

Input Prices: Long Term Trends and Short Term Realities

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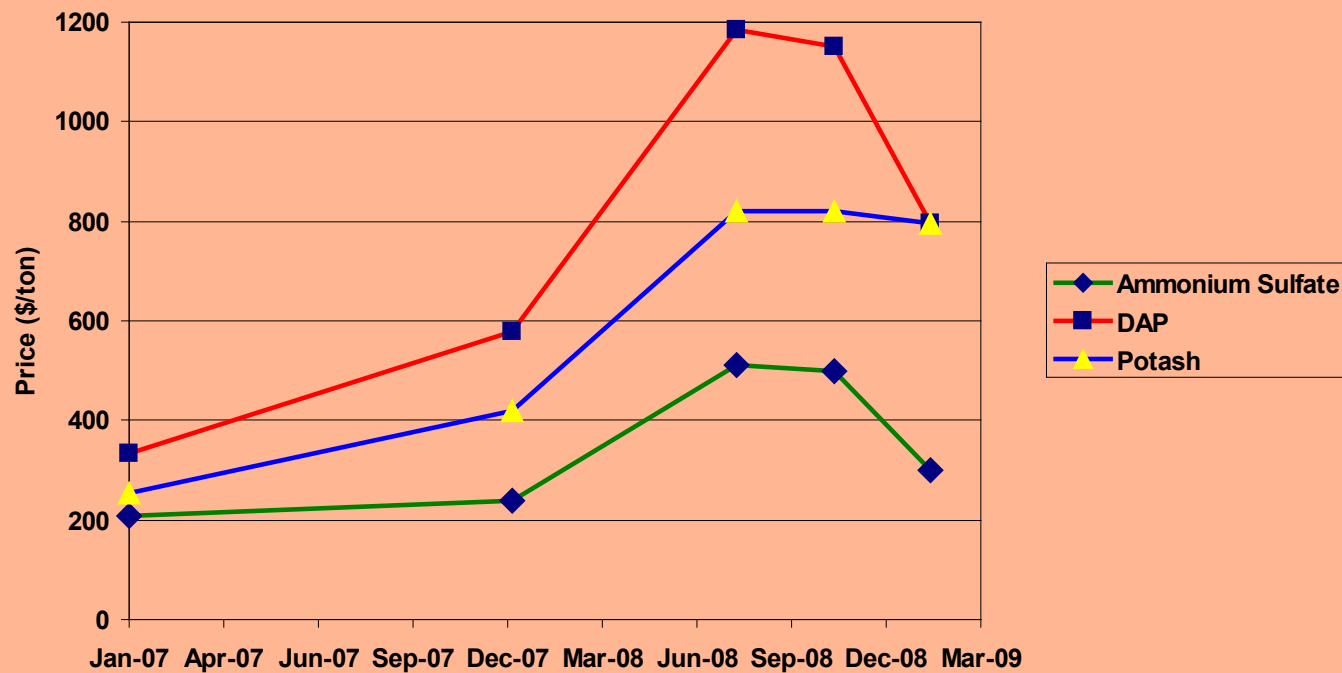
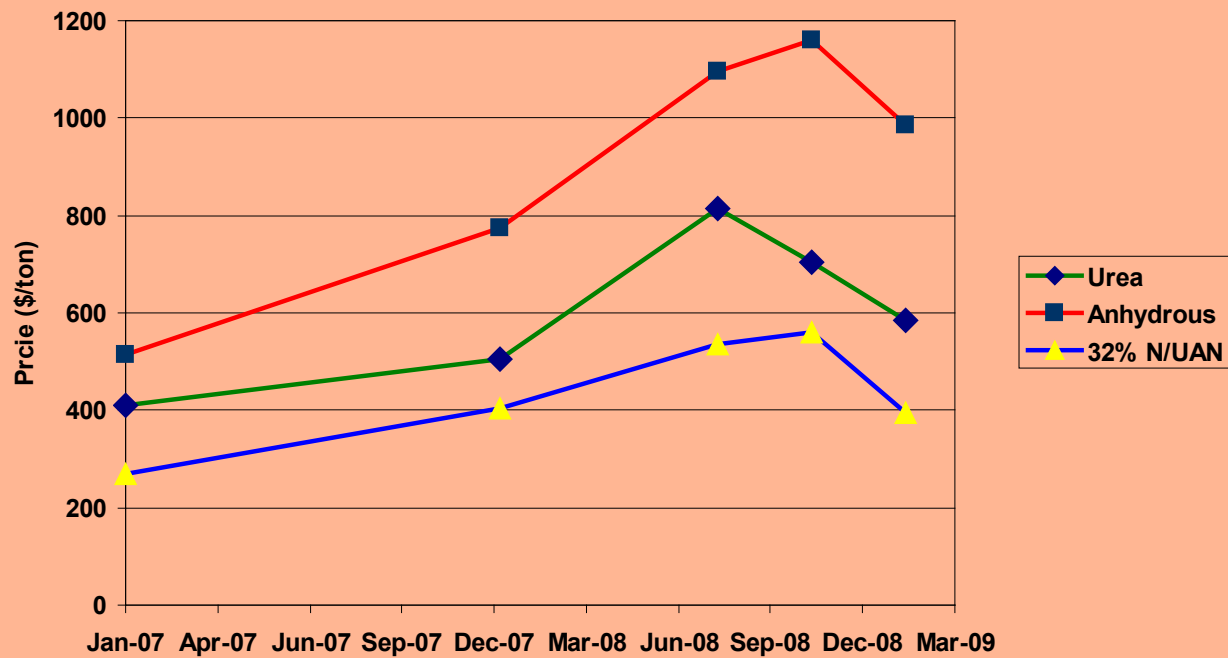
Goal Today

