

Numerous Reasons Cause Grain Prices To Rise

LITTLE ROCK, ARK.

The reasons that grain prices are so high and you're paying more for food at the super-market are numerous, according to Dr. Bobby Coats, extension economist and professor with the University of Arkansas Division of Agriculture.

"First, until proven otherwise, I believe that we are in a global bull market for commodities," he said. "This market started building around 2000 and will last into the latter part of the next decade, if not beyond."

Second, he said, global growth appears sustainable even with domestic and global credit problems. This leads Coats to believe that the global bull market in commodities will continue with increasing demand from a growing global consumer base with growing disposable income.

He noted that global grain inventories have been declining since 1998 and are now dangerously low, at less than a two-month supply, which helps keep grain prices high.

"Pertaining to rice, hoarding of this particular commodity is occurring in a number of countries around the world, which is increasing its price on the global market," Coats said. "Remember, the global supply of rice is adequate. The world supply in the current marketing period is projected to be above the world supply in the previous marketing period."

Coats said that another reason for high grain prices is that it has been a decade since a catastrophic global weather event occurred, so this is adding to global rice and grain price strength.

Speculators and large investment groups see real investment opportunity in the commodity

sector. With U.S. equities continuing to show signs of weakness, the previously mentioned factors make commodities a good investment option for savvy investors, especially large funds.

"Arkansas rice and grain row crop producers in 2008 have seen their cost of production increase by almost 100 percent since 2002, so a return to what most consider normal prices is not likely," he said.

Coats said yet another reason for high grain prices is that some of U.S. and global economies' negative problems have added to price increases. Credit problems, currency issues, and resulting inflation are good examples.

"Lastly, there's no question that the demand for corn to produce ethanol is one factor in the current high price of corn and grains," Coats said. "Corn for ethanol is simply not the villain that many people suggest. Looking into the future, I believe that food, fiber and energy production on the farm will complement each other in most years and be a real plus for the consumer."

"Alternative energy and biofuels are in the early stages of development in this country and globally. It's extremely difficult to realize just how vast the global demand for energy will be in coming years," he said.

He believes it's a must to aggressively fully develop the biofuels sector. Tomorrow's biofuels sector will be much more efficient and look different than today's sector. He said if there was a major global food crisis, products from the biofuel crop acreage could be diverted immediately into food production. Δ