

Ethanol will curb farm income until economy rebounds, economist says

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Ethanol helped drive two years of record profits for grain farmers, but also will hold income down during a looming recession that has already sliced crop prices in half, a University of Illinois economist says.

Scott Irwin says agriculture's fortunes are now tethered more to ethanol than food, making crop growers vulnerable to sharp price swings at filling stations rather than the typically slower cost shifts at grocery stores.

"We're just experiencing the full brunt of this new source of volatility," said Irwin, a professor of agricultural and consumer economics. "When food prices were the main trigger, recessionary impacts were much less direct and much more gradual. Now, there's this new connection through energy costs that immediately gets translated to agriculture."

Energy demand has sagged amid a global economic meltdown, netting sharply lower prices for crude oil, gasoline and ethanol, a corn-based fuel additive, he said. That, in turn, reduced the amount ethanol producers can pay for corn and still break even, pulling down the market for both corn and other grains that have ridden its coattails since the ethanol boom took hold in 2006.

"The same thing that drove prices up is driving them back down," said Irwin, who co-wrote a report with economist Darrel Good that is among five by agricultural and consumer economics faculty members on how the financial crisis affects farmers.

Corn prices climbed to nearly \$8 a bushel in futures markets this summer amid strong global demand that pushed gasoline to almost \$4 a gallon. But pump prices have since tumbled to nearly \$2 a gallon as a credit crisis and looming recession put the brakes on driving.

Irwin says corn prices have mirrored that slide, falling to about \$4 a bushel. He predicts prices will likely hover there until the economy rebounds from a recession that could be the nation's deepest since World War II.

"Over the next couple of years, with normal weather around the world, I think we'll see corn prices ranging between \$3.50 and \$4 a bushel, closer to the low end with good weather and the high end with bad," he said.

"But with a weather disaster, prices could easily spike to \$5 or \$6 again."

Despite the dramatic slide, Irwin says corn prices remain well ahead of the \$2.42 a bushel average from 1973 to 2006, when ethanol demand paved the way for two of the most profitable years ever for grain farmers.

"Even if we settle in at \$3.50 a bushel for corn, that's still nearly 50 percent higher than it was for 30 years," he said.

Irwin says 2008 income will vary widely depending on whether growers locked in prices before markets began turning downward in July. Farmers who sold their crop before the slide could again see record earnings, while those who didn't might manage small profits or just break even.

But he predicted better-than-expected profits for livestock farmers, thanks to lower feed costs as ethanol scaled down grain prices.

"One of the really interesting things that has happened in the last month-

and-a-half is how the relative fortunes of crop and livestock producers have reversed at head-snapping speed," Irwin said.

Source: University of Illinois at Urbana-Champaign

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