

Will U.S. Agriculture Soon be Caught Up in the Perfect Storm?

Will U.S. agriculture soon be caught up in the perfect storm? That remains to be seen, says one Extension economist who believes some gray clouds are forming on the horizon that could threaten the economic bottom line of many producers.

Dr. Jim Novak, an Alabama Cooperative Extension System agricultural economist and Auburn University professor of agricultural economics and rural sociology, says the operative word is “could”—because the “downside risk is still out there.” He cites input costs and spiking energy prices as troubling signs.

Novak is concerned that spiking energy costs, coupled with a sagging U.S. economy and potential climate changes, could mean a disturbing scenario for farmers. “You have some forces aligned,” he says. “Domestically, there’s the weakening dollar, which makes our imports more expensive, meaning that when we buy from overseas we pay more.”

Nitrogen is a prime example. There has been between a 30-40 percent reduction in the nation’s ability to produce nitrogen, and increasingly, U.S. farmers have been forced to look overseas for that critical farming input, Novak says.

“It’s more expensive to buy overseas because of our weak dollar,” Novak says.

Consider also the bad press associated with ethanol in recent months from people who criticize this alternative fuel for its adverse environmental effects and because of the indirect effects worldwide demand for ethanol is imposing on developing world farmers. “There is a lot of criticism, whether warranted, regarding ethanol, and it could affect the demand for the product,” Novak says.

The high prices farmers are getting for ethanol feed stocks also could be threatened by advances in other energy technologies, including cost-competitive ways of getting oil from shale. “The ethanol boom could bust and the state of the economy is uncertain but not looking good right now,” Novak says.

Climate change could also be a factor in changing the supply situation, Novak says. For the last couple of years, farmers have been dealing with a La Nina trend, which has been reflected in drought conditions throughout some parts of the world, including the Southeast and parts of the Southern Hemisphere, including Australia and parts of South America.

While a change to wetter weather conditions would be welcome news to southern producers, these conditions could work to increase supplies of corn and wheat, subsequently driving prices down. “If we see a change back to wetter growing conditions, we could see some of these shortages evaporating, leading us back to a more normal supply situation,” Novak says.

For now times are good. But, as every farmer knows, they should keep an eye out for any changes, he says. Novak urges farmers to consider ways to reduce their input costs without cutting yields, “inflation hedge” profits, and soil test and not overuse chemicals.

He says the new Farm Bill also may contain some provisions that may offer solutions for weathering future risks, including increased incentives for switching to more sustainable farming practices.

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