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# Agricultural Letter

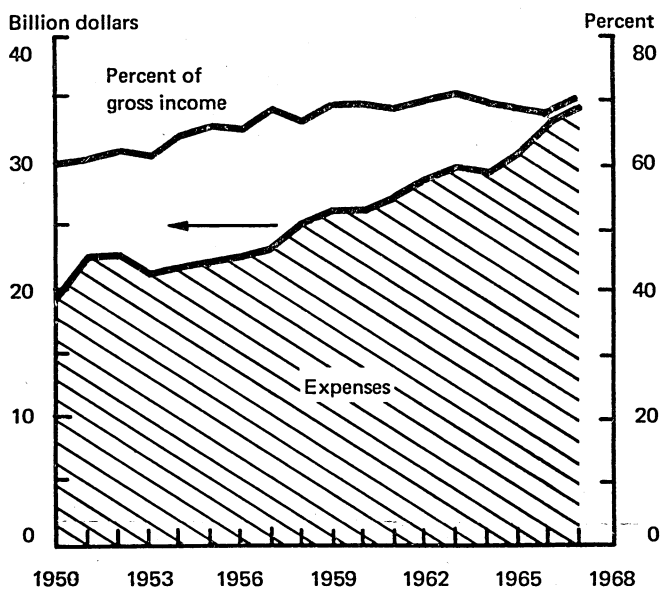
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FARM PRODUCTION COSTS reached new highs in 1967, continuing their seemingly unrelenting climb. Preliminary estimates show production costs this year running about \$1.1 billion ahead of the \$33.3 billion required in 1966. The increase—about 4 percent—is well under the sharp rise in production outlays of \$2.6 billion in 1966 but about on par with the \$1 billion average annual increase so far for the Sixties.

Although purchases were larger due to expanded agricultural production, most of the rise was due to higher prices. With allowances made for all farm inputs, the index of prices farmers paid for goods and services—including interest, taxes, and wages—averaged about 3 percent more in 1967 than in 1966. Outlays for nearly all production items were up—5 percent for items not produced on the farm and 3 percent for farm-produced items.

## Production Expenses Continue Rapid Advance



Expenses per dollar of gross income also moved up, reaching about 70 percent of the total gross income realized by farmers. Except for 1963, this was the largest proportion of gross income taken by expenses since the Depression. Operating expenses, of course, vary considerably with the type and size of farm. According to the Department of Agriculture, operating expenses (excluding charges for the farmer's labor and equity capital) are usually lowest relative to gross income on such extensive enterprises as western cattle ranches and Southern Plains wheat farms, both of which use large acreages relative to other production items. Operating expenses on such farms have averaged about 40 percent in recent years. At the other extreme, operating expenses usually take the highest percentage of gross income on farms with the most intensive operations, such as dairy, poultry, and livestock feeding farms. On hog-beef fattening farms in the Corn Belt, for example, the ratio of operating expenses to gross income has averaged well over 70 percent in recent years.

The size of the operation also apparently has bearing on the relative importance of operating expenses. According to the most recent Census of Agriculture, for example, expenses on farms with sales between \$20,000 and \$40,000 accounted for the smallest portion of gross income of any size category of farms. As might be expected, the proportion increased as the volume of gross sales declined. Surprisingly, however, operating expenses were also higher relative to gross income on the largest farms—those with sales of \$100,000 or more—which may indicate that farms can be enlarged beyond their optimum size.

Faced with a more or less steady increase in expenses, farmers have tried to offset their higher costs, by reorganization of their farms and use of more productive inputs. Changes in composition of costs have mainly reflected substitution of goods not produced on the farm—such as fertilizers and mechanical equipment—for those produced or furnished by the operator.

Improved technology has made it profitable to substitute mechanical power and equipment for animal power and labor. Higher wage rates, combined with uncertainty that a continuing supply of skilled farm workers will be available, have spurred adoption of labor-saving techniques. Land expense is overshadowed by increasing use of fertilizer, pesticides, herbicides, improved seeds, and other such developments. About a fifth more purchased materials and services were used on farms in 1967 than in 1957-59. Conversely, the use of non-purchased items (operator labor and operator-owned real estate and other equity capital) dropped about a fifth.

These trends will no doubt continue. The rise in production costs in 1968 is expected to be about in line with the increase this year. Higher outlays for taxes, interest, and insurance are almost certain, and higher costs are expected to result from increased use of such items as feed, fertilizer, and pesticides and from increases in the prices of items not originating on the farm.

Roby L. Sloan  
Agricultural Economist

**FARM BUSINESS CONDITIONS**  
September 1967 With Comparisons

I T E M S	1967		1966
	September	August	September
<b>PRICES:</b>			
Received by farmers (1957-59=100) . . . . .	104	106	112
Paid by farmers (1957-59=100) . . . . .	117	117	115
Parity price ratio (1910-14=100) . . . . .	79	80	80
Wholesale, all commodities (1957-59=100) . . . . .	106	106	107
Paid by consumers (1957-59=100) . . . . .	117	117	114
Wheat, No. 2 red winter, Chicago (dol. per bu.) . . . . .	1.51	1.49	1.86
Corn, No. 2 yellow, Chicago (dol. per bu.) . . . . .	1.20	1.23	1.46
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.73	.75	.76
Soybeans, No. 1 yellow, Chicago (dol. per bu.) . . . . .	2.69	2.81	3.19
Hogs, barrows and gilts, Chicago (dol. per cwt.) . . . . .	19.74	21.18	23.47
Beef steers, choice grade, Chicago (dol. per cwt.) . . . . .	27.62	27.22	26.11
Milk, wholesale, U. S. (dol. per cwt.) . . . . .	5.20	4.98	5.28
Butterfat, local markets, U. S. (dol. per lb.) . . . . .	.66	.66	.71
Chickens, local markets, U. S. (dol. per lb.) . . . . .	.12	.13	.14
Eggs, local markets, U. S. (dol. per doz.) . . . . .	.32	.30	.43
Milk cows, U. S. (dol. per head) . . . . .	265	263	255
Farm labor, U. S. (dol. per week without board) . . . . .	--	--	--
Factory labor, U. S. (dol. earned per week) . . . . .	116.28	114.77	113.71
<b>PRODUCTION:</b>			
Industrial, physical volume (1957-59=100) . . . . .	156	158	158
Farm marketings, physical volume (1957-59=100) . . . . .	139	128	137
<b>INCOME PAYMENTS:</b>			
Total personal income, U. S. (annual rate, bil. of dol.)	633.5	631.5	594.1
Cash farm income, U. S. <sup>1</sup> (annual rate, bil. of dol.) . .	46.9	51.1	48.9
<b>EMPLOYMENT:</b>			
Farm (millions) . . . . .	3.9	4.4	4.4
Nonagricultural (millions) . . . . .	70.7	71.8	69.9
<b>FINANCIAL (District member banks):</b>			
<b>Demand deposits:</b>			
Agricultural banks (1957-59=100) . . . . .	125.0	119.2	124.4
Nonagricultural banks (1957-59=100) . . . . .	121.2	115.3	115.4
<b>Time deposits:</b>			
Agricultural banks (1957-59=100) . . . . .	268.6	266.8	235.9
Nonagricultural banks (1957-59=100) . . . . .	290.7	289.9	250.7
<sup>1</sup> Based on estimated monthly income.			

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.