



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

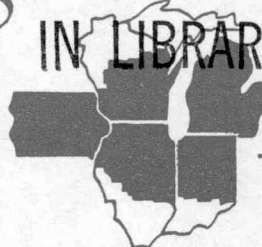
AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

April 4, 1975

Agricultural Letter

IN LIBRARY USE ONLY



Number 1320

FERTILIZER USAGE should remain strong in 1975 despite spiraling prices; prices ranging from 40 to 80 percent higher than a year ago are not uncommon. Total planted acreage of the crops that use the most fertilizer (feed grains, wheat, soybeans, and cotton) will be approximately the same as in 1974 according to the U.S. Department of Agriculture's March 1 Prospective Plantings report. However, there is a possibility that unit sales of fertilizer may slip below the previous year's level for the first time since 1959.

Farmers applied 19.3 million nutrient tons of fertilizer in the 1973-74 fertilizer year (July 1 to June 30), a 7 percent increase over the previous year. Nitrogen and potash, up 10 and 9 percent respectively, accounted for all the increase. Consumption of phosphate declined less than one-half percent. Overall, however, per acre application rates were down in most instances. The most notable drop was nitrogen applied to corn, down to 103 pounds per acre from 114 pounds in 1973.

As the 1975 spring season approaches, supplies of most nitrogen and phosphate fertilizers are larger than last year. According to The Fertilizer Institute, as of January 31 producers' inventories of nitrogen products were up 6 percent over a year ago, while inventories of phosphate products were up 9 percent. By the end of January, however, potash inventories were about 16 percent under year-earlier levels. The increase in fertilizer supplies can be attributed to expanded production capacities and, in some instances, a drop in industrial demand for nitrogen products.

The anticipated drop in cotton acreage, down over 3 million acres, may divert some fertilizer supplies to the Midwest. The difference in nitrogen application rates for cotton and soybeans—the crop that will replace cotton on most of those 3 million acres—suggests that about 95,000 nutrient tons of nitrogen will be available for application in other areas, equivalent to a little over 1 percent of total U.S. nitrogen consumption.

Fertilizer prices are at record levels, although there has been some softening recently. The fertilizer industry has been operating on an allocation basis since 1973. Allocations based strictly on historical use come under strains as time passes and conditions change. As a result of these strains, a two-price market has developed at the wholesaler level; one price for material acquired under allocations, and another higher price for material obtained outside allocation controls—basically, new production and imports often referred to as grey-market material.

Some fertilizer dealers are averaging the prices they pay wholesalers and setting one retail price for each fertilizer grade. Others are allocating material to farmers, typically based on past purchases, and charging lower prices but are also providing additional grey-market material at substantially higher prices with no limits on amounts. This has resulted in unusually large spreads in retail prices. For example, retail prices for ammonia may vary from \$260 to \$375 per ton.

Nearly all fertilizer is being sold on a cash basis. The extended financing that was often used as a sales tool in the past has been eliminated by the shortages of the last two years. Consequently, the entire financial burden has been shifted to the farmer. High fertilizer prices and revised credit policies have resulted in a marked increase in the credit requirements of crop farmers.

High fertilizer prices have altered crop/fertilizer price ratios substantially. For example, the corn/nitrogen ratio—pounds of nitrogen (from ammonia) that can be purchased from the sale of one bushel of corn (April prices)—was 23 pounds in 1972, 26 pounds in 1973, and 22 pounds in 1974. Based on a current farm price for corn of \$2.75 per bushel and an ammonia price of \$285 per ton, about 16 pounds of nitrogen can be purchased from one bushel of corn. This suggests that farmers may cut application rates, especially if they have been applying nitrogen at a rate near the breakeven point in the past. This may be the factor that will limit unit sales.

Inclement weather conditions have already delayed the normal spring application season by approximately two weeks. To date, farmers have been somewhat reluctant to make commitments to dealers in hopes that prices might decline. As a result some softening has appeared, especially in grey-market fertilizer prices. Declines in prices to date have been limited mostly to nitrogen products and some phosphates. Additional downward adjustments are likely to be forthcoming, however, if inclement weather conditions persist.

Terry Francl
Agricultural Economist