- 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
Urea	410	505	500	815	---	585
Anhydrous	515	775	715	1095	1160	985
32% N Solution	270	405	405	535	560	395
Ammonium Sulfate	210	240	325	510	500	300
DAP	335	580	625	1185	1150	795
Potash	255	420	515	820	820	795

^aLandmark Coop ^bFrontier FS Coop ^cInformal Survey Average



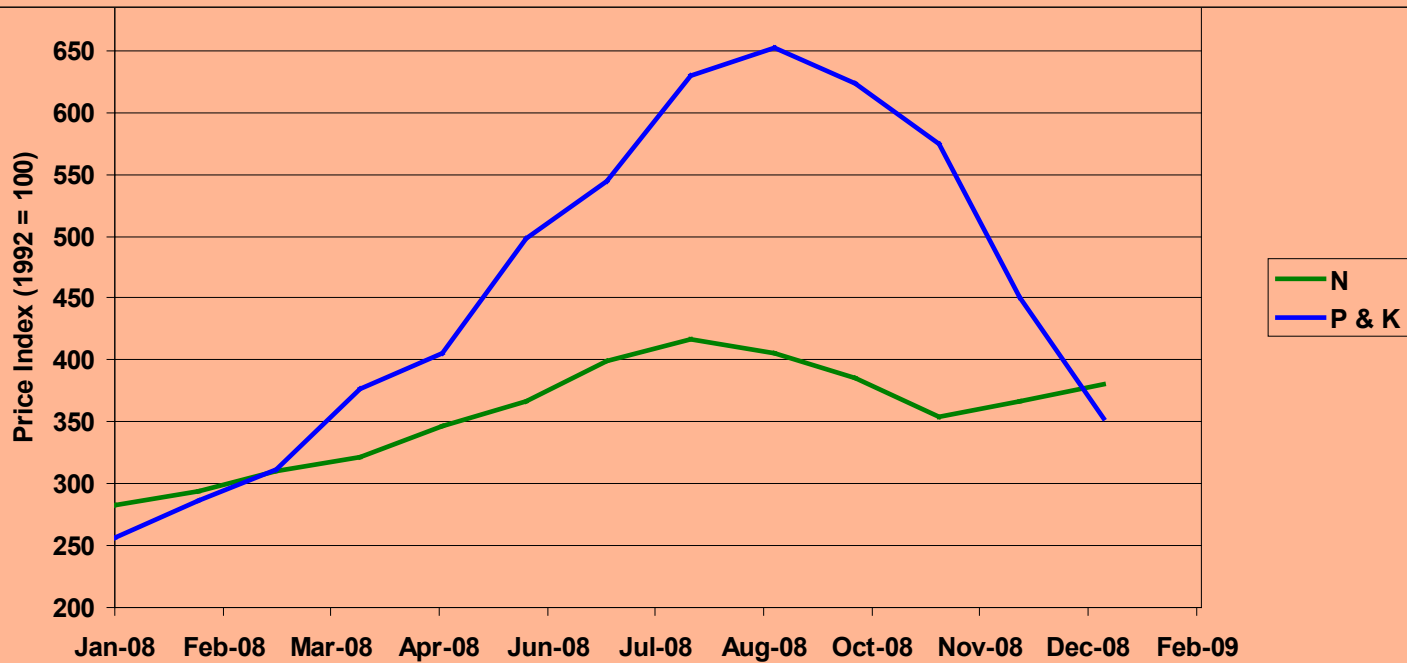
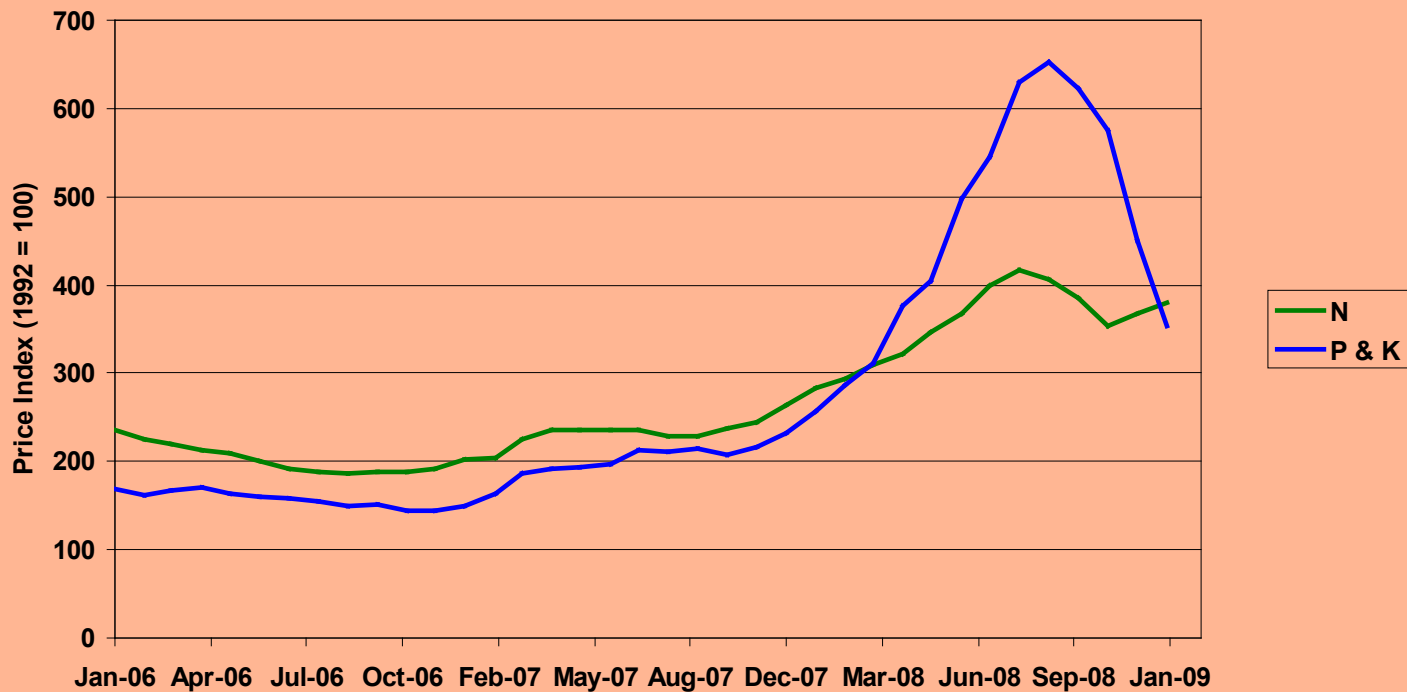
Higher than last year,
but not as high as this summer

