



# ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE  
DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801

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## FARM INPUT COSTS

A SLOWER RISE IN THE PRICES FOR MOST FARM INPUTS AND PERHAPS DECLINING FARM PRICES are expected in 1978. The input price changes will result from slack demand and excess production capacity.

While input price increases are expected to slow down some, the prices farmers receive are not expected to show much strength. For 1977, net farm income is likely to be near \$20 billion. With current market trends, farm income during the first half of 1978 is not likely to improve.

A less optimistic income picture in 1978 might cause lenders to scrutinize loan applications more closely and to be more conservative about making loans. Farmers may postpone purchases for capital items. Purchases of short-term production items could slacken some, but will remain stronger than purchaser of capital items.

*FARM MACHINERY.* The demand for farm machinery is expected to be very soft next year. Minimal price hikes will result from expected increased the costs of material and labor.

Sales of all tractors for the January-August period were off 3.5 percent from a year earlier. The January-August sales of most other equipment were down 4 to 21 percent below last year's figures.

Although machinery sales declined, prices continued to rise about 15 percent as of June 15, 1977, over a year earlier. Further price increases on many farm machines of 8 to 12 percent occurred in November, 1977, compared to the June prices.

In 1978, farm machinery dealers will be facing difficult times. Many dealers can be expected to raise trade-in allowances on used machines and to grant more lenient credit terms in order to move equipment.

The prices of replacement parts have risen rapidly. The total cost of machinery repairs is likely to continue its sharp rise during the next year.

*ENERGY.* Energy inputs remain the most critical concern of agriculture. The general trends of relatively tight supplies and increasing prices are expected to continue. The delivery of natural gas for 1977/78 is expected to be below the level of last winter. Most of the curtailments will affect the industrial sector.

Natural gas prices have been increasing rapidly, with the big jumps occurring in 1973-74. Natural gas prices may be expected to increase 10 to 20 percent in the year ahead.

LP gas is closely tied to the natural gas situation. Crop drying is proceeding this fall with no major interruptions. Supplies will become critical, though, and price rises of 10 to 15 percent are expected during the coming year.

Diesel and gasoline supplies should be adequate for farmers in 1978. Since 1974, price increases have averaged 5 to 10 percent annually. We can expect the pattern to continue next year.

*FERTILIZER.* Domestic nitrogen consumption in 1977-78 is forecast at about 10.5 million tons. The net domestic supply could reach 12 million tons. With such a demand/supply outlook, nitrogen prices are likely to decline sharply in 1977-78.

Production increases of phosphates in 1977-78 will largely be offset by increased exports. The market for phosphates looks strong, and prices should hold steady.

Domestic potash consumption remained essentially unchanged from a year earlier. No major change is anticipated for 1977-78.

*PESTICIDES.* We can expect ample supplies of pesticides at slightly higher prices in 1977-78. Regulations will continue to be an important factor in the use and marketing of pesticides.

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