



# WEEKLY OUTLOOK

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## COST-PRICE SQUEEZE EVENTUALLY WILL BE REFLECTED IN RENTAL RATES AND LAND VALUES

THE SPRING OF 1980 HAS PRODUCED CONSIDERABLE CONVERSATION about the cost-price squeeze being experienced by grain producers. The prices for corn and soybeans have declined rather steadily since the first of the year, reaching their lows about planting time. Simultaneously, grain producers are experiencing higher production costs resulting from substantially higher prices for petroleum-related inputs.

Because each farm situation is unique, it is difficult to evaluate the severity of the current situation. However, we can examine averages. In Illinois, the average corn yield in 1979 was 128 bushels per acre; for soybeans, the average yield was 38.5 bushels per acre. To date, the average prices for the 1979-80 season received by Illinois producers have been \$2.46 and \$6.38 per bushel for corn and soybeans, respectively. Based on records of 1,000 Illinois grain producers, the average non-land cost of producing corn in 1979 was \$228 per acre; for soybeans, the nonland costs totaled \$161 per acre. The average returns above costs (excluding land) were \$87 per acre for corn and \$85 for soybeans. [Corn:  $128 \text{ bu.} \times \$2.46 = \$315 - \$228 = \$87$ . Soybeans:  $38.5 \text{ bu.} \times \$6.38 = \$246 - \$161 = \$85$ .]

Using the same calculation procedure, the 1978-79 returns above nonland costs were \$64 per acre for corn and \$91 for soybeans. On the average, the situation for 1979-80 does not appear to be as severe as the year before. However, as mentioned previously, producers are now experiencing the second consecutive year of significant increases in production costs. Again, based on Illinois figures, the nonland cost of producing corn increased by \$32 per acre last year and is estimated to have increased by another \$32 this year. For soybeans, the increase last year was \$21. The estimate for this year is \$20 per acre.

What are the income prospects for 1980-81? The estimated nonland cost of production is \$260 per acre for corn and \$181 for soybeans. The average yields in Illinois per acre are likely to be somewhat smaller than last year's record, say 120 bushels for corn and 35 bushels for soybeans. The prospect of large grain supplies points to minimal price increases, perhaps only reflecting the general rate of inflation. Let's use \$2.70 per bushel for corn and \$7.00 for soybeans. Under



these broad assumptions, the average returns above nonland costs project to \$64 per acre for both corn and soybeans, a decline of more than \$20 per acre from 1979-80.

Assuming constant yields as well as prices and costs that continue to increase at the same rate as projected for this year, the returns above nonland costs in 1981-82 would be \$60 per acre for corn and \$65 for soybeans.

The cost-price squeeze is just beginning and could become more severe during the years ahead. There are, generally, 3 possibilities for relief.

First, grain prices may be substantially higher than assumed here. Given the large supplies on hand, the big planted acreage, early planting, and good growing conditions to date, however, the chances for higher grain prices seem slim.

Second, producers may be able to reduce, or at least limit, the increase in nonland costs. However, there are only minimal prospects for reducing the level of inputs required. In addition, since many of these inputs are derived from petroleum, cost increases seem almost certain.

Third, government programs could become more liberal. Increased grain purchases; higher loan, target, and release prices; and a paid diversion program are all possibilities. Because of current budgetary concerns, however, the chances are probably lower than in most other periods.

Finally, failure to get relief will continue to put pressure on returns, both for farm operators and land owners. Farm operators cannot produce at below-cost figures for a protracted period. Eventually, the pressure must be reflected in lower rental rates and land values.

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