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

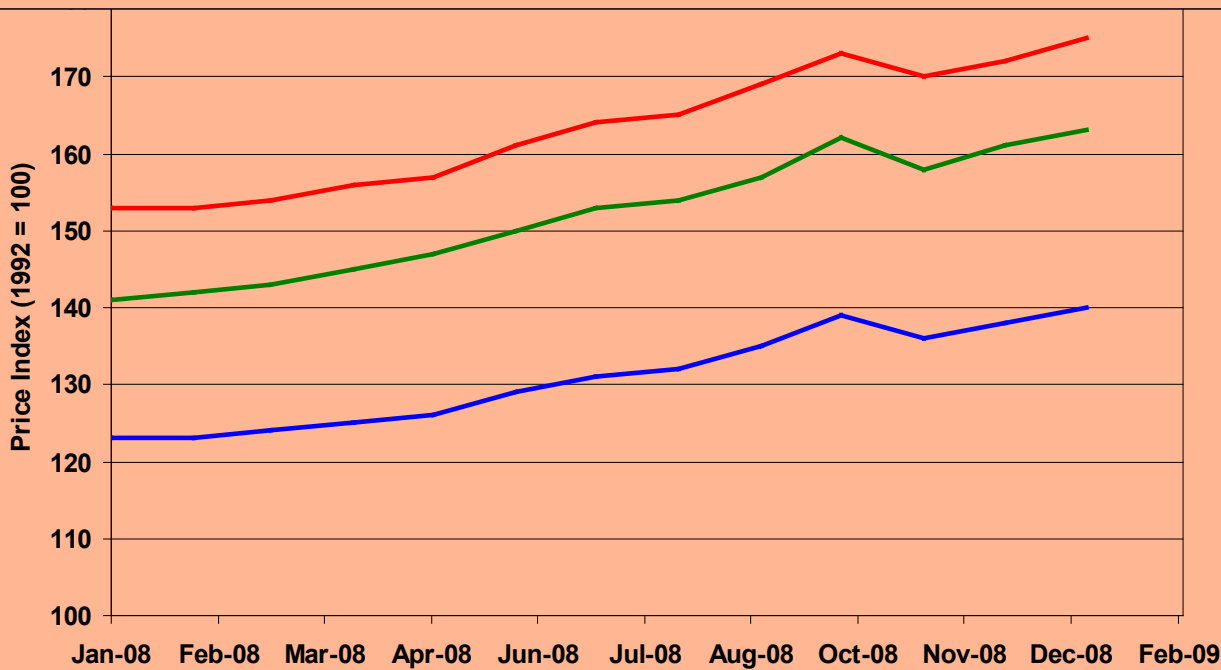
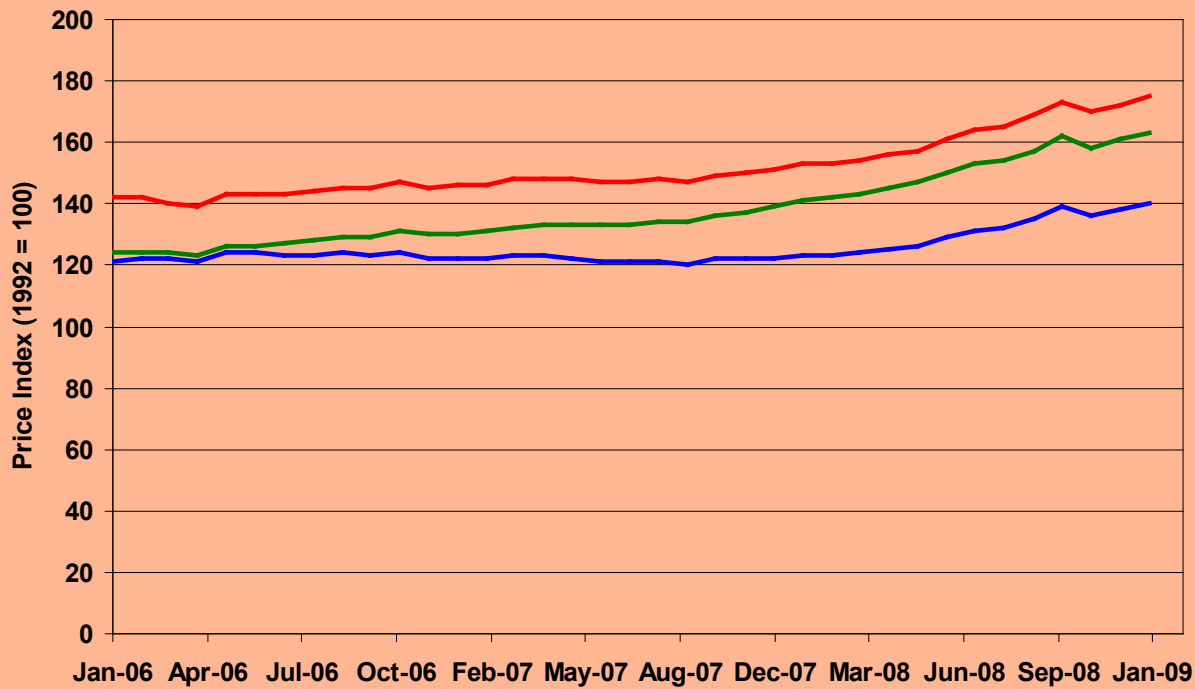
Fertilizer Prices



