

281.9
F313

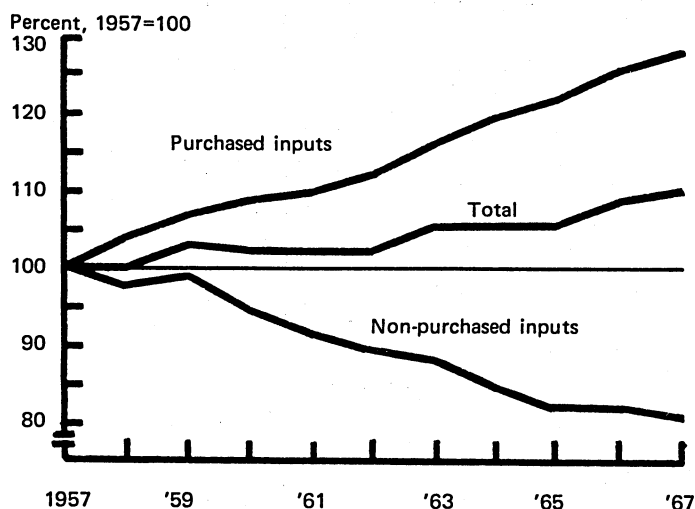
Federal Reserve Bank of Chicago - -

August 23, 1968

PRODUCTION ITEMS used in agriculture have increased sharply in recent years. Much of the increase can be attributed to greater use of machinery, equipment, and fertilizer. The amount of labor used in farm production has declined, however.

Farm inputs remained fairly constant year to year until 1965. Since then, however, the index of farm production inputs has risen almost 5 percent. The increase probably reflects the generally higher net farm income of the mid-1960s, especially the record peak of 1966 and optimism created by the "feed the world" concept popular in 1965-66. While this concept has since waned in the face of booming world food production, it may have encouraged farmers to increase their investment in production items.

Total Production Items Used Increase . . .



Labor has been moving out of agriculture for years, a trend paced by the adoption of labor saving inputs and techniques. In the last decade, for example, the manpower devoted to agricultural production has decreased almost 33 percent, while the amount of tractor horsepower used has increased almost 36 percent. While crop acreage has been reduced by acreage diversion programs, the increased use of fertilizer has allowed farmers to produce more on less acreage. Farmers have increased the use of fertilizer more than 130 percent since 1957, while the cropland harvested has declined 4 percent, and crop production increased about a fourth over the same period.

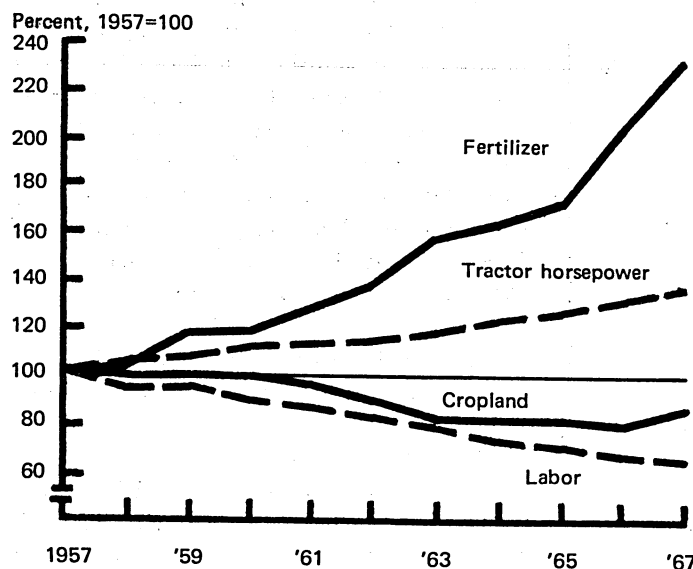
Changes in the composition of production items are related to, and have partly reinforced the trend toward increased farm size and specialization. Farmers have become more dependent on other sectors of the economy as sources of production items. And with the increase in purchased production items has come a decline in items that are not paid for, such as family labor and equity capital. In the last decade, the index of purchased inputs increased almost 28 percent while the index of "non-purchased" inputs declined 20 percent.

Agricultural Letter

U.S. DEPT. OF AGRICULTURE
NATIONAL AGRICULTURAL LIBRARY
SEP 14 1968
CURRENT SERIAL RECORDS

Number 975

. . . and the Trend Toward More Purchased Capital Input Continues



The shift in production items has been the result of economic factors. There have been a number of changes in technology that reduce unit costs of production. Also, the relative prices of production items have changed. Prices of resources for which industry and agriculture compete have increased. Farm wages, for example, have increased more than 50 percent in the last ten years, reflecting the strong pull of nonagricultural employment. During that time, however, prices of fertilizer, which is used almost exclusively by agriculture, have been practically constant. New ways of obtaining plant nutrients have, of course, increased fertilizer supplies and helped keep prices of fertilizer down relative to other farm inputs.

Rapidly increasing productivity and a lagging demand for farm products relative to the demand for nonfarm products combine to put farmers in a cost-price squeeze. The prices farmers pay for inputs have increased steadily—23 percent in the last decade—while prices they receive have fluctuated widely.

Current trends toward less labor, more purchased capital inputs, and increasing size and specialization of farms will no doubt continue until a better balance is reached between resources for farm and nonfarm uses.

Dennis B. Sharpe
Agricultural Economist

FARM BUSINESS CONDITIONS

May 1968 with Comparisons

I T E M S	1968		1967
	May	April	May
PRICES:			
Received by farmers (1957-59=100)	108	107	104
Paid by farmers (1957-59=100)	121	121	116
Parity price ratio (1910-14=100)	73	73	74
Wholesale, all commodities (1957-59=100)	108.4 ^P	108	106
Paid by consumers (1957-59=100)	--	120	116
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.38	1.41	1.67
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.19	1.16	1.39
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.81	.80	.76
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.74	2.71	2.87
Hogs, barrows and gilts, Chicago (dol. per cwt.)	19.10	19.23	22.33
Beef steers, choice grade, Chicago (dol. per cwt.)	27.16	27.49	25.46
Milk, wholesale, U. S. (dol. per cwt.)	5.02	5.03	4.74
Butterfat, local markets, U. S. (dol. per lb.) . . . . .	.67	.67	.65
Chickens, local markets, U. S. (dol. per lb.) . . . . .	.14	.14	.13
Eggs, local markets, U. S. (dol. per doz.) . . . . .	.27	.29	.29
Milk cows, U. S. (dol. per head)	272	270	259
Farm labor, U. S. (dol. per week without board)	--	63.50	--
Factory labor, U. S. (dol. earned per week)	122.29	118.21	113.81
PRODUCTION:			
Industrial, physical volume (1957-59=100)	164	163	156
Farm marketings, physical volume (1957-59=100)	98	53	107
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	678.3	672.7	620.6
Cash farm income, U. S. ¹ (annual rate, bil. of dol.)	45.0	45.4*	43.4*
EMPLOYMENT:			
Farm (millions)	4.0	3.9	3.8
Nonagricultural (millions)	71.9	71.0	69.8
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	124.9	125.7	118.1
Nonagricultural banks (1957-59=100)	123.9	121.3	118.9
Time deposits:			
Agricultural banks (1957-59=100)	292.1	289.0	256.8
Nonagricultural banks (1957-59=100)	305.4	303.6	278.8
¹ Based on estimated monthly income. *Revised. ^P Preliminary.			

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