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FARM PRODUCTION EXPENDITURES will top $80 billion in 1976, up 6 percent from last year, according to a recent U.S. Department of Agriculture estimate. The most recent index of prices paid by farmers for production items was up 5.4 percent from a year earlier as of mid-November, suggesting that most of the increase in expenditures stems from higher prices. The index also shows substantial variation in the price movement of the various inputs—four out of the 11 categories of items showed declines ranging from 5 to 12 percent from a year ago.

Farm machinery prices are currently averaging 10 to 11 percent above a year ago, approximately one-half the rate of increase experienced during 1975. Despite a slowing of sales in recent months demand continues steady with unit sales of tractors declining only 2 percent in the first 10 months of the year. Self-propelled combine sales—the second largest item sold based on unit sales—declined about 1 percent during the same period.

Increases pushing up list prices on new machinery another 7 or 8 percent have been announced by several large manufacturers recently. However, there are signs that the higher price levels may not hold at the retail level. For example, U.S. tractor inventories were 9 percent above the year-earlier level on October 31; self-propelled combine inventories were up 17 percent. Perhaps even more important is the large increase in inventory levels of popular large tractors—over 100 horsepower—and 4-wheel drive tractors, up 29 percent and 33 percent, respectively. The increase in inventory is even more impressive since John Deere—the largest supplier of farm machinery in the United States—was on strike at this time, a factor that may have depleted the Deere inventory below normal levels. Furthermore, country bankers in some areas are anticipating a drop in farmers' rate of capital expenditures, mainly due to the adverse impact of weather on crop production. Consequently, future price increases at the retail level may fall short of the recent list price increase as dealers are forced to reduce their margin in order to move the growing accumulation of farm machines.

Fuel costs are running about 3 percent above year-earlier levels. Price and allocation regulations affecting diesel fuel and heating fuel oil were dropped June 30. Price response to this action remains uncertain although it is generally thought that diesel prices will not rise by more than one or two cents per gallon this winter. LP gas supplies—used for crop drying, heating, and irrigation—were up 6½ percent from a year ago at the end of September, 20 percent larger than the May inventory. Future fuel price increases remain contingent on the action of OPEC countries.

Fertilizer prices were subject to the most dramatic decline of any farm input category during 1976, with fall prices averaging nearly 12 percent below year-earlier levels and 25 percent below the peak reached in the spring of 1975. The price adjustments reflect the large increase in fertilizer production, which was stimulated by the price run-up that took place in 1974 and early 1975.

With additional production facilities coming on stream, downward pressures on fertilizer prices will likely prevail again next spring. (North American ammonia production capacity will be up about 7 percent from a year earlier at the start of 1977, with several additional plants scheduled for completion during the course of the year.) Crop prices may average below year-ago levels next spring, a factor that could influence farmers' purchasing decisions. And while planted acreage of the major crops will probably closely approximate the 1976 levels, there will be shifts of acreage alotted to the various crops. Corn acreage, which typically receives the largest fertilizer application, is expected to decline 3 to 4 million acres. Although total unit sales of fertilizer products will likely increase, prices of some products will probably be cut to stimulate sales. For example, prices of nitrogen products could be reduced 10 to 15 percent below year-earlier levels this coming spring. Unforeseen contingencies such as a sharp cutback in the amount of natural gas supplied nitrogen producers could alter this projection. Nevertheless, any probability that fertilizer prices will increase seems extremely remote at the juncture.

Pesticide prices, which had been rising rapidly, also were stemmed by markedly larger supplies in 1976. Manufacturers are expected to increase herbicide capacity another 20 percent and insecticide capacity 5 percent in 1977. EPA action to suspend chlordane and heptachlor for most uses may be somewhat offsetting although the final fate of these products has not yet been ascertained.

The 1977 outlook for farm supply inputs can be characterized as returning to a somewhat more normal situation compared to recent years. Manufacturers are increasing production; farmers are increasing purchases; and prices of most items are rising, but at a slower rate. The one notable exception to the price rise may be fertilizer. Furthermore, slightly more than the usual degree of uncertainty exists with respect to the magnitude of price rise for farm machinery and fuel, the possible loss of some pesticides, and the impact of potential natural gas shortages on nitrogen fertilizer production.

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