

## Why the increase in feed prices?

Over the past 2 months, feed prices have escalated sharply. Feed prices primarily move with the movement of ingredient prices such as corn, soybean meal, oats, etc. It is simple to say that this is the reason for price increases and leave it at that, but reality is a little more complicated and it's worth knowing the issues that make ingredient costs change in the market place.

The 2012 corn crop was expected to be one of the largest on record; however, it was not. Severe drought conditions in the mid-western U.S. have had a devastating effect on corn production and corn prices. In early June, USDA projections placed corn yield estimates at 166 bushels per acre. The early August projection has been lowered to 123 bushels acre. That's a 26% decrease in production leaving the corn carryover for the 2013 at 650 million bushels. The minimum carryover needed to avoid shortages is considered to be one billion bushels. This means that the availability of corn is "predicted" to be tighter than what is considered to be normally adequate. When this happens, the price goes up in order to make sure demand doesn't outpace availability. It's the ingredient market's form of rationing. This is easily seen by going to the USDA website and looking at the 2012 crop projections and yields.

Soybean prices are also at historical highs. Demand for soybeans are very strong due to the less than stellar South American crop and this has forced prices up. Soybeans have also reacted to the corn shortage. Soybean meal used in feed has reacted the same as soybeans and has reached historically high levels. Both corn and soybean meal have reached their highest prices in history with the last two months.

This condition has side effects. When corn and soybean meal increase, they carry almost every other ingredient with them. Why? Because if corn is going to be rationed, it must be replaced with something else. That creates more demand for other ingredients and we know from simple economics that more demand creates higher prices. That's why we sometimes see dramatic movements in price as several of these ingredients may make big price jumps at the same time. Unfortunately, we probably will not see much relief from these prices until the first of the calendar year when new planting intentions start to emerge.

Through all of this, Southern States will continue to make high quality products without compromise. Our dedication to producing high value feeds in all price ranges is unchanging, and while prices may go up and down, you won't get short changed on what goes in the bag.

