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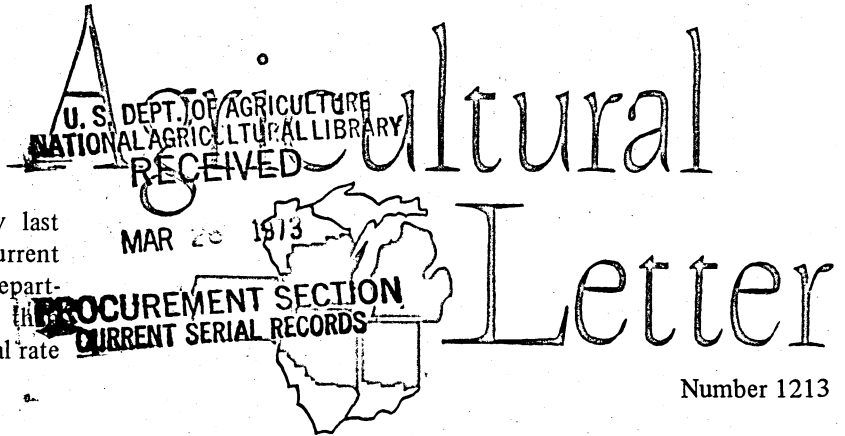
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DC BRANCH

Federal Reserve Bank of Chicago - -

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FARM PRODUCTION EXPENSES rose sharply last year, but an even larger increase is forecast for the current year. According to preliminary estimates by the U. S. Department of Agriculture, farm production costs rose more than 7 percent during 1972 to \$47.2 billion—the largest annual rate of gain since 1966.

Most of last year's increase in farm production expenses was due to higher prices. Overall, the index of prices paid for production items averaged nearly 6 percent above year-earlier levels during 1972, despite Phase II controls. The increase, however, largely reflected higher prices paid for farm-produced items which were exempt from the controls. For example, sharp advances in prices paid for seed, feed, and livestock boosted expenditures for these items by 10 percent. These three items typically account for nearly one-third of total farm production expenses.

Hired labor, interest, and rents to nonfarm landlords were among the other major expenses contributing above-average increases to last year's overall advance. The 6 percent rise in the average hourly wage rate paid to farm workers was the major factor behind the 8 percent gain in last year's \$3.8 billion farm labor bill. In contrast, a larger volume of farm borrowings (as opposed to higher interest rates charged) was the major contributor boosting interest expenses to \$4.2 billion—up 10 percent from 1971. Interest expenses account for about 9 percent of total farm production costs. The 13 percent increase in rents paid to nonfarm landlords undoubtedly reflected higher per acre rental charges—in line with the 1972 rise in farm real estate values—as well as the upward trend in the proportion of farmland held by nonfarm landlords.

Farm expenses in 1973 are likely to approach the \$51 billion mark, reflecting large gains in production and the persistent uptrend in prices paid by farmers. Substantial revisions in this year's farm programs and the possibility of still further revisions in the feed grain program are expected to expand planted crop acreage by 7 to 10 percent over last year's level. This, in turn, will boost farmers' use of chemicals, fertilizers, fuels, and seeds by a similar amount. Livestock producers are also in the midst of an expansionary phase which will necessitate greater purchases of feed and feederstock.

Relaxed controls under Phase III are likely to result in greater advances in prices paid by farmers—particularly in light of the anticipated surge in farmers' demand for most inputs—adding a significant increase to total production expenses. This is apt to be most evident in fertilizer, fuels, and seeds, where limited supplies may have to be rationed by higher prices. Reports of below normal germination on soybean seed are likely to result in a substantial premium for good quality seed. Although fertilizer production is expected to be sufficient,

booming world demands have raised world prices above domestic levels, and this may lead to some siphoning from domestic supplies. Moreover, the apparent shortage of natural gas—the major source of hydrogen used in producing nitrogen-rich ammonia fertilizer—could reduce production in some areas.

Expenses for hired farm labor are also expected to rise significantly this year. Improved employment opportunities in the nonfarm sector likely will lead to higher farm wage rates. This year's boost in both the social security tax rate and the base salary against which the rate is applied will also contribute to higher labor costs. And minimum wage legislation expanding the coverage as well as the minimum wage rate may also boost labor cost if enacted. A bill similar to that passed by the U. S. Senate last year calling for a boost in the minimum hourly wage rate for farm workers from \$1.30 to \$2.20 per hour over a three-year transitional period is likely to be reintroduced into Congress this year.

