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## Fertilizer Shortage Ahead?

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# Economics Newsletter

Economics Department

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## FERTILIZER SHORTAGE AHEAD?

In the past two years significant changes in government policies have set in motion economic forces that may result in fertilizer shortages for farmers in the United States.

### MORE LAND TO FERTILIZE

One policy contributing to tight supplies of fertilizer is the change in agricultural policy that released 62 million acres of additional cropland for production. In 1973 an estimated 25 million acres of this additional cropland was planted. These additional crop acres increased fertilizer demand significantly. Prospects for 1974 indicate that even more of the additional 62 million acres of formerly retired cropland will need fertilizer, tending to push fertilizer demand even higher.

### DEVALUATION INCREASES EXPORTS

Another policy contributing to the potential shortage of fertilizer was the devaluation of the dollar. The United States has been a net exporter of nitrogen and phosphate fertilizers for some years; however, devaluation of the dollar made the purchase of fertilizer by foreign countries even more attractive. Fertilizer prices to foreign countries are discounted by 20 percent or more where the price is quoted in dollars but payment is made in the currency of the foreign country.

### PRICE CEILINGS INCREASE EXPORTS

Working as a complementary factor, the policy of price ceilings and controls tends to further influence the exporting of fertilizer. World demand for fertilizer has been strong and prices in the United States. The relatively higher foreign prices for fertilizers tend to draw nitrogen and phosphate fertilizers out of the United States. Exports of nitrogen for fiscal 1973 increased 20 percent over fiscal 1972, while exports of phosphate fertilizers increased 30% during the same period.

### NITROGEN PRODUCTION LIMITED

Tight supplies of natural gas arising from the energy crisis in the United States have also tended to restrict nitrogen production. In general it takes between 26,000 and 31,000 cubic feet of natural gas to produce a ton of anhydrous ammonia. Interruptions of natural gas supplies due to shortages for heating and other domestic purposes forced ammonia producers to shut down production.

A survey of ammonia producers conducted in 1972 indicated that over 750,000 tons of anhydrous ammonia production was lost due to interruptions because of gas shortages. Predictions indicate continuation of these shortages and subsequent curtailment of delivery of natural gas to producers of ammonia which

will reduce nitrogen fertilizer supplies.

#### SHORTAGES SPOTTY YET

Although the general economic impacts of shortages of fertilizer lagged behind the implementation of government policies, effects are becoming more apparent. As of the present, most of the shortages are spotty and are affecting individual farmers in certain localities. Without significant changes in the policies mentioned above shortages could become more widespread and economically significant.

An indication of the impact of tight supplies can already be seen in the increases in prices for fertilizers. In South Dakota, for example, the average price paid for anhydrous ammonia and

ammonium nitrate increased \$6 - 7 per ton between 1972 and 1973. Superphosphate fertilizer prices rose an estimated \$11 per ton based on 46 percent superphosphate fertilizer.

Economic forecasts indicate that prices of nitrogen and phosphate fertilizers will increase again in 1974 as fertilizer supplies become even tighter.

#### CAREFUL PLANNING INDICATED

Based on this information, farmers should try to plan their fertilizer program early and work through their local fertilizer dealers for their supplies for this fall and the spring of 1974. There is no reason to panic or over-react to the tight supply situation; however, adequate preparation and planning now may pay dividends for 1974.

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