Top Farmer Attendee Perceptions and Responses to Increased Volatility: 2008 and 2009 Survey Highlights

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Crop producers in recent years have seen overall increases, as well as more volatility in the market prices of their crops and for the inputs to produce those crops. Relatively little is known about how producers are responding to these changes in their economic environment. This article reports back to Top Farmer attendees the highlights of the 2008 and 2009 surveys administered at the workshop that explored these issues.

Response to Reduced Forward Pricing Contracts in 2008 Many grain elevators reduced the forward pricing contracts they offered producers because they simply did not have the line of credit to meet the margin calls associated with hedging in the futures/options market. 85% of TFCW attendees who completed the survey reported their local elevator reduced its offerings in the summer of 2008. For producers in this situation, 52% indicated that they did not change their basic marketing plans and made do with the reduced offerings. 45% indicated that they changed their marketing plans. 31% turned to the futures market to forward price by hedging with futures and options through a broker. A substantial number found buyers other than their local elevator: 26% marketed with a different elevator, while 14% contracted directly with a buyer such as an ethanol plant or livestock producer.

Management Responses to Fertilizer Costs The most common strategies to deal with higher fertilizer prices from 2008 respondents were to use lower rates (43%), do more soil testing (40%), and to use variable application rates (38%). Almost one quarter of producers (23%) reported that they planted more soybeans than they would have otherwise.

2009 TFCW participants were asked if and how they made changes in their fertilizer purchasing behavior in the last year. As a result of higher fertilizer prices and the volatility of fertilizer prices, producers are spending more time and effort on their fertilizer purchase. 58% of producers report that they are initiating their search for fertilizer earlier than in the past, while 35% made no changes and 7% are initiating their search later. 42% indicated that they are contacting more vendors than in the past, while 47% are contacting the same number and 11% contacting fewer. 31% have increased the amount of fertilizer they store on-farm, with 64% indicating no change and 5% reporting less storage. Overall there seem to be few changes in prepay, with 50% making no changes and equal numbers increasing and decreasing their pre-pays. There were also very few changes in the number of written contracts for fertilizer as 75% made no change. 30% of survey respondents switched fertilizer vendors in 2009, an indicator of the level of turmoil in the market. For those who switched the overwhelming reason was price; other factors included services, product availability, or their dealer going out of business.

Management Responses to High Fuel Prices Producers responded to the higher diesel fuel prices of 2008 with several management strategies. The most common response (54%) was to better organize travel. 38% are using more no-till or are reducing tillage. 30% said that they look more at fuel efficiency when purchasing new machinery (but that only works for producers in a position to replace equipment). Only 2% of producers said that they were responding to high fuel prices, at least in the short run, by not going as far to farm.

Management Responses to Land Rental Rates With the record farm incomes in 2007 and 2008, many producers and landlords renegotiated their leases. For producers who indicated lease changes in the 2008 survey, the most popular was to use a flexible rent (29%), followed by a share rent (13%). 8% decided to rent less ground, and 8% let some high-priced land go.

32% of the 2009 participants used flexible leasing arrangements on a portion of their rented ground. For the producers using flexible leases, on average 25% of their rented ground was in a flex situation. The following describes terms and situations associated with flexible rents and their frequency as reported by respondents:

Terms or Situation Associated with Flexible Rent Arrangement	Percent
Minimum rent close to current market value	43%
Minimum rent less than current market value	21%
Both minimum rent less and minimum rent close to market value	14%
Have a maximum rent specified	29%
Share revenue above a specified amount	29%
Adjust for changes in production costs	21%
Renegotiated every year	43%
Have increased landowner's interest in farm	43%
Have increased landowner's willingness to make capital improvements	36%

Conclusions Producers have responded to increased market volatility with more active management strategies. Top Farmer attendees are initiating their fertilizer search earlier, contacting more vendors, and increasing their on-farm storage, but they are not entering more fertilizer contracts or pre-paying more. They're trying to conserve on fuel by better organizing trips and doing less tillage, but don't have any immediate plans to stop farming at a distance. Flexible rents are being used by a minority of Top Farmer attendees.

Characteristics of Survey Participants Top Famer attendees are not a statistically unbiased sample of farmers; however, their views are extremely valuable to agribusinesses, educators, and others working with commercial producers. 50 surveys were completed in 2008 and 44 were returned in 2009. In each year the mean age of the operator was about 46 years with 15 years of education, farming about 3000 acres, and with about 40% of that land owned.

For More Information

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Types of Risk Most Important for Producers (includes 1991 and 1993 Top Farmer Crop Workshop survey results). United States Department of Agriculture Economic Research Service http://www.ers.usda.gov/publications/aer774/aer774b.pdf