Overhead expenses, such as taxes, insurance, interest, and depreciation, are also likely to show substantial gains this year. Last year's sharp increase in farm capital expenditures, and the likelihood of further advances this year, will be reflected in a higher allowance for capital consumption—a non-cash expense. The sharp gains in farm real estate values will also be reflected in higher assessments and taxes, although the relaxation of personal property taxes in some states may partially offset the overall increase in the tax bill.

Gary L. Benjamin
Agricultural Economist

Conferences on Agricultural Credit in four of the district states are scheduled for the following dates and locations. Further information can be obtained from the respective state banking associations.

Indiana Agricultural Clinic,
March 21-22, Purdue University, Lafayette.
Michigan Agricultural Lending Conference,
April 10-11, Hospitality Inn, Lansing.
Iowa Agricultural Credit Conference,
April 18-19, Iowa State University, Ames.
Wisconsin Agricultural Credit Conference,
May 2-3, Holiday Inn No. 2, Madison.

AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	February	149	+ 3	+ 22
Crops	1967=100	February	132	+ 1	+ 20
Livestock	1967=100	February	161	+ 5	+ 23
Paid by farmers	1967=100	February	136	+ 1	+ 11
Production items	1967=100	February	134	+ 2	+ 14
Family living items	1967=100	February	131	+ 2	+ 7
Ratio of prices received to prices paid	1967=100	February	110	+ 3	+ 11
Consumer price index (<i>all items</i>)	1967=100	January	128	0	+ 4
Food at home	1967=100	January	127	+ 2	+ 8
CASH FARM PRICES (<i>U. S. average</i>)					
Corn	dol. per bu.	February	1.35	- 3	+ 24
Soybeans	dol. per bu.	February	5.49	+34	+ 83
Wheat (<i>all</i>)	dol. per bu.	February	1.97	-17	+ 47
Sorghum grain	dol. per cwt.	February	2.60	- 4	+ 40
Oats	dol. per bu.	February	.78	- 4	+ 22
Beef steers and heifers	dol. per cwt.	February	43.30	+ 7	+ 23
Hogs	dol. per cwt.	February	34.20	+10	+ 33
Milk, all sold to plants	dol. per cwt.	February	6.55	0	+ 7
Milk cows	dol. per head	February	436	+ 3	+ 15
Chickens, broilers, live	cents per lb.	February	19.4	+13	+ 33
Eggs	cents per doz.	February	42.5	-14	+ 47
INCOME (<i>seasonally adjusted annual rate</i>)					
Cash receipts from farm marketings	bil. dol.	4th Qtr.	62.5	+ 8	+ 14
Net farm income	bil. dol.	4th Qtr.	21.2	+13	+ 25
Nonagricultural personal income	bil. dol.	December	953.0	+ 1	+ 10
FARM FINANCE					
Total deposits at agricultural banks ¹	1967-69=100	January	166	+ 2	+ 19
Time deposits	1967-69=100	January	198	+ 2	+ 21
Net demand deposits	1967-69=100	January	134	+ 3	+ 14
Total loans at agricultural banks ¹	1967-69=100	January	181	+ 2	+ 20
Production Credit Associations					
loans outstanding:					
United States	mil. dol.	November	6,514	- 1	+ 8
Seventh District states	mil. dol.	November	1,198	0	+ 1
new loans made:					
United States	mil. dol.	November	914	+ 5	+ 5
Seventh District states	mil. dol.	November	133	+ 2	+ 2
Federal Land Bank Associations					
loans outstanding:					
United States	mil. dol.	November	8,972	+ 1	+ 14
Seventh District states	mil. dol.	November	1,694	+ 1	+ 10
new loans made:					
United States	mil. dol.	November	179	+13	+ 77
Seventh District states	mil. dol.	November	22	+22	+ 38
Interest rates		week ending			
Three-month Treasury bills	percent	3/7	5.83	+ 2	+ 66
Federal funds rate	percent	3/7	7.02	+ 4	+105
Government bonds (<i>long-term</i>)	percent	3/9	6.18	0	+ 10
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	December	1,110.8	+ 3	+ 32
Agricultural imports	mil. dol.	December	569.3	+ 3	+ 3
FARM MACHINERY SALES					
Farm tractors	units	December	11,477	+43	+ 9
Combines	units	December	3,365	+41	+ 27
Balers	units	December	758	- 5	+ 3

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