Record US diesel prices squeeze farmers; food prices may rise

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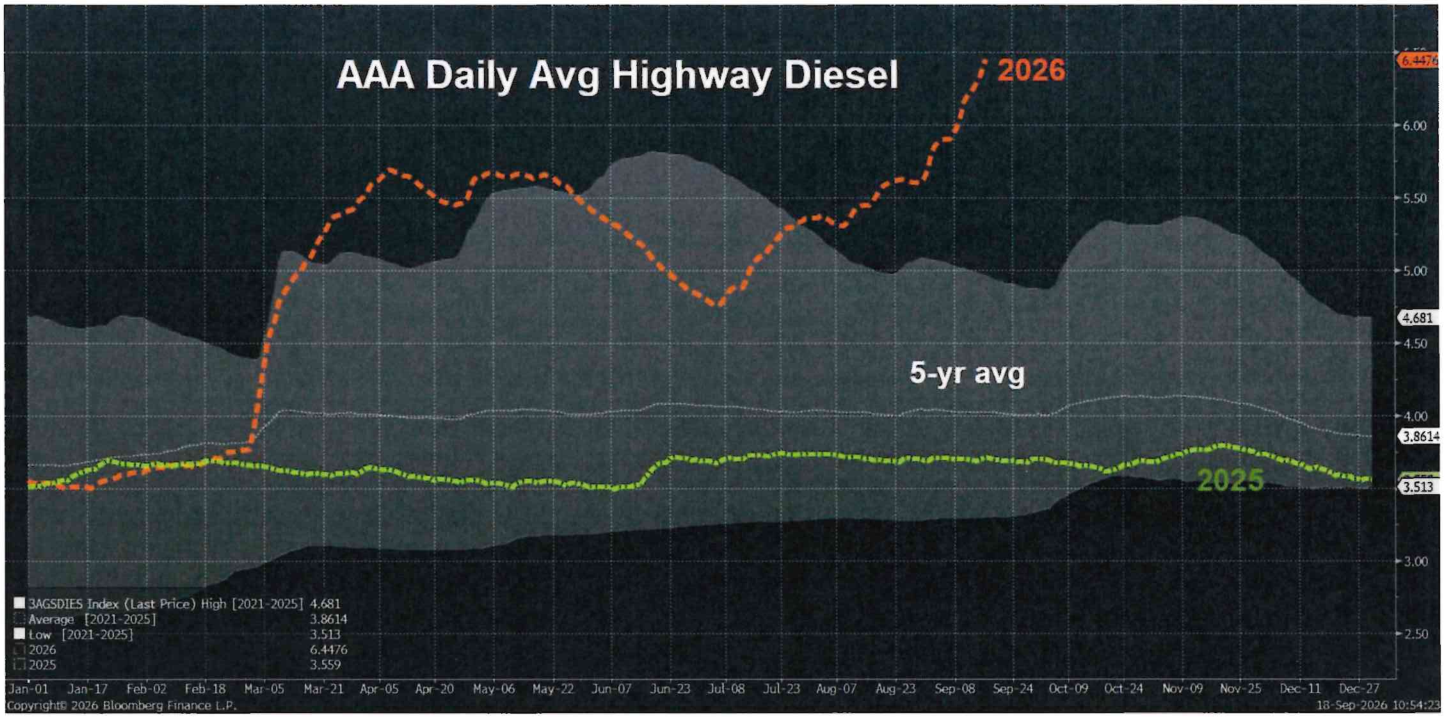

Record US diesel prices squeeze farmers; food prices may rise

By Leah Douglas, Lisa Baertlein and Nichola Groom

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- **Diesel costs for US farmers are double last year's level**
- **Record diesel prices also pressure food transport and retail**
- **Prices seem headed up for grocery staples like produce and meat**

WASHINGTON, Sept 18 (Reuters) - In northeast Missouri, Addie Yoder, a corn, soybean and cattle farmer, runs two combines, three semi-trucks and several tractors from mid-September to late October to harvest and transport her crops.

