

Opinion

Our Say

Keep your fingers crossed



By **FRAN O'LEARY**

THESE are exciting times in agriculture — maybe a little too exciting.

During the past 18 months, we've seen corn prices jump from \$1.80 per bushel to an unbelievable \$5.50 per bushel with October futures flirting with \$6. Ditto for soybeans — they've more than doubled

from \$5.45 per bushel in October 2006 to \$12 today. During that time, the base price for milk has shot up from \$12 to \$17 per hundredweight in May, peaking at a record \$21 last August.

That's the good news.

Along with skyrocketing prices for corn, soybeans and milk have come escalating expenses for everything from fuel, fertilizer and seed to land rent, crop insurance and feed. Diesel

fuel is selling for more than \$4 a gallon. Fertilizer prices are 200% to 300% higher than they were just 12 months ago. Phosphate is selling for \$900 compared with \$375 a ton a year ago, while potash is bringing \$600 a ton compared with \$275 in 2007. And land rents have increased substantially in the past year; we've heard some Wisconsin farmers are paying as much as \$300 an acre!

This has forced some farmers to



make a second trip to the bank to take out bigger loans to cover spiking input costs. Dairy and livestock farmers are especially hard hit. Soybean meal and cottonseed are fetching \$350 a ton — double what they cost just 18 months ago. A 24-ton load of cottonseed cost \$3,800 delivered in the fall of 2006, but now it goes for a whopping \$9,000. The break-even milk price for many dairy farms has risen from \$12 to \$14 in 2006 to \$16 to \$18 per hundredweight today.

**FIFTY YEARS ON THE JOB.
ZERO SICK DAYS.
IT'S NOT MAGIC.
IT'S NAPA.**



At **NAPA**, we have over 310,000 parts. Parts that are built to stand up to the tough demands of your business. From heavy-duty batteries to tools to filters to fluids, if it carries the NAPA name, you know it not only meets the manufacturer's specs, it often exceeds them. It's no wonder people who count on their parts count on NAPA.

800-LET-NAPA / www.NAPAonline.com



We are proud to support FFA



Get The Good Stuff.®

Risky times

If all of this has your head in a whirl, you're not alone. Many farmers and lenders today wonder if these prices are a blessing or a curse. While some aren't sure, one thing they all agree on is with higher prices comes greater risks and more uncertainty. Managing risk, particularly market risk, with traditional tools such as forward cash contracting has become increasingly challenging.

Grain buyers typically sell futures to hedge grain they buy on forward contracts. Unprecedented futures volatility dramatically boosts money buyers need to margin those futures positions.

Farmers are now finding some elevators unwilling to forward contract because huge market swings strain lines of credit needed to meet margin requirements to maintain hedges.

Declining availability of forward contracts means farmers who want to forward price must go to the futures market themselves to hedge. Some farmers may need to make a third trip to the bank this spring to increase their line of credit in order to obtain enough cash to meet margin requirements.

Weather worries

With food, feed and fuel all competing for corn, USDA says we will need an ideal growing season to have a large enough corn crop to meet demand.

But what if we don't?

Presuming the weather dries out this spring and we do get a crop in the ground, some weather forecasters are warning there could be a widespread drought this summer covering much of the Midwest including Wisconsin. In fact, according to the weather experts, we're overdue for a serious drought. Major droughts tend to occur every 19 years, and the last one hit in 1988.

While we had abundant soil moisture this winter and spring, with many locations across the state receiving more than 100 inches of snow this winter and plenty of rain in April, anyone who has lived through a drought knows it doesn't take long for Mother Nature to turn off the spigot, temperatures to soar and crops to wither in the field.

So what can you do to safeguard against disaster?

The best advice I've heard from ag lenders is to manage what you can. Buy crop insurance. Don't spend money foolishly. Tighten your belt. And don't take any unnecessary risks.

Farming has always required a leap of faith, but never have the risks been greater than they are this year. You never know, we could have a great growing season and an abundance of crops this fall. Keep your fingers crossed.