Study predicts crop-production costs will jump dramatically in 2009

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Soaring energy prices will yield sharp increases for corn and soybean production next year, cutting into farmers' profits and stretching already high food costs, according to a new University of Illinois study.

Costs to get crops in the ground will jump by about a third in 2009, fueled by fertilizer prices expected to surge 82 percent for corn and 117 percent for soybeans, said Gary Schnitkey, an agricultural economist who conducts the annual survey of input costs.

Fertilizer – the biggest non-land expense for corn and soybean farmers – is tethered to the same cost spiral that has driven steep gasoline and heating price increases over the last few years, said Schnitkey, a professor of agriculture and consumer economics.

"Roughly 80 percent of the cost of producing nitrogen fertilizer is natural gas, so as natural gas costs have gone up so have the costs of those inputs," he said. "Phosphorus and potassium are mined, and as energy costs increase, mining costs increase."

With commodity prices high, the increased production costs should merely trim farm profits rather than sinking balances into the red, said Schnitkey, who predicts farmers will likely post solid earnings again in 2009.

"But it's one of those things," he said. "When are the good times going to end? Could it be next year? And what happens if a drought or some other disaster cuts yields dramatically?"

While farmers will likely absorb some of the added costs, Schnitkey says consumers also should expect to pay more for products ranging from cereals and syrups to grain-fed beef.

"There's not going to be a reduction back to lower food costs as long as we have these higher production costs," he said. "Energy prices are driving a lot of what's going on and ultimately that hits the consumer."

Along with fertilizer, grain farmers also will see hefty cost increases next year for inputs ranging from seed to fuel for tractors and other machinery, according to the study.

The study projects non-land production costs for corn will total $529 an acre next year, up 36 percent from 2008 and nearly 85 percent higher than the average of $286 per acre from 2003 to 2007. At $321 an acre, soybean input costs are projected to rise 34 percent from 2008 and more than 78 percent from the 2003-2007 average of $180 an acre.

Schnitkey says the per-acre costs are based on high-producing farmland in Central Illinois, but corn and soybean farmers across the country will see similar increases.

Assuming cash-rent fees of $200 an acre, the study projects a break-even price of $3.82 a bushel for corn in Central Illinois, based on an average yield of 191 bushels an acre. Soybeans would break even at $9.65 a bushel, based on yields of 54 bushels per acre.

Schnitkey says 2009 prices should be significantly above break-even prices. Based on futures markets, corn should sell for about $6 a bushel next year, with soybeans in the $13 to $14 range.

"Looking further ahead, though, a lot of things could happen to bring that down," he said. "Demand could bring on more land in Argentina and Brazil, or the Ukraine might get its act together and increase production."

Higher production costs will likely force farmers to try to hold down cash-rent payments, monitor commodity markets closely to sell at the best price and consider increasing crop-insurance levels, Schnitkey said.

"Input prices will have doubled in just a few years and that's a major investment for farmers," he said. "If something bad happens that hurts yields, their downside risk is much higher now."

Source: University of Illinois at Urbana-Champaign