PolicyPennings by Dr. Daryll E. Ray

Hope for the best but plan for the worst

Crop prices are hitting levels that were only a dream just a year and a half ago. The nearby future prices on Friday, December 9, 2007 for corn was $4.17 a bushel, soybeans was $11.19 a bushel, wheat was $9.21 a bushel, and cotton was 64.55 cents a pound.

At the same time we read about high land rents, high fertilizer prices, high seed prices, high fuel prices and it is likely that high agricultural chemical prices will follow. As these prices increase they increase the necessity for commodity prices to remain high as these increases eat up much of the price gain.

This scenario reminds us of the early 1970s. Back then prices doubled in a short period of time as exports hit unprecedented levels. Farmer's heeded the call to "plant fencerow to fencerow" to meet the needs of a hungry world. It seemed that demand would run ahead of production for the foreseeable future and that the golden age of agriculture had arrived.

The 1970s did establish a new plateau for crop prices. But expenses increased as well and soon these new prices were below the cost of production for many farmers and tractors were on the Mall in Washington, D.C. The price that farmers received for the wheat in a loaf of bread was less than the baker paid for the bread wrapper.

Since we were kids we have heard the old saw that those who don't learn from history are bound to repeat it. The euphoria of the 1970s was followed by the farm crisis of the 1980s. Looking over the last century of agriculture, the years of struggle largely outnumber the years of high prices and prosperity.

Under these circumstances, we suggest that farmers keep one eye on current conditions and one eye on history. Like others, we hope that the good times and farm profitability will continue for a good long time. But history suggests that when everyone is expecting demand to exceed production for the foreseeable future, it is wise to expect the unexpected.

Over time we have noticed a particular pattern in the export markets. While most countries try to float their excess production out of port in the year of production, the Chinese lag their exports by a year. They only export their surplus when they are sure that the next year's crop is going to be adequate to meet their needs.

It is certainly tempting for US farmers to try to avoid paying taxes on this year's financial bounty, by purchasing new equipment. But with costs increasing and prices remaining extremely volatile, it may be wise to follow the Chinese model and hold off on trading-up on machinery, trucks and pickups until we see what happens to the profitability of the 2008 crop. And it might be prudent to put a multiyear hold on land purchases.

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