# Farming Costs Continue To Climb Along With Commodity Prices

**PRINCETON, KY.**

Farmers continue to see the cost of doing business climb. Fertilizer prices are at record highs. Fuel and pesticide costs are also up, along with land rents and other expenses.

In the past couple of months, farmers have been planning for their 2008 crops, and some have had what might best be described as sticker shock. Prices for potash, phosphorus and nitrogen are high now and aren't likely to drop. Some have locked in prices while others are waiting, hoping for lower prices. However, any real downturn in costs seems unlikely.

Costs of putting out a crop in 2008 will be 20 to 25 percent more expensive than one year ago, said Suzy Martin, a farm business management specialist with the University of Kentucky College of Agriculture.

"It's shocking how much costs have increased," she said.

Luckily, prices for corn, soybeans and wheat are high, and farmers have the opportunity to lock in good prices for the coming year's crop, said Greg Halich, UK agricultural economist.

"The increases in input costs have been more than made up by increases in commodity prices," he said. "Assuming a normal growing season, and grain prices anywhere near current levels, we are looking at a record year in terms of profitability." However, he quickly added, "commodity prices are extremely volatile right now, and we have no idea where prices will end up".

In fact, the following day futures prices dropped the limit for both soybeans (50 cents per bushel) and corn (20 cents per bushel) on new crop contracts.

Halich said there is no question there is also volatility in input prices, and the costs of corn inputs are substantially higher than soybeans. This is primarily due to increased costs for seed and nitrogen, the latter needed for corn production but not soybeans. In determining which crop to grow, Halich said farmers must determine what the net income will be from both crops based on past cropping experience, crop prices and input costs.

High fertilizer costs are being attributed to demand and high energy costs, both in the United States and abroad. Martin said some farmers put potash on their fields this past fall, which proved to be a good move as prices have continued to escalate.

Input costs have farmers looking at lots of options from what crop to grow to which types of seed and tillage methods would be most cost-effective, Martin said. More and more farmers are opting for minimum or no-tillage methods of production to limit the amount of fuel needed to produce a crop, she said.

Land values have also been going up and with them cash rent prices many farmers pay. Martin noted there are still many shared rental agreements in some areas of Kentucky where a farmer receives two-thirds of the crop for example and the land owner one-third. With strong commodity prices and an average crop year, landowners are making more income through these agreements than in most cash rental agreements.

With the volatility in costs and pricing, farmers should use their estimated production costs to determine what prices need to be in order to make a profit. Once this is determined, agricultural economists recommend producers lock in prices for at least a portion of their 2008 crop in order to insure themselves a profitable year. All said, however, weather can still be an important player in determining profitability so using crop insurance is also advisable. Δ