By Daryll E. Ray

Farm axioms tell a story

I regularly receive emails from my readers, some agreeing with something I have written and others challenging my analysis. I appreciate all of them. Occasionally, I receive an email that has something in it that I want to pass on to the rest of my readers. Recently I received such an email from Don Balch in Baldwin, KS. Don is retired from farming and working with farmers. He sent me a set of "Farm Axioms." As I read them I found myself smiling and nodding in agreement. Here are some of Don's "Farm Axioms."

The farmer may decide how many acres of crop to plant, but Nature determines how many bushels will be harvested. Year after year of the constant input of same resources, the same quantity of seed and fertilizer does not produce a constant output of the same quantity and quality of a crop.

A farmer orders new grain inventory when seeds for the next crop are planted. However, the farmer can not select "x" bushels if the price is "m" or select "y" bushels if the price is "n." Instead, just acres of seeds to be planted. After several months nature delivers the inventory when the crop is harvested. Only then will the farmer know the number of bushels he has in inventory, the price per bushel, and can try selling the crop, hopefully at a profit.

When a farmer finishes planting a crop he knows the cost per acre, but he will not know the cost per bushel until the crop is harvested. If it costs $260 per acre to plant corn and the corn yield is 100 bushels per acre, the cost per bushel is $2.60. If the yield is 50 bushels per acre, the cost is $5.20 per bushel.

A farmer turns his inventory once a year. And he has no control over the cost of the inventory—whether it will cost $2.60 or $5.20 per bushel. If the market changes, he does not buy more inventory or postpone buying inventory to make adjustments. If he sells the crop at the wrong price, he lives with that decision for at least a year until he can turn next year's inventory.

Market prices are unpredictable because events that affect the market price, such as political crisis, adverse weather, and disease outbreak, are unpredictable.

The market price of a crop that the farmer receives is not based on the farmer's cost of producing the crop. The farmer does not pass on the costs of producing a crop by increasing the price he receives. The farmer does not set the price of the crop, but takes the price offered by the "Market." The buyer will add a margin to cover expenses and profit, but he, too, does not set the price. Agriculture grain marketing is one the few businesses where neither the buyer nor the seller sets the price. The price is set by a group of people who will never own the actual grain or even see it.

Daily price changes of crops are based on speculator's changing perceptions of anticipated changes in short-term values of the paper title of crops, not on the actual daily use or supply of the crops. Daily price changes caused by an inch of rain are one group of speculator's perceptions or expectations of what another group of speculators will be doing next - buying or selling. Daily price changes are not about economical analysis of real supply and demand. There won't be more supply until the crop is harvested. Instead the price changes are about participation in mob psychology. A mind game.

Supply and demand for crops is a not a short-term relationship because supply changes only once or twice a year when the crop is harvested. Demand is fairly constant because the number of people and number of animals to be fed do not change quickly.

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