



Business

Record revenues likely gone for now

Experts say weak ethanol market may affect farm economy

By Brett Wallace
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It's been a great ride for many Indiana corn farmers, but some experts think a sharp drop in commodity prices and ethanol production are bound to affect the bottom line in 2009 and beyond.

The run-up in ethanol production tied to higher gas prices in 2007 and 2008 is now likely over, at least for some time. But veteran farmers are used to having to deal with changing factors, agricultural economist Chris Hurt of Purdue University said.

"You have quite a lot of volatility in farm income over time," he said.

After record U.S. farm revenues of \$86.8 billion in 2007 and \$89.3 billion in 2008, Hurt predicts a 20 percent drop, with revenues around \$71.2 billion, this year.

Though still higher than the 10-year average, he said corn producers are concerned by the dip in the price of a bushel, especially considering the escalation in input prices from late 2006 through the middle of 2008.

Economists had predicted that 35 percent of U.S. corn produced in 2008 would go toward ethanol production, Hurt said. Instead, as fuel use declined because of high prices and a sagging economy, he said that number ended up being closer to 30 percent.

With gas prices down, margins for ethanol producers have become much tighter, said Gary Drook, chief executive officer of Central Indiana Ethanol.

"The ethanol industry is struggling as an industry to be profitable, as are a lot of industries these days," he said.

He estimated about 20 percent of ethanol plants are currently offline or in bankruptcy.

Though he said his own company is still operating well because of conservative management and low levels of debt, he predicts many ethanol plants aren't faring as well.

"I think we'll see some restructuring in the industry," Drook said.

Hurt also predicted that a strengthening dollar (relative to other currencies) will hurt the farmers' ability to sell their crop outside the country. In the long run, ethanol might not even be the solution to the world's energy problems, which would further deflate corn's value as a potential energy source.

"Ethanol is a stepping stone to a different alternative fuel," said Chuck Sponhauer, an agriculture loan specialist for Mutual Bank. "I don't think it's the answer, but a piece of the puzzle."

At least in the short run, E85 will no longer be a viable alternative to gasoline, Drook said.

The price of a barrel of oil has fallen to \$40 from \$140 in July.

"E85 cannot compete with that cheap oil," Drook said. "Oil's about 30 percent of what it was last summer."

In the meantime, Drook said ethanol operations like CIE will continue to produce the ethanol that comprises 10 percent of unleaded gasoline sold in the United States.

With fuel and corn prices down, the value of farmland might be the next in line for a drop.

"It's conceivable we would see a drop in land value and cash rent prices this season," said John Woodmansee, the Purdue Extension agent for Grant County. "I think it's going to be a tough year."

He said higher commodity prices in the last few years resulted in input prices going up. Now that prices have fallen, farmers likely will be squeezed.

"Their margins will be pretty thin," Woodmansee said.

Hurt agreed, saying the fourth quarter of 2008 offered the first glimpse of what could be a drop in the prices of ag land.

The quarterly survey by the Chicago Federal Bank showed the price of farmland in central Indiana was down about 5 percent, while prices in northern Indiana dropped by 1 percent.

"This is our first indication that there is softness in the land market," he said.

On the other hand, Sponhauer said he thinks the market is likely to see more of a leveling-off as opposed to a drop in prices.

"I don't see a huge decrease," he said. "There are only a particular number of acres available."