift to soybeans will affect short term fertilizer and chemical input availability and prices to some extent

What about Potatoes and Vegetables?



USDA-NASS national monthly price index for prices received by farmers

Same Data Regression Fit



Average annual increase over the last 3 years

Vegetables = 5.4%, Potatoes = 13.8%, > Inflation

Summary: Short Term

- Input prices are about where they are going to be in short term
- Availability the big issue now, not price
 - Some farmers are not going to get what they want when they want it
 - Don't wait, or you may be one of these
 - Soybean acres will have important effect on chemical and fertilizer availability
- Rents: flex cash leases or renegotiate
- Stay in communication with your banker

Summary: Long Term

- It all depends on how bad it gets around the world and when it ends
- Expect changes from suppliers: less willing to carry stock and more pre-planning on your part
- My opinion: We will have a few years of lower input prices, but eventually the global economy will start to roll again
 - Input and output prices will increase again
 - Use the next few years to prepare
 - Increase energy and input use efficiency

Questions?

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