Rising Input Costs Not As Critical To Profits As Marketing

LEXINGTON, KY.

While input costs have risen dramatically over the past eight months, they won't influence producers' profits as much as marketing will, said Greg Halich, agricultural economist with the University of Kentucky College of Agriculture.

Since July, fertilizer prices have risen $165 per ton for Diammonium phosphate (DAP) and $225 a ton for anhydrous ammonia. Potash has climbed $75 per ton since September. However, grain prices have also risen during this time to nearly $6 a bushel for corn and $13 for soybeans.

While these are large increases in fertilizer prices, a $100 a ton fertilizer increase across the board for nitrogen, phosphorus and potassium only decreases profitability by $12 to $15 an acre averaged over a 50-50, corn-soybean rotation. Assuming producers' corn fields yield the state average 140 bushels per acre, a 10 cent drop in commodity prices would decrease profits by $14 an acre.

"So a 2 percent decline in commodity prices is having the same impact as 15 to 20 percent increase in fertilizer prices," Halich said.

Selling at the right time could pay off big this year, but no one knows when that time will be. The corn market has been extremely volatile in the past few months with swings of 20 to 30 cents per bushel common in one week.

"We're seeing more volatility in the commodities market in one week than we've seen in several months of fertilizer costs, which have stabilized for the most part since December," Halich said.

However, locking in fertilizer prices now may save producers money in the long run, Halich said. With large profits to be made, many producers may expand their acreage, increasing the demand for fertilizer. This could make the demand for fertilizer greater than the supply, which could cause prices to rise again before planting begins. Δ