

Economic Climate Pushes Wheat Acreage Lower

LITTLE ROCK, ARK.

Arkansas farmers are expected to plant significantly fewer acres of wheat this fall because of the nation's economic climate.

Last year, business was booming for wheat farmers. They planted 28,000 acres of wheat in Lincoln County, compared to a normal acreage of 7,000-8,000, according Chad Norton, Lincoln County extension agent with the University of Arkansas Division of Agriculture.

"Some farmers have told us that lenders don't want to loan money because the delivery basis – the difference between the Chicago price and what farmers actually get – at the grain elevator is so wide and fertilizer costs have been so high," Norton said.

Fertilizer prices have come down and the basis is not as wide as last year, but farmers still have a bad taste in their mouths. Many were burned last year by a wide basis and high fertilizer costs, lenders say, and some farmers ended up in the hole.

Norton said that because the basis has been so wide, elevators are sending a message to farmers that they don't want wheat. He said the basis has been wider than normal because elevators are paying greatly increased costs for shipping grain by river for delivery to customers.

Renewed strong global growth in 2004 through 2006 laid the foundation for the strong run-up in wheat prices from the later part of 2006 through mid-March of this year, said Dr. Bobby Coats, extension economist. "No one expected to see wheat prices reach the \$13 per bushel area in the first quarter. Since then, wheat prices have continued to drift down to less than \$6 per bushel.

"Today's wheat price uncertainty challenges producers, lenders, elevators and others to manage their price risk not only with wheat but most commodities," Coats said. "The cost of managing price risk far exceeds recent historical costs."

Dr. Andrew McKenzie, a Division of Agriculture agricultural economist, said lenders are more wary about making loans to farmers if they can't prove that they can lock in a price to sell their wheat crop at harvest.

"Wheat has really had big problems because of the basis situation," he said.

He said farmers can forward contract their

crop for a guaranteed price by getting a grain elevator to lock in the price. "Since the spike in grain prices, a lot of elevators have been reluctant to do that.

"Commodity prices are coming down, so elevators may be more willing to guarantee a price to a farmer because their risk and their cost of doing business are coming down," McKenzie said.

Farmers also have the option of locking in a forward price by using the futures market. Some farmers may not feel comfortable using this marketing method and would rather someone else do it for them, McKenzie said.

Mark Dutton with AgHeritage Farm Credit Services in Lincoln County said it's not that AgHeritage is denying wheat loans, it's that farmers have decided not to plant wheat because of lower wheat prices, a wide basis and the high cost of fertilizer until recently.

"If farmers can show a cash flow with a crop, we don't have a problem making a loan," Dutton said.

The basis has been wide, \$2 a bushel, and urea fertilizer costs have been high in the past, although the cost of urea has come back down to normal levels lately.

The July futures wheat price closed at \$5.64, down 32 cents from the opening on October 22, he said. On that date, the price at the elevator was \$4.29 with a basis of \$1.35, Dutton noted.

"We look at the total cash flow of entire operation," he said. "If we see the wheat market dropping, we might be a little more conservative."

Chad Pittillo, vice president for agricultural lending with Simmons First National Bank in Pine Bluff said not many farmers have sought loans for wheat planting this year.

"There will be a significant reduction in wheat loans," he said. "We'll decide on making loans on a case-by-case basis.

"This time last year, we were making lots of wheat loans because the price was high. But the basis at the end of last year was high, and a lot of farmers got burned when wheat got below their cost," Pittillo said.

He said the price of wheat is tied to oil prices and the stock market. "We're in uncharted water. Supply and demand used to drive prices, but that's no longer true." Δ