WEEKLY OUTLOOK

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FARM PRODUCTION EXPENSES AND INCOME

THE INDEX OF PRICES PAID FOR PRODUCTION ITEMS increased about 10 percent from June, 1979, to June, 1980. Fertilizer, energy, agricultural chemicals, and interest paid on real estate loans were the main contributors to the higher costs of farm production.

Farm-produced input prices decreased about 2 percent from 1979 to 1980. Prices for feed increased about 4 percent from 1979 to 1980 and about 9 percent for seed over a year earlier. Feeder livestock prices were about 9 percent below a year earlier. Feed and seed prices will change little during the remainder of 1980 unless weather conditions take a turn for the worse. Feeder livestock prices will continue to show some weakness this fall because of large hog numbers, feeder cattle numbers that are about equal to a year ago, a weaker economic picture, and the uncertainty of feed prices.

Relative to 1979, fertilizer prices increased about 28 percent. Consumption of fertilizer increased about 9 percent from July, 1979, through March, 1980. March, 1980, fertilizer use decreased about 23 percent from a year earlier. Fertilizer use for the year ending June 30, 1980, may be about 3 percent less than a year earlier. Larger producer inventories may result in some fertilizer price weakness toward the end of 1980. Fuel and energy prices have increased about 43 percent during the last year. During the same period gasoline, LP gas, and diesel fuels increased about 50 percent. Fuel supplies are expected to be adequate for the remainder of 1980. Fuel price increases for the last half of 1980 should be minimal.

Farm machinery sales have declined in 1980. Tractor sales were down about 11 percent, although 4-wheel tractor sales increased about 22 percent. Combine sales increased about 1 percent during the past year. In spite of decreased sales, equipment manufacturers have continued to raise prices because of increased costs of labor and materials. Many machinery dealers are offering very attractive discounts in order to move machinery on hand. Prices paid by farmers for farm equipment and machinery were up 11 to 12 percent in June, 1980, relative to a year earlier. Prices for the rest of the year are expected to remain relatively stable.

A sharp increase in prices for nonfarm inputs resulted in an increased demand for short-term credit early in 1980. Supplies of loanable funds were restricted by

Federal Reserve actions to reduce inflation rates. The strong demand and restricted supply to farmers in some areas of the nation led to the rationing of funds. In response to tightening credit and higher interest rates, farmers reduced their purchase of such items as fertilizer and feeder livestock, and deferred purchase of some farm machinery.

Interest payable per acre for farm real estate debts was 25 percent greater in June, 1980, than a year earlier. Prime interest rates have declined recently, and the Federal Reserve Board has acted to ease credit controls. But there will be some time lag before these actions will be reflected in the cost of credit to farmers.

The agricultural outlook for the second half of 1980 is mixed. For grains, the outlook revolves around 1980 crop prospects in the major countries of the northern hemisphere and the potential impact of U.S. grain exports. For livestock, the developing recession, declining inflation, and grain output and prices will have an influence on production and prices.

Continued sharp gains in total production expenses along with relatively stable cash receipts will result in a significant decline in 1980 net farm income. Cash receipts from crops are expected to rise somewhat from the 1979 peak level, but livestock receipts may be less than in 1979. Net farm incomes in 1980 may be off as much as 20 to 25 percent.

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