Federal Reserve Bank of Chicago - -

July 5, 1974

Agricultural Letter

Number 1281

FARM PRODUCTION COSTS continue to mount rapidly, reflecting increased purchases of inputs and sharply higher prices paid. During the first half of this year, the index of prices paid by farmers for production items averaged 18 percent above year-earlier levels. Recent projections by the U.S. Department of Agriculture indicated farm production expenses would rise to $73.4 billion this year, 14 percent above the 1973 level and 49 percent above the level of two years ago. If realized, the increase in expenses will more than offset the projected rise in gross receipts and pull net realized farm income down by about $5 billion from the record $26 billion of last year.

Increased production costs have ~~hit~~ virtually every farmer, but the impact on net profits has been most profound on livestock producers. According to Iowa State University budgets, the feed costs of cattle marketed in May of this year were roughly 75 percent above those marketed a year ago. The bulk of the increase reflected sharply higher prices of corn, although the costs of roughage and supplement also exceeded year-earlier levels. Higher feed costs, coupled with the record high prices paid for feeder cattle last fall, were the major factors contributing to losses of $130 to $160 per head for cattle marketed in May, down from profits of $80 to $90 a year ago.

The high feed prices confronting livestock producers have permitted crop producers to fare well on marketings of 1973 crops. Nevertheless, costs to produce 1974 crops will be sharply above those of a year ago due to higher prices and larger purchases of most major inputs. During the spring planting season, the index of prices paid by farmers for fertilizer was nearly 60 percent above year-earlier levels, largely due to a doubling in prices of most sources of nitrogen fertilizer. Prices paid for seed also increased—hybrid seed corn was up 13 percent and soybeans for seed cost nearly 10 percent more—while costs of motor supplies were up 34 percent.

Per acre costs of crop production will also be up this year due to a substantial amount of replantings and higher land costs. Reports from both Illinois and Iowa, for example, indicate that some 15 percent of the corn acreage had to be replanted, resulting in additional seed, labor, and fuel expenses. In addition, the 25 percent increase in farmland values over the past year no doubt resulted in sharply higher land rents.

Extrapolations from University of Illinois budgets indicate per acre costs of corn production might rise above $200 in 1974, up from $167 per acre in 1973 for major grain farms in central Illinois. Similarly, per acre costs of soybeans may rise to $160, up from $143 last year. Based on average yields per acre in Illinois last year, the higher costs would push the breakeven price for corn and soybeans to around $2 and $5 per bushel, respectively.

Other costs have also registered large increases this year. As of mid-June, for example, farm wage rates were 10 percent above the year-earlier level, while real estate taxes were up 5 percent. Interest expenses were up 14 percent, reflecting increased borrowings and record high interest rates.

Increased production expenses have been a major factor in the continuing strong farm loan demand. During the first five months of this year, loans made by Production Credit Associations were 17 percent above the year-ago level, and outstandings at the end of May were up 21 percent. Banks also are experiencing a heavy loan demand. In May, the index of total loans outstanding among district banks heavily engaged in agricultural lending was up 16 percent from the high level of a year ago.

The outlook for most farm production costs appears to indicate further gains. Manufacturers' prices of fertilizer are likely to continue to rise after holding steady during most of the first half as part of the agreement to remove price controls last fall. At least a portion of the increases are likely to be passed on to farmers by dealers. Expenses for crop drying this fall could be sharply higher, reflecting both the increased energy costs and the probability of higher moisture content at harvest due to late plantings. Livestock producers will probably experience some easing in feed costs in the months ahead, but costs of feeder stock may rise from recent lows.

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