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FARM PRODUCTION COSTS are rising rapidly. Indications point to an increase of around $1.5 billion this year over the record $34.4 billion last year. The size of this increase is in line with the rise since 1965 but considerably larger than the average annual increase of less than $1 billion for the past ten years.

Production costs have been rising steadily since the mid-1950s, the only interruption being in 1964. The total increase during that time has been about $12 billion—up 57 percent. Approximately three-fifths of the increase can be attributed to increased purchases of production items. The remaining two-fifths represents rising prices—up about 24 percent since 1955. Measured in value received, prices for some production items may not have increased as fast as indicated; part of the increase can be ascribed to the improved quality of production items and to extra services provided to farmers.

Larger Farms Achieve Lower Costs[1]

	Acres per farm[2]					
	Under 180	180-259	260-339	340-499	500-649	Over 650
Total acres	**154**	**227**	**304**	**414**	**564**	**808**
Tillable acres	**144**	**213**	**281**	**378**	**518**	**734**
Annual costs *(per tillable acre)*						
Soil fertility	$ 11	$ 11	$ 11	$ 12	$ 12	$ 14
Buildings	8	6	6	5	5	5
Machinery	28	24	22	21	21	20
Labor	22	16	13	12	11	11
Total nonfeed	118	102	96	93	94	94
Investments *(per tillable acre)*						
Machinery	$ 32	$ 29	$ 30	$ 29	$ 30	$ 29
Buildings	64	49	49	45	42	40
Total investment	**$681**	**$647**	**$624**	**$608**	**$641**	**$625**
Capital and management	**28**	**39**	**42**	**42**	**44**	**47**

[1]Figures rounded to nearest dollar.
[2]Northern Illinois grain farms, 1964-66.

Rising prices accounted for much more of the increase in production costs in the last three years, however, than in any period since the late 1950s. Total outlays increased about 17 percent, while prices increased about 11 percent. The upward sweep of this trend is likely to continue through 1968. Prices paid by farmers have climbed nearly 3 percent since the beginning of the year and are now running about 4 percent higher than a year ago.

In contrast with the trend for the past three years, however, most of the increase in prices is going for goods and services originating off the farm. Feeder livestock prices are up, but prices of feed and seed—which account for roughly 20 percent of total expenditures—are far less than a year ago. Feed prices average about 6 percent less, and seed prices are down about 2 percent.

Prices for items and services of nonfarm origin have increased across the board. Prices of farm machinery are 5 percent higher than a year ago, with all groups of spring-season machinery advancing. Planting and fertilizing machinery, harrows, and cultivators have shown the largest increases. Prices of motor vehicles, including tractors, are 6 percent higher than last year.

Farm wage rates are up nearly 9 percent—an increase that will no doubt more than offset cost savings from the decline in the number of hired workers this year.

Taxes and interest payments have continued their increase. Taxes per acre of farmland are an estimated 7 percent higher this year, reflecting primarily higher assessments based on a further rise in land prices. Because of increased debt and higher interest rates, interest payable on farm real estate was about 8 percent higher in the first quarter.

Faced with the more or less steady increase in expenses over the past several years, farmers have tried to offset the increase by extensive reorganizations of their farms and substitution of more productive inputs and methods for those giving lower returns. As a result, many farmers have been able to hold down unit costs of output, despite the overall sharp advance in costs.

Because of economies associated with size, farmers with large operations have tended to be the most successful in cutting costs. A recent study of farms enrolled in the Illinois Farm Management Associations shows labor and machinery costs dropping sharply with increases in the size of farms. Farms over 650 acres, for example, had about half the labor costs per acre of farms under 180 acres. Similarly, machinery costs averaged about two-fifths more for the smaller farms than for the larger farms. Largely reflecting these cost differences, per acre returns to capital and management were about two-thirds higher for the larger farms than for the smaller farms.

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