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FARM PRODUCTION EXPENSES continue to rise. However, the rate of price increase for production inputs has dropped to the lowest level in four years, and prices of several important farm inputs are currently at or below year-earlier levels for the first time in years. The index of prices paid by farmers for production items rose 10 percent in 1975, down from a 14 percent increase in 1974 and a 21 percent jump in 1973. As of June 1976, the index of prices paid for production items stood 7 percent above a year ago.

Feed prices are again on an upward path after declining an average of 4 percent in 1975. The June index of prices paid for feed stood 9 percent above the June 1975 level, while the index of feeder livestock prices was up 11 percent. The feeder livestock price index had declined during 1974 and 1975 when both hogs and cattle numbers hit their cyclical high points and began to adjust downward. Large year-to-year increases have also been evident for machinery prices. The June index of prices paid for tractors and self-propelled machinery was 11 percent above a year ago, while other farm machinery prices were up 12 percent.

Significant declines in prices of some crop inputs have occurred during the past year. For example, the index of fertilizer prices was 21 percent below the same year-earlier period last spring. Likewise, prices of seed and farm and motor supplies were all down 7 percent. The 1 percent rise in the index of agricultural chemical prices represented the smallest increase of any of the major production categories.

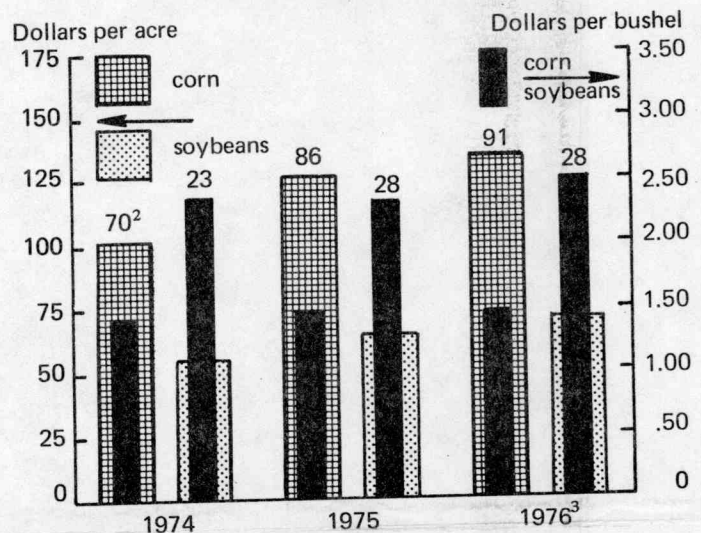
The impact of the lower prices is reflected in a recent U.S. Department of Agriculture report on the cost of crop production. The report stems from the Agriculture and Consumer Protection Act of 1973, which requires the USDA to provide Congress with annual estimates of the costs of producing cotton, feed grains, wheat, and milk. The production costs will be utilized in determining target price adjustments for 1977 crops.

Crop production cost estimates were developed from survey data collected on 1974 crops. The 1974 estimates were adjusted by the changes in the various price indices to estimate 1975 crop production costs and to project costs for this year's crops. The estimates are expressed both in terms of per acre costs and in terms of per unit of production—once per acre yield estimates are made. Estimates depicting costs in major crop-producing regions as well as the national average are available.

Per acre cost of producing corn in the United States—excluding land and management costs—jumped 24 percent in 1975. Slightly over one-half the rise was caused by higher fertilizer prices. The increased cost of machinery and seed accounted for another one-fourth of the rise. However, higher yields almost offset the rise in production costs and resulted

in only a small rise, from \$1.46 per bushel in 1974 to \$1.48 in 1975. The USDA projects that per acre production cost will rise 6 percent in 1976, but again the indicated rise in yields, if achieved, will be offsetting and will leave the per bushel cost at \$1.48. (The average cost of producing corn in the region where Seventh District states are located ranged 5 to 10 cents per bushel below the national average over the three-year period.) Therefore, despite a 31 percent rise in per acre production costs over the last two years, the average cost per bushel of corn produced was almost unchanged.

Increasing production costs are being offset by higher yields¹



¹ Land and management charges excluded.
² Average yield of farms surveyed, projected for 1976.
³ USDA projected cost.

Per acre production cost of soybeans followed much the same trend as corn in 1975 and 1976. The average cost of producing a bushel of soybeans actually declined slightly from 1974 to 1975, from \$2.41 to \$2.34 per bushel. Using the mid-point of current yield projections suggests cost per bushel of soybeans may rise to \$2.50 this year.

These figures serve to point out the difficulty associated with determining per unit production cost of any farm commodity. The variation in per acre cost of producing a crop may be entirely mitigated by changes in yield, as has been the case for corn the past two years.

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