Rising Wheat Prices Outpace Input Costs

Most U.S. wheat producers—90 percent—are expected to cover their production costs in the 2008/09 marketing year. This high percentage results from the fact that, although wheat prices have fallen from their 2007/08 peak, they remain high by historical standards.

The February 2009 USDA forecast of the season average price of wheat for the 2008/09 marketing year ranges from $6.70 to $6.90 per bushel, compared with an average of $3.51 from 1998/99 to 2007/08. A global shortage of wheat resulting from low stocks and adverse weather around the world has led to growing foreign demand for U.S. wheat and higher prices.

ERS researchers indexed cost data from a 2004 USDA survey of U.S. wheat producers (the latest data available) to estimate wheat production expenses in 2008. The 2004 survey captured the wide variation of wheat production costs across the country that result from differences in cropping practices, yields, and costs of land, labor, and capital assets. Production costs include the costs for seed, fertilizer, chemicals, fuel, repairs, hired labor, property taxes, insurance, and the cost of maintaining machinery (depreciation and interest). Longrun costs such as opportunity costs for the farmer's labor and land are not included because farmers do not consider these costs in current production.

According to ERS research, continuation of historically high wheat prices will enable a larger share of wheat producers to cover their production costs in 2008/09 than in 2004. This will occur even though prices paid for production inputs, particularly fuel and fertilizer, have also risen since 2004. Fuel prices increased an estimated 117 percent and fertilizer prices rose 132 percent between 2004 and 2008.

An estimated 25 percent of the wheat producers had costs of $3.20 per bushel or less in 2008/09, and 75 percent of the producers had costs of $5.17 per bushel or less. In 2004, the season average price of $3.40 per bushel covered the per bushel production costs of 82 percent of the farms in the USDA survey. In 2008/09, a price of $5.67 per bushel would be needed to get equivalent coverage.

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This finding is drawn from . . .

Consequences of Higher Input Costs and Wheat Prices for U.S. Wheat Producers, by Mir Ali and Gary Vocke, WHS-09c-01, USDA, Economic Research Service, March 2009, available at: www.ers.usda.gov/publications/whs/mar09/whs09c01/

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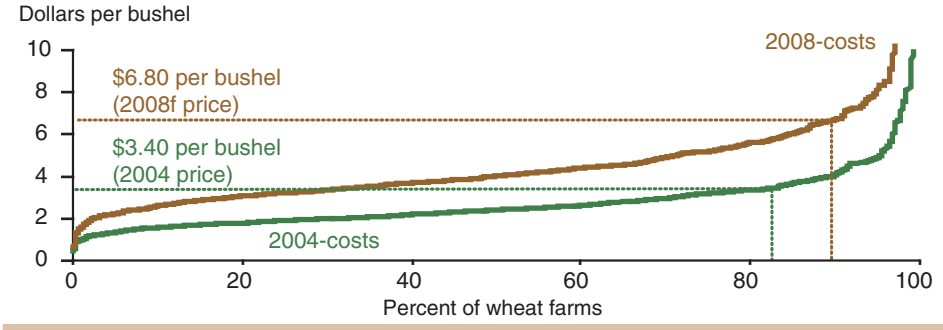
Ninety percent of wheat farms expected to cover costs in 2008-09



f = 2008 costs are forecasts.
Source: USDA, Economic Research Service analysis of wheat data from ERS and USDA, National Agricultural Statistics Service, Agricultural Resource Management Survey, 2004.