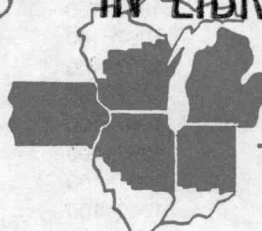


Federal Reserve Bank of Chicago - -

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Agricultural Letter

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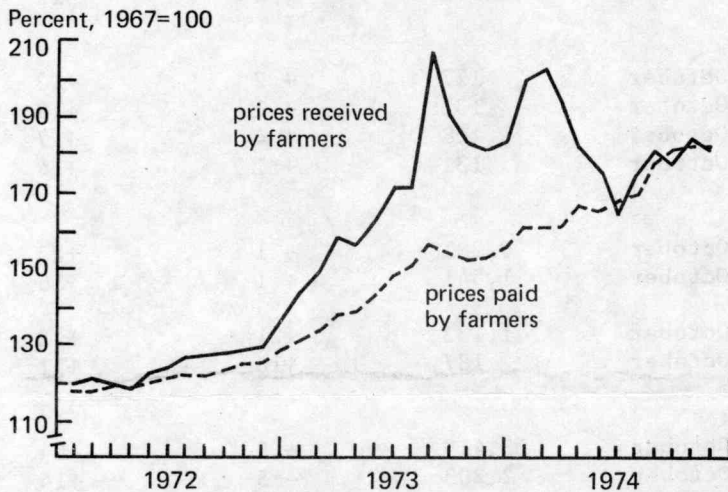


Number 1304

FARM PRODUCTION COSTS climbed sharply during 1974 reflecting continued short supplies of many vital farm inputs. Prices received for farm commodities fluctuated rather widely, approaching record highs early in the year, then dropping significantly by midyear, and scoring only a partial recovery by November. While prices of some farm commodities may advance in 1975, current trends suggest the gains will be more than offset by further increases in the cost of many farm inputs, perhaps signaling the beginning of another cost/price squeeze for agriculture.

Demand for farm production inputs is expected to remain strong in 1975. Most farm input products experienced record sales last year pulling inventories down to extremely low levels. Part of the problem stems from the reduction of essential petrochemicals, basic raw ingredients in the production of many agricultural products. Other factors, such as EPA regulations banning the use of some farm chemicals, exacerbate the situation.

Higher Production Costs Offset Price Gains



Fuel supplies are currently adequate and prices have been stable in recent months. The price of gasoline was up more than one-third from a year earlier in September, while diesel fuel and LP gas prices were up one-half and one-fourth, respectively. Government programs designed to reduce U.S. petroleum consumption might push prices higher in 1975. However, in the event that a conservation program is enacted the agricultural sector will likely be guaranteed an adequate supply of petroleum products.

Fertilizer prices will probably show the usual seasonal rise of 10 to 15 percent between now and next spring, nowhere near the 60 percent increase that occurred in a similar period a year ago. Nitrogen fer-

tilizers will remain in short supply throughout 1975 but there could be some relief in phosphate supplies by the second half.

Herbicide and pesticide availability may be limited in 1975. The Arab oil embargo and subsequent price controls delayed capacity expansion at a critical time. Producers remain reluctant to expand because of continued uncertainties as to the long-term availability of petrochemicals. Furthermore, the EPA is threatening to ban sales of the pesticides aldrin and dieldrin. Although these chemicals account for only about 1 percent of total pesticide production, their withdrawal from the market will further reduce already short supplies. As a result, prices of herbicides and pesticides will rise again in 1975, probably somewhere between 10 and 20 percent.

Farm machinery sales dropped below their 1973 pace this year, a trend that is likely to continue in 1975. During the first three quarters of this year, wheel tractor unit sales were off 8 percent, and the unit sales of some lines of machinery were down as much as 20 percent. In the fall overall farm machinery prices were up slightly more than one-fifth from a year earlier. While farm machinery prices are likely to advance further in 1975, lower net farm income should hold demand below the 1974 level. Price increases in 1975 should be only about one-half as large as those recorded this year.

Feed prices are likely to continue within the range of recent months during the first half of 1975. Downward pressures are likely to develop by midyear if spring weather allows near normal planting conditions. Feed prices in the latter half of 1975 will be contingent on the developing crop's prospects.

Farm loan demand should remain strong in the first half of 1975 because of higher crop input prices and all-out efforts to increase grain production. Demand for feeder cattle loans will be down because of lower feeder prices and less feeding activity. Some livestock producers may have difficulty meeting early 1975 loan payments due to substantial cash flow reductions. Easing monetary conditions could place interest rates on agricultural loans under downward pressure by mid-1975.

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Agricultural Economist

AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	November	182	- 2	+ 1
Crops	1967=100	November	224	- 2	+24
Livestock	1967=100	November	153	- 1	- 2
Paid by farmers	1967=100	November	178	+ 2	+19
Production items	1967=100	November	183	0	+13
Family living items	1967=100	November	171	+ 2	+17
Ratio of prices received to prices paid	1967=100	November	102	- 3	-14
Consumer price index (all items)	1967=100	October	153	+ 1	+12
Food at home	1967=100	October	167	+ 1	+12
CASH FARM PRICES (U. S. average)					
Corn	dol. per bu.	November	3.32	- 4	+52
Soybeans	dol. per bu.	November	7.44	- 9	+45
Wheat (all)	dol. per bu.	November	4.87	0	+136
Sorghum grain	dol. per cwt.	November	5.85	+ 1	+60
Oats	dol. per bu.	November	1.70	+ 1	+50
Beef steers and heifers	dol. per cwt.	November	31.70	- 5	-25
Hogs	dol. per cwt.	November	36.70	- 1	- 9
Milk, all sold to plants	dol. per cwt.	November	8.42	+ 3	- 3
Milk cows	dol. per head	November	428	- 5	-20
Chickens, broilers, live	cents per lb.	November	24.0	+ 7	+24
Eggs	cents per doz.	November	55.5	0	- 6
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	3rd Qtr.	102.1	+ 4	0
Net farm income	bil. dol.	3rd Qtr.	25.6	+ 7	-31
Nonagricultural personal income	bil. dol.	October	1,146.3	+ 1	-11
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	October	127	+ 2	+13
Time deposits	1972-73=100	October	133	+ 1	+18
Net demand deposits	1972-73=100	October	118	+ 4	+ 7
Total loans at agricultural banks ¹	1972-73=100	October	131	+ 1	+14
Production Credit Associations					
loans outstanding:					
United States	mil. dol.	October	9,381	- 1	+23
Seventh District states	mil. dol.	October	1,541	+ 1	+16
new loans made:					
United States	mil. dol.	October	1,133	+21	+ 2
Seventh District states	mil. dol.	October	187	+16	+11
Federal Land Bank Associations					
loans outstanding:					
United States	mil. dol.	October	13,418	+ 2	+24
Seventh District states	mil. dol.	October	2,203	- 5	+14
new loans made:					
United States	mil. dol.	October	301	+ 5	+33
Seventh District states	mil. dol.	October	91	+116	+194
Interest rates					
Three-month Treasury bills	percent	week ending 12/4	7.45	0	+ 1
Federal funds rate	percent	12/4	9.02	- 5	-11
Government bonds (long-term)	percent	12/4	8.01	+ 1	+10
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	September	1,394	- 6	- 5
Agricultural imports	mil. dol.	September	753	-13	+17
FARM MACHINERY SALES					
Farm tractors	units	September	13,527	+27	-18
Combines	units	September	5,608	+66	-18
Balers	units	September	2,397	-39	-33

¹ Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.