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.*

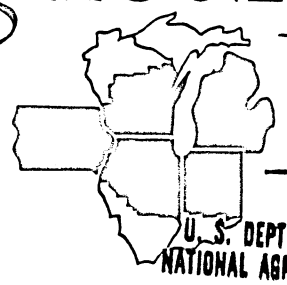
No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

281.9
F313

Federal Reserve Bank of Chicago - -

Agricultural Letter

DC BRANCH



U. S. DEPT. OF AGRICULTURE
NATIONAL AGRICULTURAL LIBRARY
APR 3 0 1970
CURRENT SERIAL RECORDS

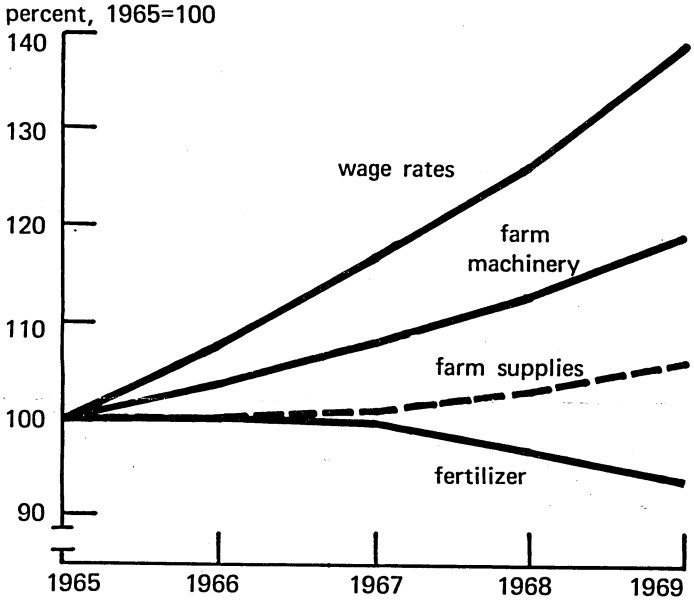
April 17, 1970

Number 1061

FERTILIZER PRICES will continue under strong downward pressure during the 1970 season. Producers of most types of fertilizers have faced an "oversupplied" market throughout the 1960s and current domestic supplies of fertilizer are estimated higher than ever before. Total supplies are about 11 percent greater than last year with the largest increases in nitrogen and potash, up 13 percent and 12 percent respectively. Phosphate supplies are estimated to be 6 percent greater.

Unlike practically every other major production item purchased by farmers, the price of fertilizer has trended down in recent years. Although fertilizer use has increased steadily since 1950, demand has not grown as rapidly as supply, especially in recent years. As a result, farmers have been induced to purchase ever larger quantities only at reduced prices. Adverse weather during the planting season, a dim outlook for crop prices, and an increase in the acreage idled under government programs undoubtedly has dampened demand for fertilizer in the past two years. In addition, an increased number of farmers have probably reached optimum levels of fertilizer use.

Fertilizer Prices have Countered Trend of Other Purchased Input Prices



In 1969, an effort by fertilizer producers to increase prices was thwarted by a continued buildup of excess production capacity and a combination of the above factors which retarded growth in demand. After a precipitous drop of $21 per ton the previous season, anhydrous ammonia continued to lead the overall decline in fertilizer prices in 1969, and in April, prices were $16 per ton less than a year earlier. Phosphate fertilizer was more than $4 per ton less in April 1969 than the previous year, and potash dipped nearly $1 a ton.

These price declines are reflected in the farmers' costs of production. For example, according to the U. S. Department of Agriculture, estimates for a large, progressively managed cash-grain farm in east-central Illinois (an area which includes some of the Seventh District's most productive soil), the direct cost of producing a corn crop of 130 bushels per acre increased from $48.90 per acre in 1968 to $49.50 per acre in 1969. But, the cost of fertilizer in 1969 was about $1 an acre less than the year before, partially offsetting the sharp rise in prices of other inputs, notably labor, machinery, and pesticides.

Fertilizer producers are attempting to stabilize the downward drift in fertilizer prices again this year. This effort is especially strong in the case of Canadian potash producers. About three-fifths of the potash used by U. S. farmers is produced in Canada by eight firms, five of which are owned by companies in the United States (a ninth firm is scheduled to begin production this year). Canadian government officials have established a quota for production in 1970 which limits these plants to 55 percent of capacity and establishes a price floor. This effort has been successful so far. During the first quarter, the index of U. S. wholesale prices for potash averaged over 20 percent above the depressed levels of a year ago.

The Bureau of Labor wholesale price series also shows a 10 percent jump in anhydrous ammonia prices in March. However, most ammonia is applied in a 10 to 20 day period in late May and June. Thus, the higher prices now being quoted by manufacturers have not yet been tested in the market. Wholesale prices of triple superphosphate (the most widely used form of phosphate fertilizer), on the other hand, were sharply lower in the first quarter compared to a year ago. According to the Bureau of Labor, first quarter prices averaged 47 percent below year-ago levels. This steep decline may reflect a curtailment in the commercial use of phosphates, especially in household detergents because of the recent publicity citing phosphates as a major pollutant. Furthermore, the availability of sulfer which is widely used in the production of phosphatic fertilizers has increased substantially, and sulfer prices have declined sharply.

Given what appear to be more than ample supplies of nitrogen and phosphate, price declines for these two commodities are likely to offset the artificially higher potash prices. Thus, any increase in the farmer's total fertilizer bill for 1970 is likely to be minimal.

Dennis B. Sharpe
Agricultural Economist