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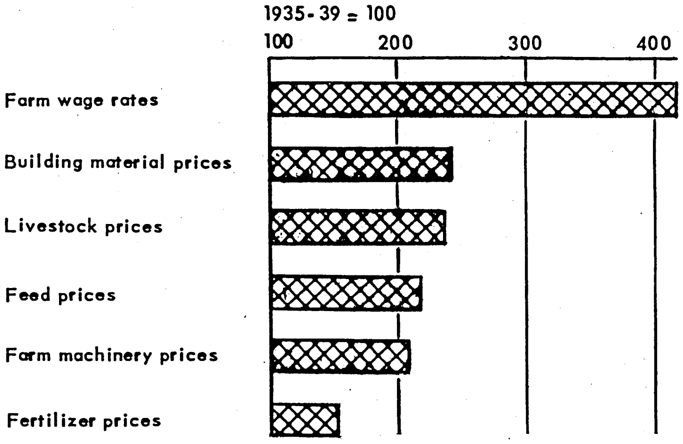
THE STRUCTURE OF FARM COSTS has changed. Trends in the structure of farm costs--amounts, relative importance of each kind of input and their prices--bear particularly on long-run plans as production outlays are difficult to alter in the short run. Decisions regarding investments in machinery and buildings and to some extent hiring labor are usually tied into a production plan that extends over a number of years.

The changing importance of farm production expenses is evident by their increase relative to total cash receipts. In 1946 production expenses were about 60 per cent of cash income, but by 1954 they had increased to over 70 per cent.

Changes in cost rates and in technology have favored increased use of nonfarm-produced inputs. Both farm machinery and fertilizer remain cheap relative to other inputs. And it is expected that this cost relationship will continue to favor increased investment in them.

CHANGE IN FARM COST RATES, 1954



Deferrable outlays for purchase of machinery, motor vehicles and buildings have also risen relative to the nondeferrable outlays for farm operation. Annual farm capital expenditures since the war have almost doubled while operating expenses have risen by only 40 per cent.

Farm-produced inputs--seed, feed and livestock--have declined in relative importance. Just after the war these farm-produced inputs accounted for 30 per cent of the total farm operating expenses, but this year they will account for only 25 per cent of the total.

These changes have a direct impact on cost reduction possibilities, credit requirements, farm management decisions and net farm income.

REDUCING PRODUCTION OUTLAYS, without cutting farm output, is difficult on most farms. Investment outlays for machinery, equipment and buildings are the major category in which cash expenditures can be postponed. Recent estimates indicate that farmers cut their purchases of new equipment, machinery and motor vehicles in 1953 and again in 1954 below the rate of depreciation. However, a small net gain in building investment was chalked up in 1953. Net disinvestment--depreciation exceeding capital investment--for both machinery and buildings may occur on many farms in the year ahead.

Cost cutting does not have to take the form of an actual reduction in total outlays but may take the form of reduced inputs per unit of output. On many farms increased outlays will increase returns more than the added cost. Increased inputs of fertilizer, for example, still appear to be a good buy on many farms as does the use of higher quality seed and livestock. In other instances some farmers will find that additional investment in machinery and equipment can more than offset labor costs. Increasing the size of the farm business in order to fully utilize machinery and buildings also provides a means of reducing average costs.

Farm credit requirements are increased as the total amount of purchased inputs rises. And the relative rise of capital outlays for farm machinery and motor vehicles produces an increased demand for intermediate-term financing.

Rigidity of farm production costs has shown up increasingly as relatively more inputs are derived from nonfarm sources. Price inflexibility for this group of inputs, particularly during downswings in the economy, has been a strong prop holding outlays up. Lower farm expenses have been due mainly to price reductions for items that are farm produced. Percentage changes in prices for these two groups of inputs during the past two farm income recessions have amounted to:

	1948-49	1952-54
Inputs purchased from farm sources	-13	-20
Inputs purchased from nonfarm sources	+2	-1

The impact of the more rigid cost structure is to make net farm income more variable and the farm community still more dependent on adequate levels of demand.

FARM COST RATES NEXT YEAR are expected to show a modest slide-off from this year's level which is about 1 per cent above a year earlier. Prices of seed and livestock may inch downward while feed prices are expected to remain the same.

With business conditions on the upgrade no significant price decline for factory-produced items is anticipated--instead a few scattered increases may occur.

Farm wage rates have edged off about 2 per cent during the past 12 months and are expected to decline further. Total property taxes, levied in 1954 and payable in 1955, are expected to increase by 4 per cent.

Research Department