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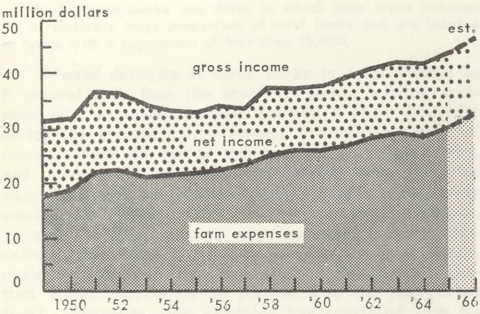
FARM COSTS during 1966 may show the largest increase since the early Fifties. Production expenditures for the year currently are estimated at around $32 billion, nearly $2 billion above the total outlays during the previous year. This would compare to an average annual increase during the past decade of about $750 million.

Increased purchases and generally higher prices for most of the more important production items account for the anticipated increase as they have during the past several years. Since 1950, farm production expenses have risen from about $19.4 billion to $30.3 billion or 56 percent. Approximately two-fifths of the increase was attributable to rising prices—up about 23 percent over the period—while the remaining three-fifths represented increased purchases of production items and services.

Farm Costs Expected to Show Sharp Rise



Rising prices are likely to account for a somewhat larger proportion of the increase in production outlays during 1966 than in recent years. The index of prices paid by farmers during the first quarter averaged about 3 percent above the comparable year-earlier period and in April reached a record high, 4 percent above the year-ago month.

Outlays for nearly all production items appear to have increased during the first quarter of this year. Expenditures for farm machinery were substantially higher. Prices of farm equipment were about 3 percent higher, and retail sales of tractors—the major implement expenditure—during January-March rose nearly 34 percent from the same quarter a year ago. In the Seventh District states, tractor sales in the first quarter ran about 50 percent above the comparable year-earlier period.

While price increases for some types of fertilizers have been offset by reductions for other types during the first quarter, total fertilizer expenditures undoubtedly will increase again this year as farmers use more fertilizer per acre in order to boost production on their available land. Preliminary data from the 1964 Census of Agriculture indicate that fertilizer purchases in Illinois and Iowa increased about 34 and 46 percent, respectively, since 1959.

Tax and interest outlays are also expected to continue their increase of recent years. Since property taxes are the chief source of revenue for local government units, the steady rising costs of local government operations tends to exert pressure for higher taxes on farmland. Taxes per acre of farmland this year are about 5 percent above the 1965 level.

Larger loans per farm, stemming from farm enlargement and from the upward trend in land values, tends to boost the associated interest expense on real estate debt. Moreover, interest rates on mortgage loans are higher than a year ago. Interest payable on farm real estate debt in the first quarter was nearly 13 percent higher than in the corresponding interval last year, reflecting both the increase in the amount of such debt and higher average interest rates. Farm mortgage debt outstanding at the beginning of this year was about $21.1 billion or 12 percent above the year-earlier level. Recent reports from major lenders indicate that further advances in farm mortgage recordings have occurred since the first of this year.

Wage rates of farm workers also advanced further during the first quarter, up about 4 percent. However, the total farm labor bill for the year may show a decline (albeit slight) as a result of the sharp decline in number of workers employed.

In addition to the rapid absolute rise in farm production expenses in recent years, farm costs as a proportion of gross farm income also have risen. In 1965, production expenses were equal to more than 68 percent of gross income compared with 59 percent in 1950. Although farm expenses are expected to show a near record rise during 1966, this ratio of farm expenses to gross income may decline slightly because of the substantially higher income anticipated. Gross farm income is presently forecast at about 47 billion.

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