

MISSOURI NEWS SCENE

Jerilyn Johnson photos



ETHANOL SQUEEZE: Higher corn and other grain costs will pressure Missouri dairies and livestock farms to increase feed efficiency or cut herd size. Inset photo: Total mixed rations used in dairies will likely include more distillers grain in the future.

Ethanol's lasting impacts

By JASON JENKINS

CONSUMERS won't see much change in the price of a box of corn flakes or a package of corn tortillas because of growth in U.S. ethanol production. Increased demand for corn, however, will push the price of meat, eggs and dairy products higher, according to a University of Missouri agricultural economist.

"It's not the food made from corn, it's the food from animals that eat corn that will increase," says Ron Plain. "This is a major shift for agriculture. In the past, corn producers have grown food for

Key Points

- Increased demand for corn will push meat, eggs, dairy product prices higher.
- MU ag economist says corn will maintain its \$4 price plateau.
- Higher feed cost forces sacrifices in livestock production.

people and feed for livestock. Now we add fuel for cars to the list. I don't see us doing that without having a lasting impact on the face of agriculture."

With corn currently trading around \$4 per bushel, crop farmers are enjoying the highest corn prices in more than a

decade, while livestock producers are feeling the pinch of higher feed costs for their cattle, sheep, hogs and poultry. Plain says this most recent price increase is unlike others the industry has experienced.

"This new demand for corn for ethanol production isn't like a drought. This demand will be sustained before, during and after the crop gets planted and harvested."

Price plateaus

Plain explains that during the past century, the average U.S. corn price can be broken into three price plateaus. For 35 years before World War II, corn traded for an average price of 76 cents per bushel. This price plateau lasted until after the war, when price controls were removed and supply decreased.

"That ushered in the next plateau, and corn traded at an average of \$1.26 per bushel until the 1970s," Plain says. "That's when an increase in corn exports pushed the price to the next plateau of around \$2.37 per bushel, which is where we've been until now. We're due for this step up."

Even with this year's anticipated increases in planted corn acreage across the Midwest — Plain predicts Missouri will plant half of a million more corn acres — the continued ramp-up of ethanol production will keep corn prices around \$4 per bushel. Plain says as more acreage shifts to corn, prices for other commodity crops will increase.

"Prices for soybeans, wheat, cotton and rice will go up as we plant more and more acres out of those crops and into

corn," he says.

As a result, livestock producers — especially those without ready access to distillers grain — will continue to pay more for feed.

Production sacrifices

For every dime increase in the corn price, there is a \$5-per-head drop in the price feedlot operators are willing to pay for feeder cattle and a \$2-per-head decrease for feeder pigs, Plain says. "Higher feed costs put pressure on the industry to cut production. When you consider that we've pushed up the price of corn by 16 dimes, that's \$80 less per head for the cow-calf operator."

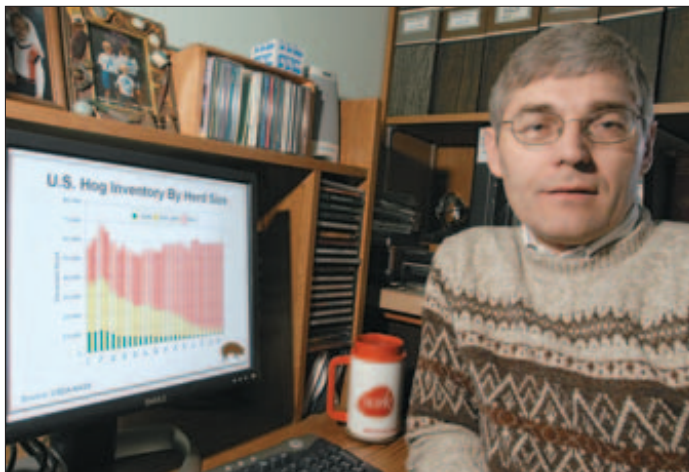
Plain expects U.S. cattle, swine and poultry inventories to shrink, resulting in higher prices at the local grocery store. "I would argue that ethanol and inflation will raise the prices for meat, eggs, milk, cheese and other dairy products around 12% by 2009," he says. "I don't expect consumers to reduce meat and dairy consumption much because of the increase, however."

Of larger concern is the willingness of foreign customers to pay more for U.S. corn, he says.

"The real winners are the owners of land that can grow corn because land values will continue to increase," he says.

The losers? "It's not good news for the big corporate livestock producers such as Tyson and Smithfield," Plain says. "It's going to be tough for the next couple of years."

Jenkins is a senior information specialist for MU Extension.



FOOD SHIFT: Ron Plain, MU agricultural economist, predicts ethanol and inflation will raise prices for meat, eggs, milk, cheese and other dairy products 12% by 2009.