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GENERAL PRICE STABILITY in the economy has taken on increasing importance for farmers over the years. The development of new technology has meant a steady rise in the importance of production items purchased from other farmers as well as from the nonfarm sectors of the economy.

Since the end of World War II, farm production expenses have risen from less than 60 per cent of cash receipts from sales of farm products to over 75 per cent in recent years. This is the continuation of an upward trend since the beginning of records in 1910, though the ratio has fluctuated widely during depressions and war-periods of sharp changes in demand for farm commodities.

Two factors have been largely responsible for the rising importance of farm production expenses: increasing specialization of production of individual farms; and substitution of purchased materials and services for those formerly produced on or available from the farm itself.

Specialization of production has played a key role in the changing patterns of farming. At the end of the last century specialization followed a regional pattern in response to the development of modern transportation methods and improved preservation of perishable commodities. In more recent times, however, there has been increasing specialization on individual farms in response to the modern technology for producing most crops and livestock.

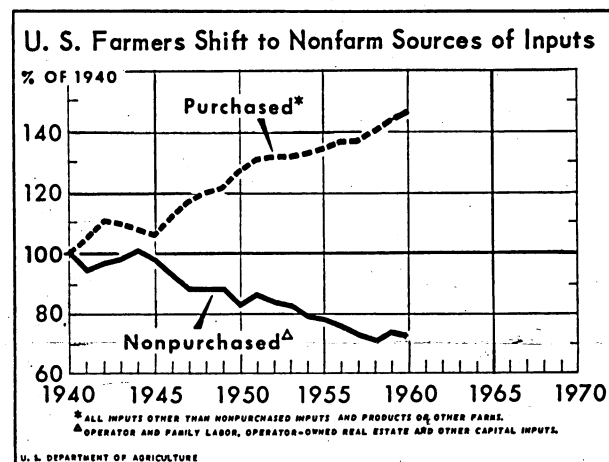
The equipment associated with modern production is both specialized and expensive yet affords substantial cost reductions if volume is large enough. This provides the primary incentive for large-scale, specialized farms.

Specialization on individual farms to a large extent has been made possible through development of modern chemicals for control of livestock and plant diseases and pests. Only through this new technology have such developments as large-scale concentrations of livestock and poultry feeding operations or continuous cropping proved feasible.

One consequence of increased specialization has been the rising importance of farm production expenses. In the case of feed and livestock production, farmers have become more specialized by selling the products they produce and purchasing the necessary breeding stock, feed and/or feeder livestock instead of producing them all on the same farm. As a result, the cost of feed and livestock purchased by farmers has risen from 16 per cent of total farm cash receipts at the end of World War II to more than 20 per cent today.

In addition to the purchase of products raised on other farms, adoption of new technology has also been accompanied by increasing purchases of nonfarm items (such as chemicals and machinery) to raise yields and replace farm labor.

The new technology has also been reflected in the changing nature of farm expenditures. With increasing use of machinery, farm population has declined and the cost of hired labor has been reduced from 10.3 per cent of farm cash receipts in 1945 to 8.5 per cent in 1960. At the same time expenditures for the purchase of new machinery, motor vehicles and farm buildings as well as for their operation and repair has risen from 14 per cent a decade and a half ago to nearly 23 per cent in recent years.



The result of this transformation of agriculture has been to make farms similar to "manufacturing" operations with agricultural products being produced through the "conversion" of substantial amounts of products and services purchased from other suppliers. Purchases from the nonfarm sources are likely to become even more important as the technological revolution in agriculture continues. In turn, net farm incomes will become even more sensitive to changes in prices of both farm and nonfarm products. Since demand for farm products today changes little with changes in consumer incomes, farmers will have an increasing stake in maintaining general price stability to hold costs down and maintain net farm income.

Research Department