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COSTS OF FARMING continued their persistent advance in 1968. Production costs rose 3 percent—to almost $36 billion—compared with an increase of 4 percent in 1967.

Outlays for goods and services originating off farms such as machinery, fertilizer, and hired labor, rose 5 percent, while outlays for goods produced on farms, such as feed and seed, declined 1 percent from a year before.

In most instances, the increase in expenses reflected higher prices for farm inputs. Sales of machinery and equipment, for example, were about 10 percent less than in 1967, but prices paid for machinery and equipment were more than 5 percent higher. Fertilizer was the only production item originating off the farm that did not advance in price. Prices of anhydrous ammonia dropped nearly a fifth. Where 108 bushels of corn were needed to buy a ton of anhydrous ammonia in 1967, only 88 bushels were needed in 1968. Use of fertilizer, however, increased only 3 percent last year, compared with 7 percent in 1967 and 8 percent in 1966.

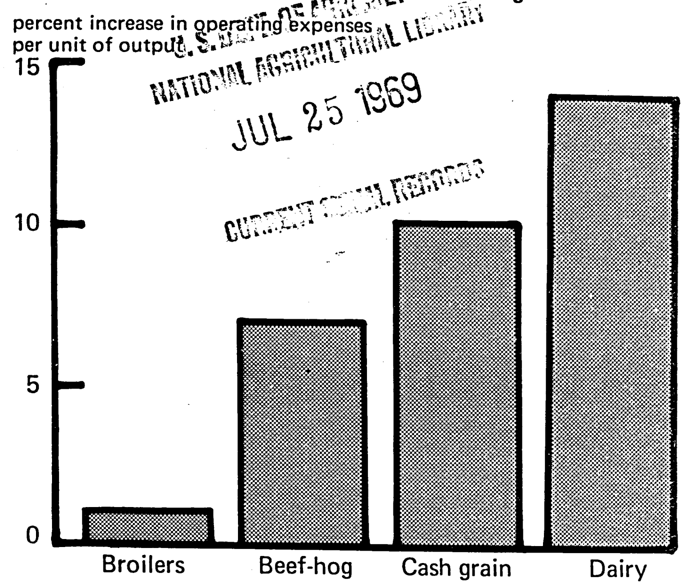
Feeder livestock was an exception to the decline in prices of farm produced inputs. Demand for feeder cattle and calves was very strong, and average prices rose 9 to 10 percent. Prices of feeder pigs remained essentially unchanged. By contrast, prices of feed grains and hay averaged well below 1967 levels.

Overhead costs—those over which farmers have little control—increased markedly. Property taxes levied in 1967 but payable in 1968 averaged more than 8 percent higher than the year before. The increase of $151 million was the 25th consecutive advance and the largest ever recorded. Interest costs were also at a record high—$3 billion. Higher interest rates and greater borrowing resulted in interest payments rising nearly 10 percent. Farmers' insurance premiums and Social Security taxes totaled about $2.7 billion—4 percent more than in 1967. But part of the insurance premiums are returned as payments for losses and, because of farmers' age distribution and their recent inclusion in the Social Security program, their benefits probably exceed their payments.

INCREASED EFFICIENCY has at least partially offset rising costs in some sectors of agriculture. In the Seventh District, cash-grain farmers have made the greatest gains in efficiency. Average input per unit of production (measured in constant dollars) for 1959-61 and 1963-67 indicate a gain of 6 percent for cash-grain operators, 4 percent for hog and cattle feeders, and no gain for dairy farmers in eastern Wisconsin.

Increases in efficiency are related directly to the mechanization of the farm and the extent to which technological improvements are made. Livestock enterprises have not fared as well as grain enterprises—a notable exception being broiler production, which had a 12-percent increase in efficiency between the two periods.

Higher Expenses Narrow Profit Margins*



*Comparison of 1959-61 average with 1963-67 average for USDA representative farms.

But gains in efficiency have not been enough to keep profit margins from narrowing. Within the Corn Belt, cash grain farmers have been the most vulnerable to the "cost-price squeeze"—because they rely heaviest on nonfarm inputs, prices of which have risen the most rapidly. Feed-grain prices have lagged behind prices of meat animals for several years. The result for cash grain operators was 10-percent higher operating expenses per unit of production in 1963-67 than in 1959-61. Between these two periods, the ratio for hog and cattle feeders increased only 7 percent. The typical eastern Wisconsin dairy farmer, least able to mechanize and expand, had almost no efficiency gain. Consequently his operating expenses per unit increased 14 percent. But for broiler growers in Georgia, who made rapid strides in improving their efficiency, there was only a 1-percent increase in operating expenses per unit of production.

Dennis B. Sharpe
Agricultural Economist