With diesel prices at record highs and just one combine requiring 300 gallons of the fuel, the best she can do is try to curb other expenses, she said.

In southeast South Dakota, Drew Peterson, a soybean, corn and cattle farmer, expects to spend as much as $1,500 per day to fuel just one of his combines this season, double last year's costs, among the many machines he must use to bring in his crop.

"You can't just say, well, diesel is expensive, I'm not going to harvest," he said. "You've just got to make it work in your budget."

Across the U.S., farmers are confronting record-high diesel prices during the height of harvest season, further squeezing already thin margins. Price hikes seem inevitable at America's grocery stores ahead of November's midterm elections, where cost of living is expected to be a primary voter concern.

Global fuel supplies have been squeezed by the U.S.-Israeli war on Iran and Ukrainian attacks on Russian refineries. The average U.S. diesel price hit a new record this week, $6.29 per gallon, up 68% from $3.74 a year ago, according to Energy Information Administration data.

Higher diesel prices raise costs in every step of the food supply chain, from harvesting on farms to freight delivery that carries food to grocery stores, said David Ortega, an economist at Michigan State University.

"The majority of our food moves on trucks and those trucks use diesel," Ortega said.

Consumer food prices rose 2.7% year-on-year in August, according to the latest Consumer Price Index.

FUEL PRICES DOUBLING

Farmers have access to off-road diesel, which is not subject to state and federal taxes. But even with the discount, many farmers are still paying significantly more for fuel than last year.

Wayne Gularte, who grows a variety of vegetables on roughly 600 acres near Gonzales, California, said his fuel costs have risen about 40%, from roughly $5 a gallon to $7 a gallon.

To save on costs, he has put some older gasoline-powered tractors from the 1950s back into service and parked one of the farm's diesel pickups. "The only money we can make is the money we save," Gularte said.

Farm fuel costs are up $11 per acre from last year for corn and $7 per acre for soybeans, according to Michael Langemeier, an economist at Purdue University.

Corn, soy and wheat futures all have rallied significantly since mid-August and hit multi-year highs in early September. Still, farmer margins remain thin compared to historical averages, said University of Illinois agricultural economist Nick Paulson, who warned high fuel prices could raise costs next year for seed and fertilizer.

"The concern is that $6-plus per gallon diesel is going to start to put some inflationary pressures on everything else, and even to some of that better profitability potential," he said.

Many farmers have already tightened their belts, leaving little margin to accommodate fuel price increases, said Jon Paul Driver, a hay farmer near Spokane, Washington, and second vice president of the Washington Farm Bureau.

"Any increase in fuel right now is additional debt for the farm," Driver said.

U.S. Senator Roger Marshall, a Republican from Kansas, asked Agriculture Secretary Brooke Rollins in a September 11 letter to provide temporary relief to farmers as they "absorb substantial unplanned fuel costs during one of the most diesel-intensive periods of the year."

A USDA spokesperson said the agency is "not leaving any stone unturned" on high diesel prices and pointed to a September 15 NewsMax interview in which Rollins said she would have more to announce on the topic in the coming weeks.

FOOD PRICES COULD RISE

Though fuel accounts for a small share of the cost of food, consumers could still see prices rise as the supply chain absorbs higher fuel costs over the coming months, Ortega said.

Those effects could take time to play out because retailers may attempt to absorb short-term price increases, or because freight contracts locked in at lower prices do not yet reflect fuel surcharges, Ortega said.