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

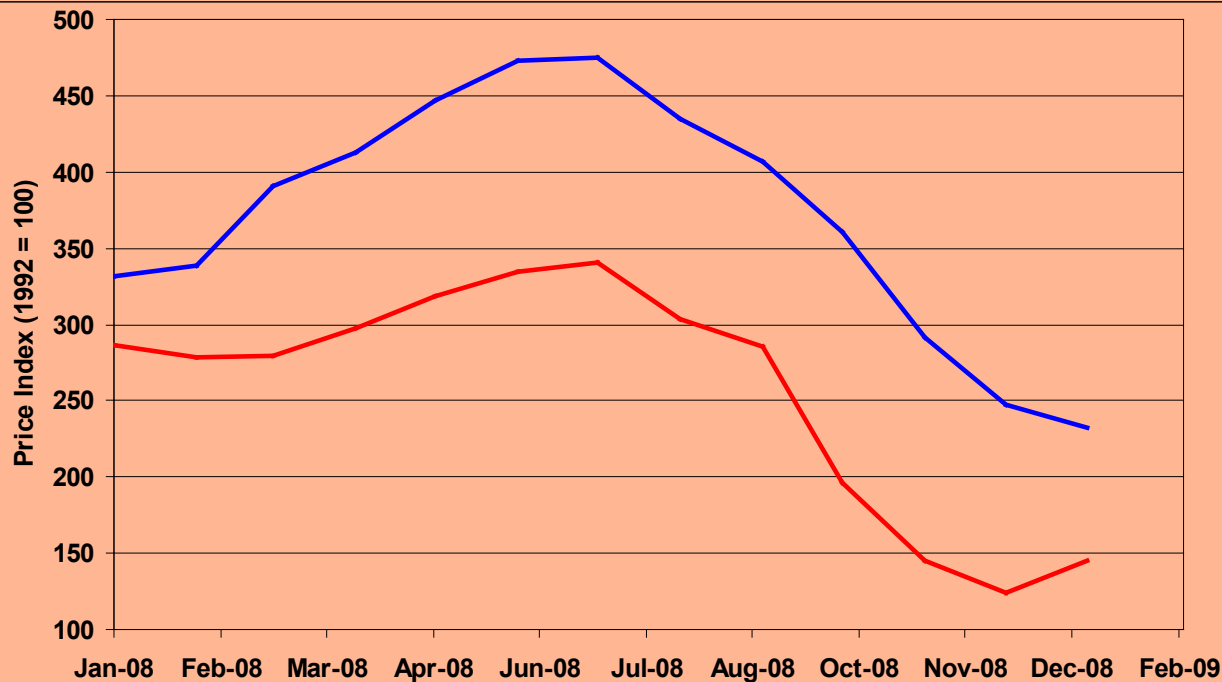
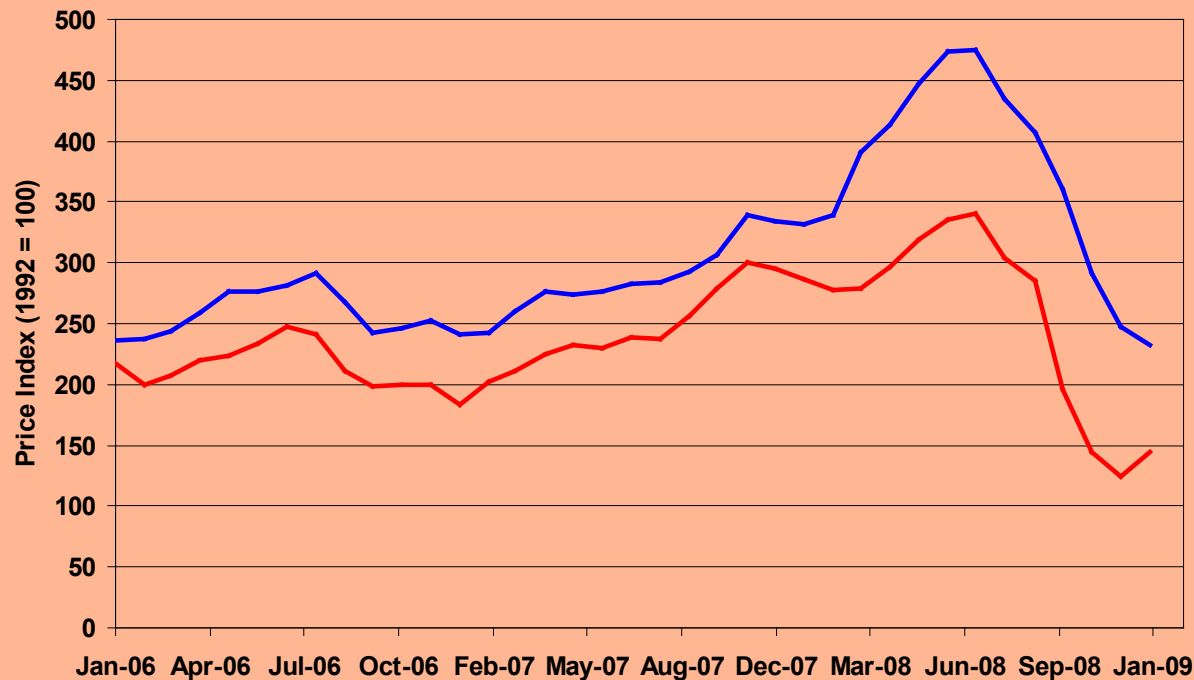
Chemical Prices



