**ILLINOIS FARM AND FOOD OUTLOOK**

**COLLEGE OF AGRICULTURE**
**DEPARTMENT OF AGRICULTURAL ECONOMICS**

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# 1978 FARM INPUT COSTS

NET FARM INCOME TO FARMERS IN CURRENT DOLLARS is likely to be near $20 billion for 1977. With the current market situation, income during the first half of 1978 is not likely to improve.

The slack demand and excess production capacity of most input manufacturers probably will result in a much slower price rise for most inputs and perhaps declining prices for some.

*FERTILIZER.* Lower farm commodity prices and the set-aside programs for wheat and feed grains may cause fertilizer use to remain below 1976-77 levels. Reduced demand and increased production capacity for fertilizer suggest a downward pressure on prices through the spring months.

Fertilizer application rates are expected to increase on the planted acres, but higher application rates will not offset the reduced total requirements caused by putting land in set-aside programs.

During the calendar year 1977, ammonia production capacity increased almost 18 percent. For the 1977-78 fertilizer year, inventories of ammonia could be increased by 1.3 to 1.6 million tons. With such a supply-demand situation, it seems likely that nitrogen prices will decline sharply.

Production increases for 1977-78 will be largely offset by increased exports, so that domestic use for 1977-78 will be near year-earlier figures. The market for phosphate fertilizers points to stable prices for 1977-78.

Potash use rose about 12 percent in 1976-77, with most of the increase made possible by larger imports from Saskatchewan. Prices last fall were essentially unchanged from a year earlier, and no major changes are anticipated for 1978.

*FUEL.* The general trend of tight supplies and increasing prices is expected to continue. The adoption of legislation defining a national energy policy is still months away.

The outlook for L.P. gas is closely tied to the one for natural gas. As natural gas is curtailed, farmers will find increased competition from industrial users. Very tight supplies and price increases of 10 to 15 percent are expected in 1977-78. Farmers should be able to obtain adequate supplies of diesel fuel and gasoline during the year ahead.

*PESTICIDES.* Production capacity has increased over the past several years, so there should be ample supplies for 1978. The raw material for producing pesticides should be adequate for the coming year. Demand is expected to ease this year, with the set-aside program reducing the acreage in feed grains.

Regulations continue to be the important factor in pesticide markets. The federal EPA has continued the registration of some questionable pesticides. Others are under review for reregistration. Ample supplies and slightly higher prices can be expected in the year ahead.

*FARM MACHINERY.* Tractor sales for January through August of 1977 dropped about 24 percent from the previous year. Other equipment sales were off 4 to 21 percent for the same period. Small price increases are anticipated for 1978. Farmers probably will minimize machinery purchases. Much of the dealers' new machinery has already been floor-planned. In order to move this machinery, many dealers will be increasing trade-in allowances.

Cost of production items, interest, taxes, and farm wage rates increased about 4.5 percent from 1976 to 1977. Farmers' cost of production should increase about 4 to 6 percent for 1978 compared to 1977.

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