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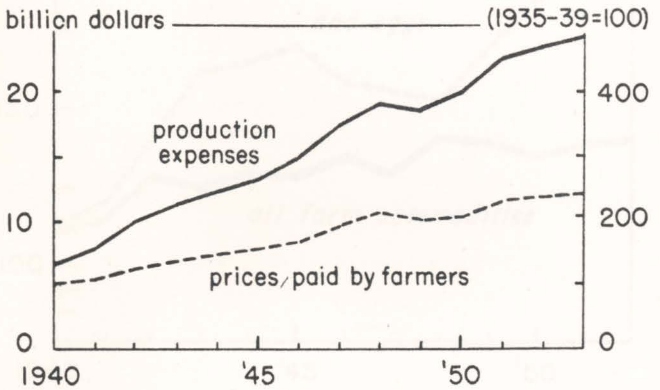
FARM PRODUCTION COSTS have increased in 13 of the last 14 years and this uptrend will probably continue in 1953. Next year's bill is expected to show about a 2 per cent increase over the $23.4 billion outlay this year.

Both prices and quantities of items purchased have contributed to the rise in farmers' production expenses. The index of prices paid by farmers for goods and services used in production is currently 135 per cent above the 1940 level. Total production expenses, however, have increased over 3 1/2 times. This indicates a substantial rise in the physical volume of items purchased for farm production.



The increase in production of farm products over the last dozen years was made possible largely by this greater use of purchased items. Even allowing for the reduction in number of horses and mules, farmers use about 60 per cent more power and machinery than prewar. Use of fertilizer, insecticides, and fungicides have more than tripled and the farm use of electricity is up sevenfold.

Prices of most commodities used in farm production are likely to increase slightly in 1953, due to higher wage rates in manufacturing and transportation and increased prices for steel and some other raw materials.

Farm wage rates, now nearly four times the 1940 level, may increase as much as 5 per cent in 1953 as the supply of farm labor declines further. Skilled farm labor may be even less available in some areas than it was this year.

Supplies of most farm production materials will be adequate for a large output of crops and livestock products in 1953. Wire fencing may continue scarce and there may be spot shortages of some other items, but these are not expected to seriously handicap production.

Net farm income probably will decline from the $14.2 billion estimated this year as costs rise and some farm product prices ease off to lower levels. The over-all "terms of trade" between agriculture and industry, nevertheless, are expected to remain reasonably favorable--a parity ratio of about 98 compared with 102 for this year.

Costs raise farm capital requirements. Farm production expenses have increased relative to the value of physical farm assets. In 1940, for example, assets were equal to 7.4 years of production costs; in 1952, 6.2 years. This trend probably will continue. Thus, farmers, in addition to higher operating capital requirements, need increased financial reserves to withstand the shock of farm income declines due to crop or livestock losses or temporary price declines.

This is illustrated further by the purchasing power of farmers' financial assets. Holdings of such assets amounted to $5 billion in 1940, equal to 76 per cent of the year's farm production expenses. By 1952, farmers' holdings of financial assets had increased over four times, to $23 billion, but still amounted to less than one full year's production expenses.

The need for financial reserves obviously varies from farm to farm. Weather hazards, type of farming, debt situation, ownership of nonfarm assets, family living costs, and many other factors will affect each situation. But many farmers and agricultural lenders probably should take another look at the net worths and liquid financial assets of their farm businesses, keeping in mind the high and rather rigid level of farm production expenses.

The Agricultural Letter, beginning with this issue, comes to you in a two-column makeup. We think this makes it easier to read. Also, it permits the use of charts to illustrate important points. Please feel free to pass along any suggestions which would make the Letter more useful to you.

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