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Fertilizer Prices and Availability for 2009

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Fertilizer prices and availability for 2009

Meeting the Challenge:
Farming In Uncertain Times
Nebraska Lincoln EXTENSION

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The past two years have seen major changes in crop production costs, especially fertilizer. What happened? Why did this happen? What's projected for 2009? Will fertilizer be available?

Fertilizer is truly an international commodity, so what happens in the Middle East, India, China and in former Soviet Union Republics like the Ukraine (Yuzhny) influences your local prices.

By September 2008, nitrogen prices had tripled compared to two years earlier. But since last fall, prices have dropped just like the stock market. World demand for fertilizer had risen 14 percent in the past few years (primarily from South America, China and India), which drove up prices. U.S. ethanol mandates increased demand for N because of increased corn acreage, as corn uses 45 percent of all N fertilizer. When the financial crisis spread around the world in September 2008, it also affected demand for fertilizer, causing significant price drops in world prices.

In the United States, ammonia for fertilizer accounts for about 89 percent of total uses, with the remainder primarily for industrial uses. Historically the price of ammonia is strongly correlated with natural gas prices, because 85-90 percent of the production cost of ammonia is natural gas. Natural gas prices have been at low levels since last summer due to adequate supply and decreased demand.

Industrial ammonia is used to produce nylons, fibers and plastics, polyurethanes, hydrazine and explosives. Industrial ammonia use is reflecting steep declines because of decreased use tied to the U.S. housing and construction slump, and also decreased use by automobile, pulp and paper industries. Demand for ethanol has declined with the drastically decreased crude oil and gas prices. Late harvest, high prices and wet soils limited N application in the corn belt this fall to about 50 percent of normal. Less corn is also being used in the livestock industry, as consumer demand for meat products has lagged during the recession. All of these factors have led to excess ammonia supply (industrial and fertilizer) in the United States and the world, and are reflected in world prices.

So, why haven't you seen a decline in prices at your local supplier? The problem is that dealers have high-priced inventory in bins and tanks that they are waiting to sell. Many bought before peak prices last summer, but now will have to see if they can "cost average" to help bring down cost, knowing there is cheaper product on the market. Dealers cannot sell those products below their cost or they will not be in business, even though current prices on the world market are much lower. Fertilizer prices have decreased since December. Barge traffic up the Mississippi is closed for winter, storage is full, and there are tanker ships sitting off Tampa full of ammonia that is being offered less than $200 per ton, but there are few buyers and no place to move it.

Just as nitrogen prices have varied widely, phosphate prices quadrupled since two years ago before dropping again. China and India had bid up the market to $1,200 per ton for 18-46-0 (DAP) this summer. Other major world companies (Yara, Agrium, Koch, Terra, Mosaic) have curtailed production in Europe, Canada, the Caribbean and the United States, but there is too much excess supply for production cuts to affect prices in the short term.

There is cheaper fertilizer on the market, but dealers will not be purchasing until they have sold what is currently in bins and tanks. If there is an upsurge in demand for spring that comes late (late February, early March), there may be difficulty in getting product in time. Farmers improve their chances of being assured that there will be product available if they can spread out their timing window for fertilizer (some preplant N, some sidedress, some through an irrigation system) for summer crops. Most phosphorus goes on preplant or at planting, so producers should look at securing it now. Wheat producers who apply ammonia can probably wait until early summer and may be able to purchase lower priced ammonia and phosphate.

As producers plan for 2009, fertilizer prices will be fluctuating and may be higher than in 2008, although there may be some bargains later this spring. Producers cannot control fertilizer prices (other than being aware of world trends and locking in a good deal when they find one), and they do not control commodity prices. What they can control is their production inputs and costs by improved management. A web site addressing production costs is at http://cropwatch.unl.edu.

The keys to maintaining profitability are to know your soil test levels and do the best job of fertilizer application to enhance efficiency. A new website to develop fertilizer recommendations based on UNL criteria can be found at http://soiltest.unl.edu.