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

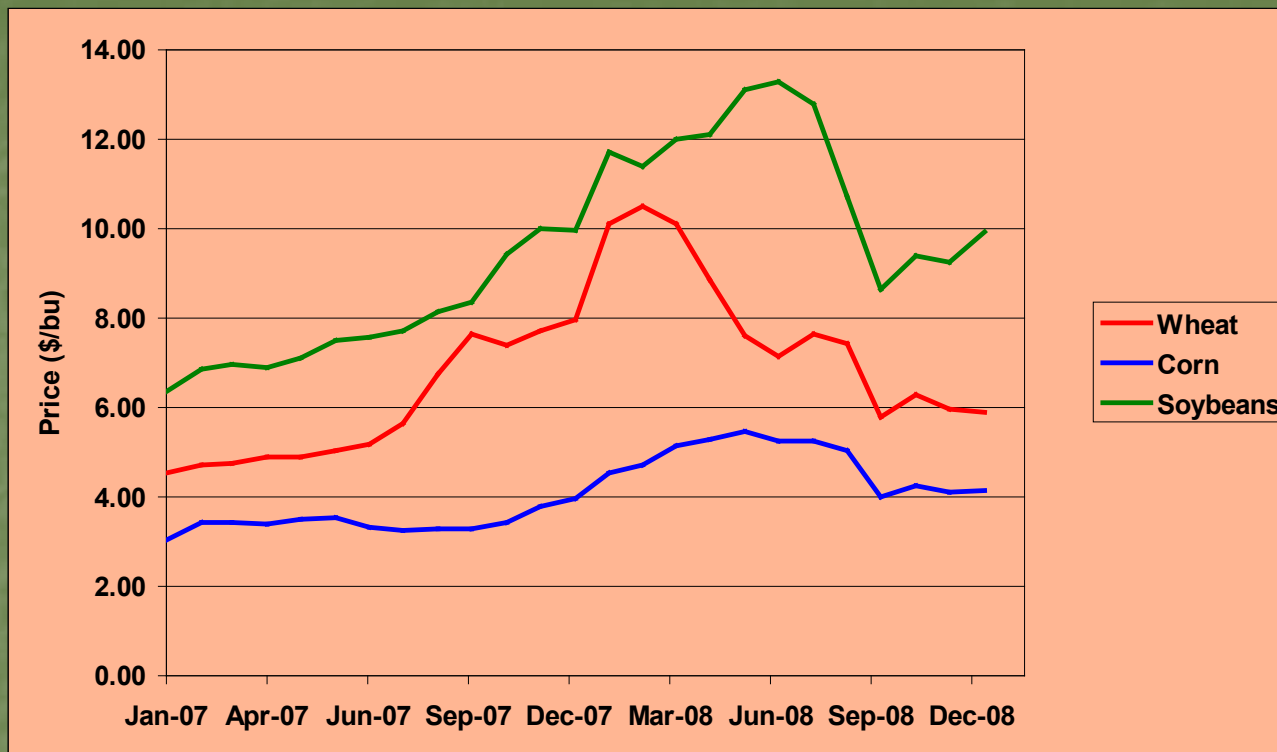
Credit: Another Input

- 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



