Fertilizer use for 1980 probably will decline

WASHINGTON, D.C — U.S. fertilizer use may decline by three to seven percent during the fertilizer year ending this June 30.

According to a supplement to the Fertilizer Situation to be issued by the U.S Department of Agriculture, greater-than-expected increases in prices farmers pay for fertilizer, energy, and interest relative to crop prices, combined with tight farm credit, will discourage fertilizer use this spring. Most forecasts made in late 1979, including USDA's, had called for a moderate increase in use this fertilizer year.

Net domestic supplies of fertilizers are expected to be about 14 percent higher this year. So, if the usual strong spring demand for fertilizer fails to materialize, prices could level off and possibly begin to decline, especially phosphates, before the planting season is finished.

The supplement, prepared by USDA's Economics, Statistics, and Cooperatives Service, notes that use of phosphate fertilizer is expected to decline most severely, perhaps by 7 to 13 percent.

Potash consumption may fall by three to seven percent while nitrogen use may equal last year's level or fall by as much as three percent. Current increases in farm prices for fertilizer are the largest since the 1974-75 fertilizer year, when use of the three primary nutrients declined about nine percent, with nitrogen down six percent and phosphate and potash each down 12 percent

After early optimism and a brisk fall season, the current fertilizer year has recently begun looking much like 1974-75. Although March 1980 fertilizer prices had not increased as much as in 1975, and 1980 grain prices have not declined as in 1975, other negative factors influencing fertilizer demand are more severe

Net farm income prospects are down from a year earlier due to a 12 percent annual increase in the overall cost of production inputs measured in March 1980, versus nine percent in 1975. Cost increases have been especially high for energy, up 61 percent, and fertilizer, up 29 percent

Interest rates on production loans are up sharply from a year ago and credit supplies are tight, particularly in several Midwestern states

Current economic conditions indicate the reduction in fertilizer use this spring will be at least as severe as in the spring of 1975. However, since many farmers who anticipated higher spring prices bought more fertilizer than usual in the fall and winter, consumption of plant nutrients for the first seven months of the fertilizer year was up substantially.

This strong early movement will probably prevent the decline in consumption for the entire fertilizer year from repeating the record decline of 1974-75, when use began decreasing during the fall and winter months

May 1980 farm level prices for fertilizer could average about 24 to 26 percent higher than a year earlier. These increases stem from improved domestic demand in the early months of the fertilizer year, strong export demand, and rapidly rising production, transportation, and retailing costs The expected decline in fertilizer use will probably cause a leveling off of prices and possibly some declines, especially for phosphates, before the end of the current fertilizer year

Nitrogen prices in May are likely to average 20 to 22 percent over May 1979, reflecting strong world demand and the pass-through of rising production costs, especially for natural gas, in the United States and worldwide

Prices of phosphate fertilizers were up the most in the first nine months of the current fertilizer year, and May 1980 prices will probably average 36 to 38 percent above a year earlier. However, the rapid price increase experienced through March probably will not continue through May. Wholesale prices have already begun to weaken.

Potash prices in May are likely to be 19 to 21 percent higher than a year earlier.

Supplies of fertilizer materials this spring are expected to be ample relative to use. Production of all three nutrients during the 1979-80 fertilizer year are expected to exceed year-earlier levels, and producer inventories may increase during the last half of the year

Production of nitrogen fertilizer materials during July-December 1979 was ahead of the year-earlier pace, with anhydrous ammonia production up 10 percent, and output of urea and nitrogen solutions up 28 to 13 percent, respectively. Increased production of phosphate fertilizer materials compensated for generally lower inventories.

July-December 1979 output of phosphoric acid and diammonium phospate was up 8 and 11 percent.

Combined U.S and Canadian potash production from July 1979 through February 1980 was 12 percent over a year earlier. Inventories were down, but from higher than normal levels.

On February 5, the Secretary of Commerce announced the suspension of phosphate exports to the Soviet Union, an action taken in the interests of U.S. foreign policy. On March 20, the International Trade Commission determined that anhydrous ammonia imported from the Soviet Union was not causing disruptions in the U.S. market, and no quotas were recommended to restrict Russian ammonia imports.

The phosphate export suspension will modestly increase supplies of phosphate materials in the U.S. market, thus slowing the upward movement of prices in 1980. Thus far the Soviet Union has been willing to continue shipping ammonia to the United States despite the embargo on phosphate shipments to Russia.

Although actions by longshoremen could still restrict the future arrival of Russian ammonia, court injunctions have ordered the International Longshoremen's Association to unload ammonia vessels. Arrival of the Russian ammonia should cause ammonia spot prices to stabilize now that some of the uncertainty about its availability has diminished.

Unrestricted arrival of this ammonia will enable Florida and North Carolina ammoniated phosphate producers to resume full production, and prices for these products should be more stable as a result.