Yes, grain prices will be in the stratosphere. Be prepared for the inevitable crash!

It took our breath away!

As we opened up the May 12, 2022 issue of WASDE, the USDA's World Agricultural Supply and Demand Estimates (https://tinyurl.com/3caz8bvy), we expected to see higher crop prices for the coming 2022 crop marketing year.

What we did not anticipate was a wheat price ($10.75/bu.) more than double the season average price for the 2020 wheat crop ($5.05) and a far cry from the $3.89 we saw as recently as the 2016 crop marketing year.

The projected price of wheat for the 2022 crop year is 2.13 times the expected price received by farmers for the 2020 wheat crop. By way of contrast, while it is nothing to sneeze at, the projected 2022 corn price of $6.75/bu. is 1.49 times the 2020 price. The comparable ratio for soybeans was 1.33 while it was 1.24 for rice.

The factors driving up the price of wheat are easily identifiable.

The US/European alliance reacted to the Russian invasion of Ukraine by placing an embargo on Russian exports including wheat. In recent years, Russia has been a major wheat exporter as has Ukraine.

As a part of its war effort, Russia has placed a naval blockade on Ukrainian grain exports. In addition, WASDE forecasts Ukrainian wheat production "at 21.5 million tons in 2022/23, 11.5 million lower than 2021/22 due to the ongoing war." Many Ukrainian farmers have become soldiers and their crop fields have become battlefields.

As Ana Swanson writes in an April 30, 2022 New York Times article, a "cascade of new trade barriers comes as the war in Ukraine, and the sanctions imposed by the West on Russia, are further straining supply chains that were already in disarray from the pandemic. Russia is the world's largest exporter of wheat, pig iron, nickel and natural gas, and a major supplier of coal, crude oil, and fertilizer. Ukraine is the world's largest exporter of sunflower seed oil and a significant exporter of wheat, pig iron, maize, and barley" (https://tinyurl.com/rzw5r729).

In addition, India has cut off expected wheat exports as the result of a heat wave. China is expecting reduced harvests as well.

In one of those rare periods when crop prices are well above the full cost of production, it would not be unexpected if farmers were tempted to make new investments (land and particularly machinery) in their farming operation, if for no other reason that the investments can reduce their tax liability.

We would hope that farmers would resist that temptation.

In the more than 20 years that we have been writing this column and for years before that it has been our observation that agriculture experiences long periods of low prices punctuated by an occasional period of high prices (WWI, WWII, the Soviet Union's entry into world grain markets in the early 1970s, and the early corn-ethanol years).

With crop prices, what goes up has always come crashing down, settling in somewhere below the full cost of production.

Our advice to farmers is to use any extra income they earn from the current higher prices to reduce their debt load so they are ready for the low prices that will inevitably return.

The Scout Motto says it all, "Be Prepared."

Policy Pennings Column 1126

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