Producers need to watch margins during economic uncertainty

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Drought, which cut back storage stocks of many major commodities, coupled with rising demand for food to feed a growing global population, suggest a continued bull market for crop prices heading into the new year. Credit: Texas AgriLife Extension Service photo by Blair Fannin

Farmers will need to manage margins closely in 2012 as commodity prices fluctuate with U.S. and European economic developments, according to a Texas AgriLife Extension Service economist.

Dr. Jason Johnson, AgriLife Extension economist from Stephenville, told producers at the recent Texas Plant Protection Association conference in Bryan that fundamental data suggests strong prices for agricultural commodities in 2012.

Drought, which cut back storage stocks of many major commodities, coupled with rising demand for food to feed a growing global population, suggest a continued bull market for crop prices heading into the new year.

Johnson said U.S. corn stocks are the tightest since 1996.

“This bodes well for supportive prices going into 2012,” he said. “What happens is scarcity brings out the fear and greed factor in everyone. There’s high volatility right now with regards to the commodity.”

During 2011, Johnson said, the December corn futures contract price fluctuated from approximately $4 per bushel to above $7 per bushel.

“Managing that variability becomes the challenge,” he said.

To manage risk, Johnson said, the real safety net for farmers is crop insurance. Producers need to look at what is the guaranteed dollar per acre with various crop insurance alternatives and determine “the upside potential from there.”

“Managing input prices is so important since fertilizer prices have tripled over the last 10 years,” Johnson said. “You need to manage margins. Marketing the commodity is only half of the equation. Rising input costs can eat away any expected profits if equal attention is not paid to controlling them.”

Johnson also focused on the outlook for energy heading into 2012. He said West Texas Intermediate crude oil prices are projected at $98 per barrel and natural gas prices are forecast to increase by 3 percent.

“Ultimately, the forecast for agricultural commodity prices translates into real estate values,” he said.

Johnson said the Dallas Federal Reserve Bank conducts a survey of agricultural lenders. Recent data indicated Texas cropland increased by 5.3 percent over the previous year "in terms of value," he said.

"There is lots of investment going into crop real estate," he said. "Hedge funds are putting money into this because of increasing commodity prices and diversification away from other asset classes like bonds, stocks and precious metals.

"What I encourage is developing and sticking to a marketing plan. Pick some times of the year that would be advantageous to market insured crops to protect yourself from rising input costs and other variability in the marketplace."

Provided by Texas A&M AgriLife

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