

PolicyPennings by Dr. Daryll E. Ray

# Short-term price spikes often have long-term consequences

While it is important to look at the factors driving the current high prices in the soybean markets as we did in last week's column, it is also important to look at the impact of those higher prices.

In the short-run, higher prices are beneficial to all producers. For those whose soybean yields were below average, the higher prices go a long ways toward compensating for the reduced harvest, unless of course there was nothing to harvest. After several years of prices in the cellar, it's nice to see something above the cost of production.

The high prices have generated a positive response among farmers who indicate that they will plant an additional 2 million acres of soybeans. The largest increase in soybean plantings is expected to come from North Dakota, Louisiana, Mississippi, and Minnesota as farmers arbitrage their acreage to maximize expected net farm income. As in most years, the mix of crops will shift some, but the impact on total crop acreage in the United States will likely be small.

More foreboding than domestic adjustments will be the international response to the current high prices. The high prices are likely to induce changes among both importers and exporters of grains and seeds.

These prices undoubtedly will encourage soybean exporters like Brazil to focus more resources on soybean production. Even when faced with several years of low prices, Brazil did not slow down its expansion of soybean production. On average, over the last 14 years Brazil has increased its soybean acreage by about a million acres a

year. If the current high prices continue for any length of time, they may accelerate that trend. And once these acres are in production they will remain in production, even in the face of lower prices.

Importers will undoubtedly respond as well. Given the fact that food for many nations is a matter of national security akin to military security in the U.S., it would not be surprising to see them intensify their natural tendency to produce as much locally as possible, as a means of feeding their populace and reducing the outflow of currency.

An examination of crop prices over the long-term reminds us that this peak will not last for long and when it ends, the drop will probably be rather steep. And what will things look like then? Production will have increased in response to this price spurt, bringing additional resources into production, and once they are in they will remain for a long time.

Five years from now we will probably be in worse shape for this price spike, than if it had never happened. My advice to producers is to put this \$10 soybean money in the bank for the rainy days that are sure to come.

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Originally published in *MidAmerica Farmer Grower*, Vol. 21, No. 15, April 9, 2004