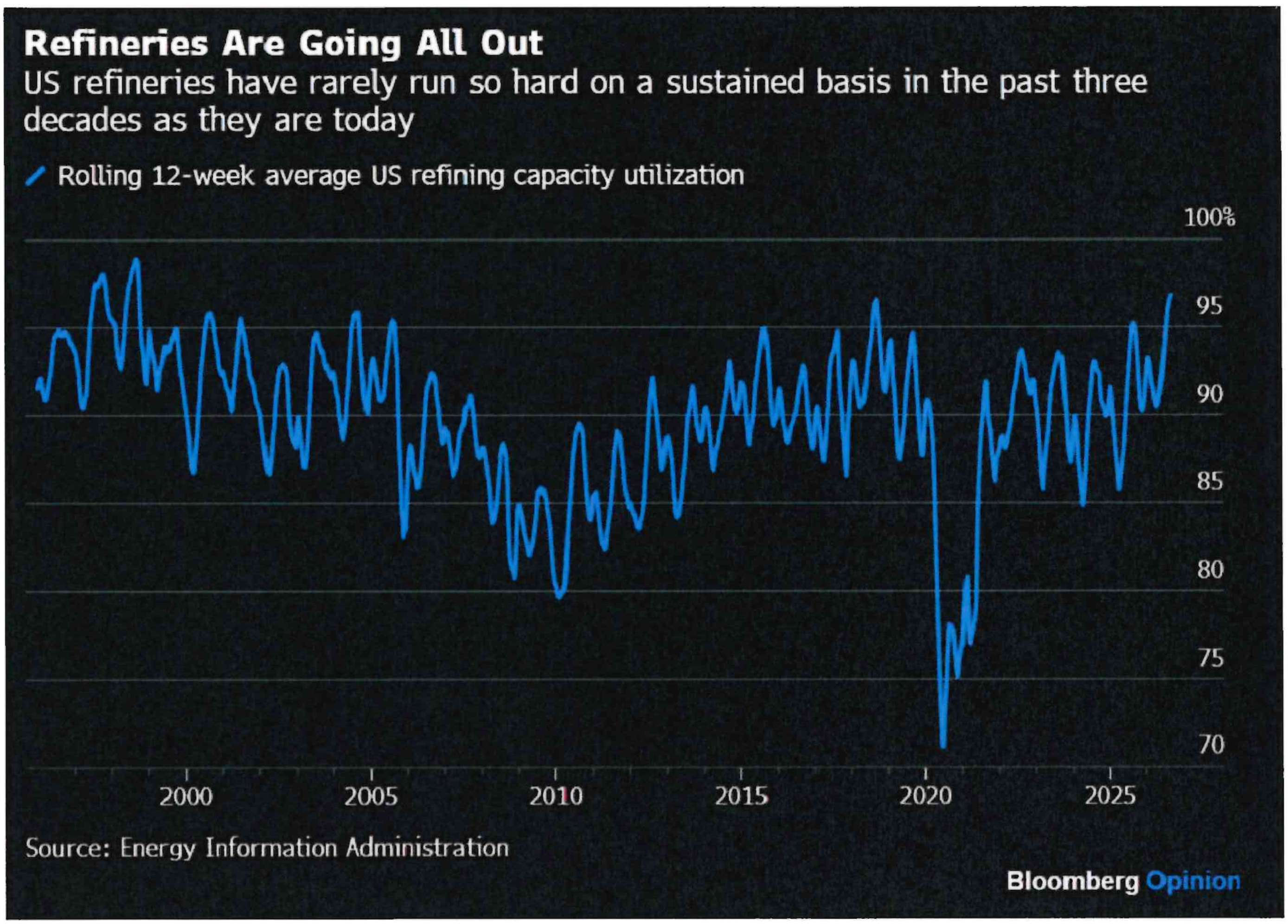
He added that some of the items most vulnerable to price hikes are grocery essentials like produce, dairy and meat that require fuel-intensive refrigerated trucking.

