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High corn prices mean boost, risk for farmers

By Rick Callahan

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INDIANAPOLIS - The ethanol industry's growing appetite for corn has pushed prices for the grain to their highest levels in a decade amid a surge that agricultural experts say could lead farmers next spring to plant their largest corn crop in 60 years.

Farmers who plant more corn in 2007, however, will be betting that the nation's burgeoning ethanol industry won't go bust and oil prices stay high, keeping up demand for corn for ethanol, said Chris Hurt, a Purdue University agricultural economist.

"It's a wonderful time for corn producers. They're extremely excited but they're also apprehensive because they've seen booms before and they don't last," he said. "That tends to be nature of agriculture."

More than 150 U.S. ethanol plants are either under construction, planned or in operation and market forces are pushing up demand for corn. The crop is ground into a mash mixture that's distilled into grain alcohol to become a fuel.

With a growing amount of corn being diverted from food products and livestock feed toward ethanol production, that's boosted per-bushel prices about \$1 since mid-September.

As of Tuesday, the average price of a bushel of corn was \$3.45 - far above the \$1.50 to \$1.80 a bushel corn fetched at the same time last year, Hurt said.

Norman Voyles Jr., who farms about 1,800 acres in central Indiana near Martinsville, said the high corn prices are "exciting." Yet he said the price of corn would have to go even higher before he would shift soybean acreage to corn next year.

For now, he said he's planning next year to plant his acreage about evenly in corn and soybeans. Voyles said he'd be uneasy to plant corn on fields for a second year in a row because breaking with crop rotation practices can create weed and insect problems.

Even though corn prices are higher, he and many farmers expect fuel, fertilizer and chemical suppliers to charge more for their products in response to the higher grain prices, and for cash rents for land to also rise.

"It's kind of exciting and yet all farmers kind of see a dark cloud someplace and they're always watching it," Voyles said. "I don't anticipate any kind of a windfall by any means."

The U.S. Department of Agriculture's current estimate for 2006's average farm price of corn is \$3 a bushel, Hurt said. His early prediction for next year is an average farm price for a bushel of corn of \$3.40, which would eclipse the current record of an average \$3.24 price set during the 1995 marketing year.

He said that next year American farmers could end up planting up to 89 million acres of corn, about 10 million more acres than this year. If that happens, it would be the largest U.S. acreage planted in corn since 1946, when the nation helped feed post-World War II Europe.

Gary Schnitkey, a farm financial management specialist at the University of Illinois, also expects American farmers to plant significantly more corn next year, but he cautions that many factors can influence how much acreage is eventually shifted to corn.

"We're treading in new territory now. We've never been in a position where we've seen this much new demand for a commodity," he said.

Schnitkey said the first clear indication of how much more corn farmers will plant in 2007 will come in March when the USDA releases a spring planting report.

In October, the U.S. Energy Information Administration reported that the nation's ethanol producers averaged a record daily production of 329,000 barrels in August. The agency also said this year's total U.S. ethanol production could be nearly 4.7 billion gallons.

Alan Kemper, a grain and cattle farmer near Lafayette, Ind., said there's growing demand not only for corn for ethanol but also for soybeans to fuel the rising soy biodiesel industry. He said it's high time that farmers are benefiting from the fledgling renewable fuel industry.

"Farmers now are actually able again to make a small profit - the key word there is small," said Kemper, who is vice president of the American Soybean Association.