



Ag Retailers – Cyclical Challenges Ahead

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Key Points:

- *Ag retailers operate as middlemen in selling a wide variety of crop inputs to growers. Consequently, when growers are doing well, so are the ag retailers; but when growers are doing poorly, so are the ag retailers. It's the latter scenario that prevails today during the current down-phase of the commodity cycle.*
- *As agricultural commodity prices have fallen in recent years, so have growers' incomes. The latter have fallen more than 50 percent from 2013 to today. Meanwhile, farmers' debt-to-income ratio is on the rise and approaching levels not seen since the farm crisis of the 1980s.*
- *Farmers will remain reluctant to pre-pay for inputs, leaving suppliers guessing what demand will be. Matching supply with demand for fall and spring fertilizer applications will be a moving target for ag retailers.*
- *Farmers will also be keen on cutting crop protection or chemical applications, such as eliminating seed treatments or fungicide applications unless treatment has a proven economic return.*
- *With fertilizer prices expected to continue weakening through 2016 and into 2017, ag retailers are intent on emptying their warehouses of all product by the end of the current growing season.*
- *Greater industry alignment between ag retailers and wholesalers is anticipated in the future, especially as ag retailers try to position against a possible future where wholesalers sell product directly to large farmers, thus cutting out the middlemen.*
- *Facing lower margins and heightened risk, ag retailers will branch out to provide new value-added services, including soil testing, precision ag technology tied to chemical, seed, and fertilizer applications, and helping growers decipher where best to invest dollars on inputs.*
- *Ag retailers are apprehensive about recently announced (potential) mergers of major agribusiness companies, particularly in the seed and crop protection industries. They foresee declining competition in the marketplace, a potential reduction of rebates on volume product purchases, and wholesalers bypassing ag retailers and selling direct to farmers.*