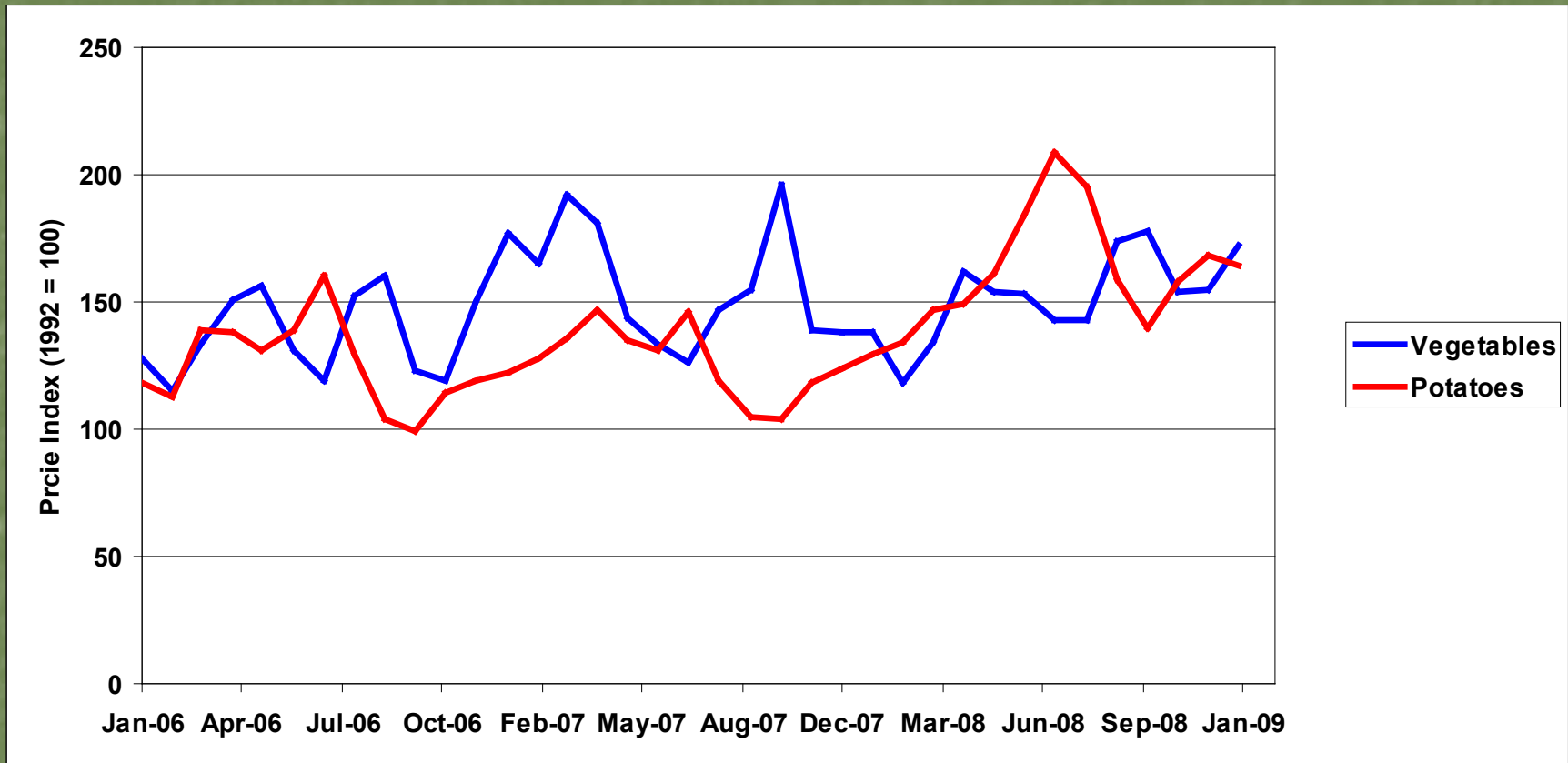
CBOT Contract	Peak	Price*	Current	Decrease
Dec. Corn	June	7.99	4.16	-48%
Nov. Soybeans	July	16.37	9.25	-43%
Dec. Wheat	March	12.75	6.33	-50%

