MEDILL REPORTS CHICAGO

Excess fertilizer won't lead to more growth

***by* [Bridget Macdonald]**
Jan 13, 2009

Responding to soaring corn prices, agricultural companies inundated distributors with fertilizer last summer in anticipation of the coming season, reaping handsome profits. However, with prices down now and farmers scrambling to cut costs on inputs this year, a dramatic slackening in sales has left the fertilizer industry nearcollapse under the weight of the enormous inventory it created, and incongruously farmers' requirements may not be met.

“Last year, every person in the industry said there would be demand, so everyone overstocked,” explained Jean Payne of the Illinois Fertilizer and Chemical Association. “Six months ago, everyone was asking, ‘Will we have enough?’”

According to Payne, spring flooding last year in Illinois, Iowa and Indiana forced farmers to replant, leading to a later harvest than usual. When the financial crisis struck in the fall, many farmers opted to save money by waiting until spring to fertilize their fields.

Payne said fertilizer distributors, the middlemen between farmers and manufacturers, expected to clear 50 to 60 percent of the stock they had purchased in the fall, but farmers bought only 20 percent, leaving dealers with an unprecedented winter surplus and a tight three-week window to unload it this spring.

“We have guys who have been here for 30 years who said they have never seen a year like this,” Payne remarked. She said that although manufacturers reaped high profits last fall, “everything has been turned upside down since then.” Now, she said, "here is widespread concern that distributors will not have the capacity to deliver fertilizer to all the growers who need it in March. “Sometimes farmers can put on fertilizer faster than we can get it to them.”

Volume is not the only issue. University of Illinois Professor Gary Schnitkey said farmers who want to plant corn need liquid anhydrous ammonia fertilizer, which is typically laid down in the fall because it is dangerous and difficult to distribute. The farmers' postponement might even cause them to switch crops this spring, he theorized.

“It’s likely we’ll see [fertilizer] retailers trying to hold prices up because of their inventories,” Schnitkey said. “If prices stay high, farmers might switch to soybeans hoping it will be more profitable.” Soybeans are fertilized using solid forms of phosphates and potash, which are easier to handle and can be spread over many acres more quickly.

While distributors still hope to profit from their inventory, the manufacturers have already gotten their payout. Agricultural giant Cargill Inc. on Tuesday reported earnings of $1.19 billion for the quarter ended Nov. 30, up 25 percent from the year-earlier period, attributing the gain primarily to investments in fertilizer. The private company owns 64 percent of fertilizer maker Mosaic Inc., whose earnings for the quarter ended Nov. 20 were more than double the year-earlier results.

But now the manufacturers, too, are affected by the fertilizer glut. Payne said they have been forced to make layoffs and curtail production in processing facilities. Everyone in the industry, she said, is hoping for an early thaw this spring.