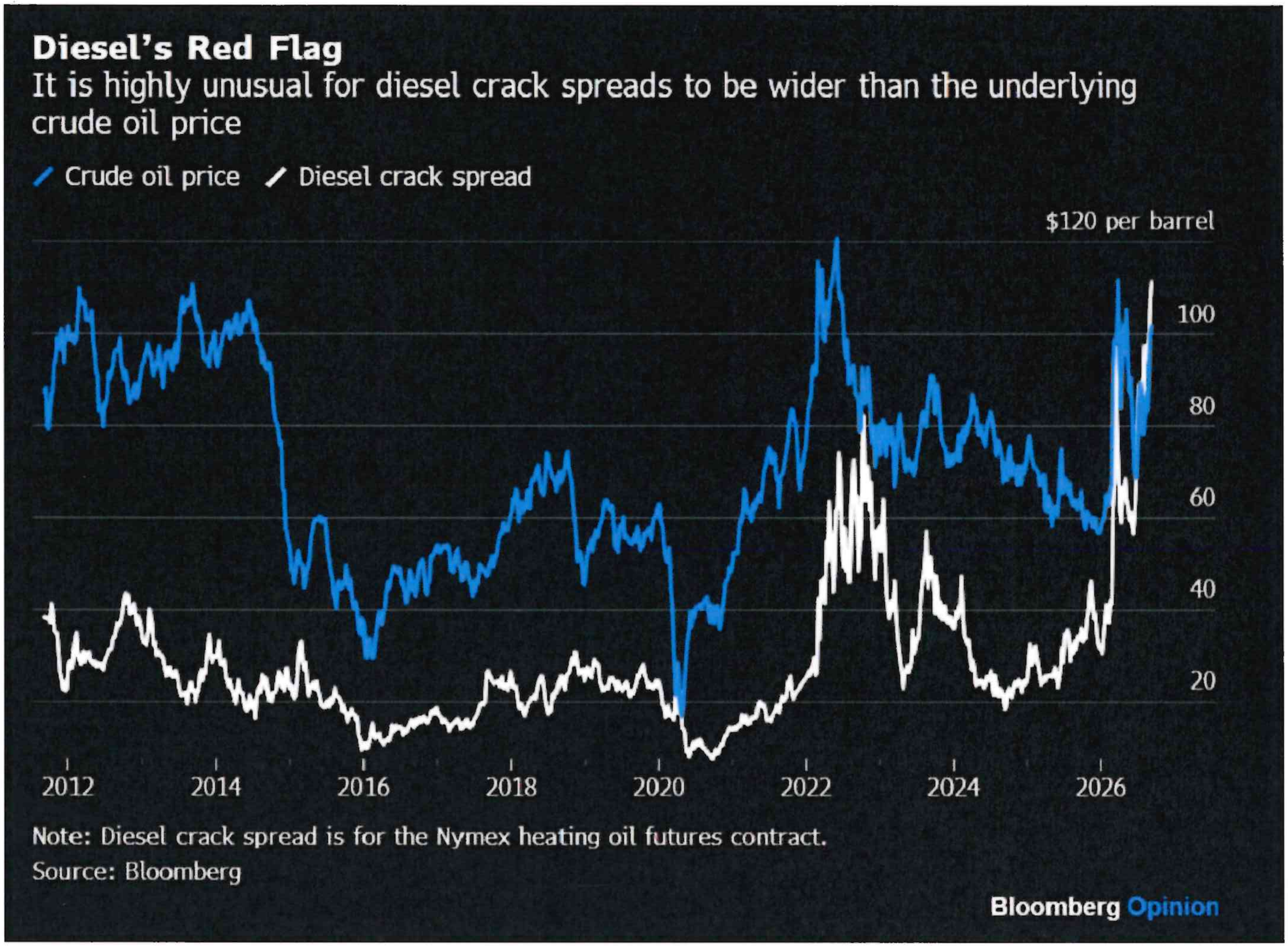
Rates to move apples and pears via refrigerated trailers out of Washington State's Yakima Valley have hit a four-year high with the harvest season only halfway over, said Dean Croke, principal analyst at DAT Freight & Analytics.

The cost to transport produce out of California is up 40% to 120% from a year ago. In some California cities, diesel prices have topped $8 per gallon, Croke said.

Independent truckers, who typically pay for fuel up front, may not be able to withstand further hikes, Croke said.

"We're about to see diesel price-driven bankruptcies" of trucking firms, he said.





Diesel's Red Flag
It is highly unusual for diesel crack spreads to be wider than the underlying crude oil price
Crude oil price
Diesel crack spread
$120 per barrel
100
80
60
40
20
2012
2014
2016
2018
2020
2022
2024
2026
Note: Diesel crack spread is for the Nymex heating oil futures contract.
Source: Bloomberg
Bloomberg Opinion