Source: *Darrel Good (U of IL)

Grain Prices

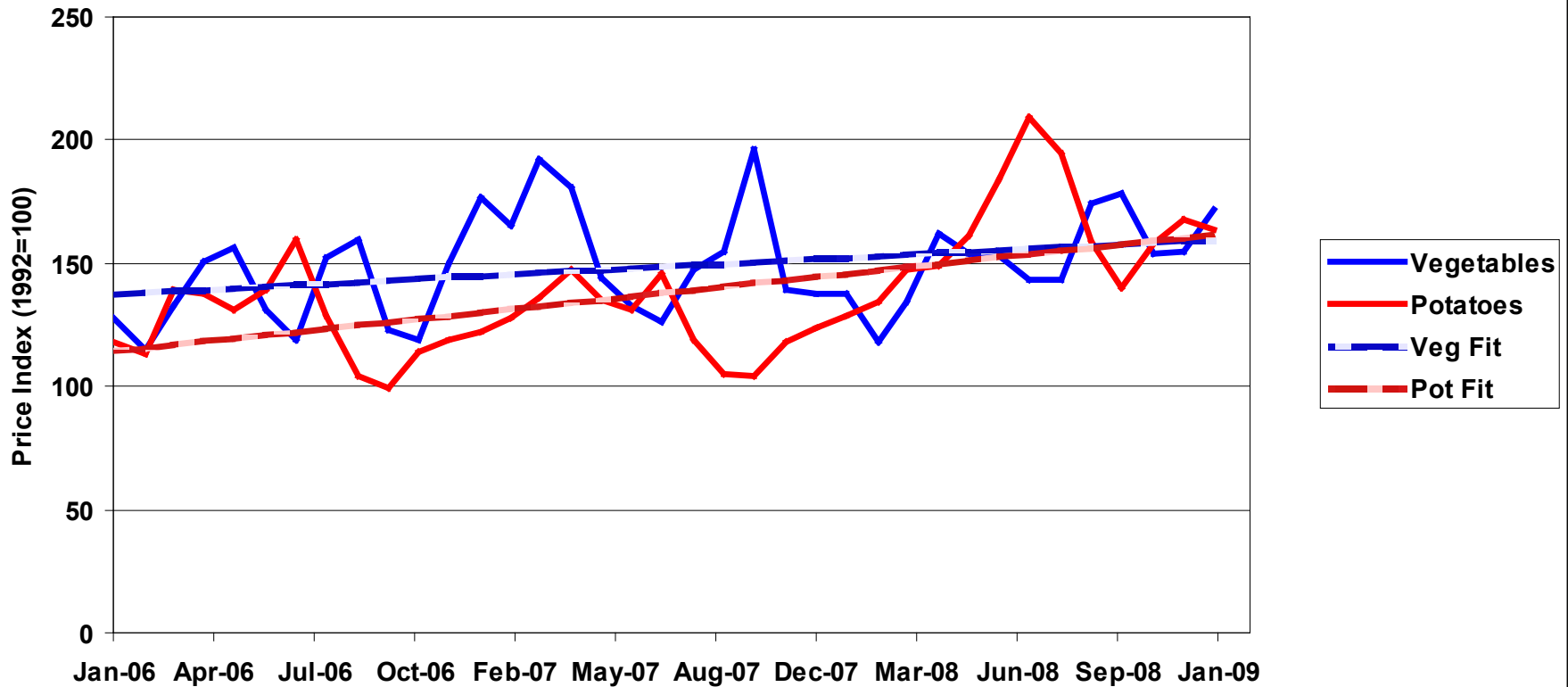
- Soybean futures prices fell less and have been climbing relative to corn and wheat
- Will there be a significant acreage shift to soybeans in 2009?
- Acreage shift to soybeans will affect short term fertilizer and chemical input availability and prices to some extent

What about Potatoes and Vegetables?



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

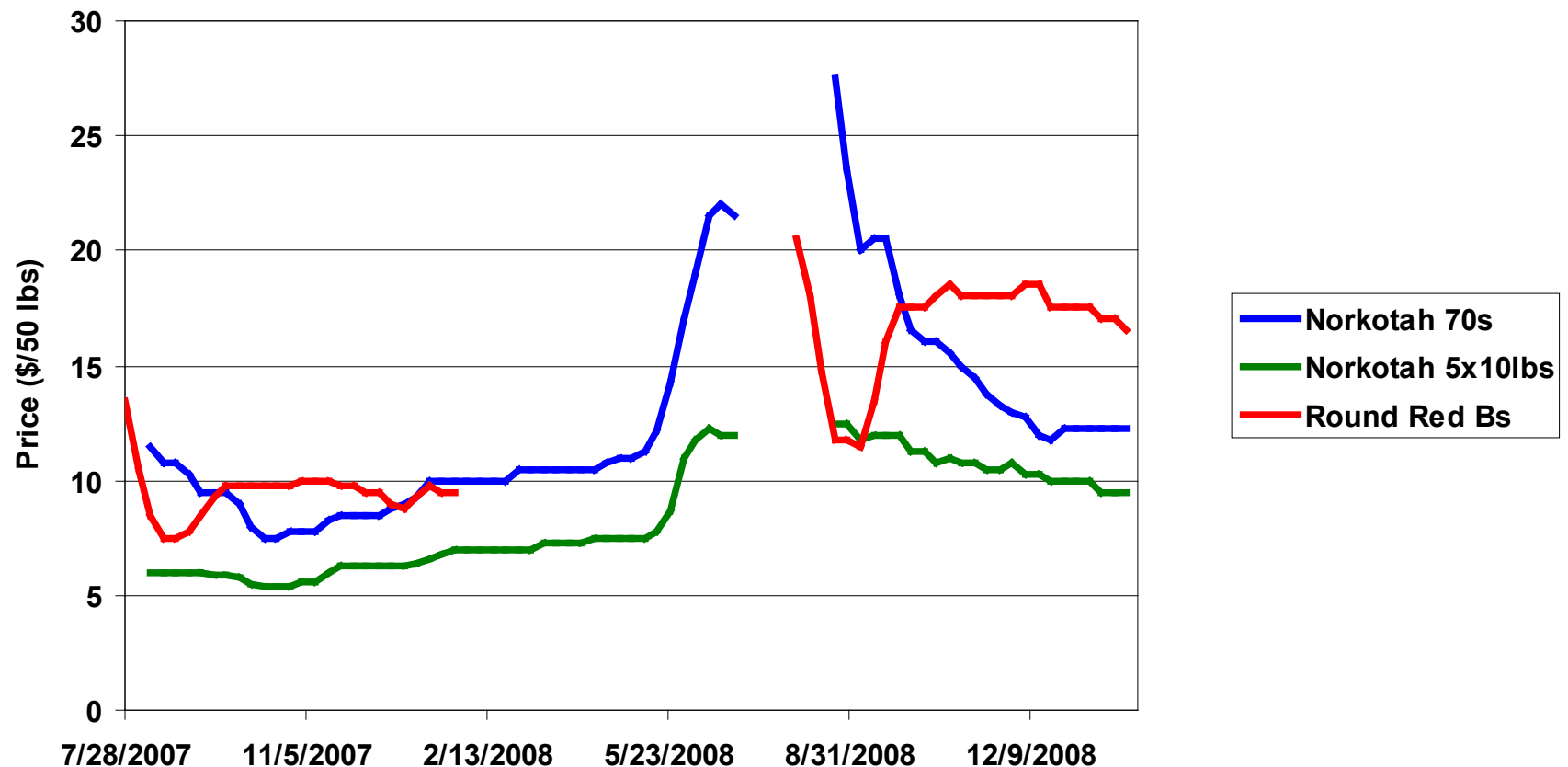
Same Data Regression Fit



Average annual increase over the last 3 years

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

USDA-AMS weekly average prices received at terminal markets for Central Wisconsin fresh potatoes



Fresh Potato Prices

- Round Red B's have followed the "standard" post-harvest trend
- Russets: Have not seen the post-harvest price increase that had last year
 - When will they bottom out?
- Retail demand for fresh potatoes falling with lower consumer income

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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