WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

November 19, 1980

FARM INPUT COSTS

ALL PRODUCTION-ITEM PRICES PAID BY FARMERS went up about 12 percent in October compared to a year earlier. Prices may increase another 10 to 12 percent by October, 1981. Fuel and energy increased by about 22 percent; agricultural chemicals, 21 percent; and fertilizers, 17 percent. Most of the price increases on these items occurred from October, 1979 through March, 1980. Of the total production expenses in 1980, fuel made up about 6 percent, fertilizer some 6 percent, and pesticides approximately 3 percent.

Fertilizer consumption was off about 9 percent during the early summer of 1980. Relatively large inventories of fertilizer materials in July, 1980 and summer price weakness should bring some adjustments in supplies during 1981. The low carryover supplies of the major grains and the rising demands indicate all out production in 1981; therefore, 1980-81 fertilizer use for 1980-81 should surpass that of 1979-80. By next summer, the supply of and demand for fertilizer should be in approximate balance. Fertilizer prices could rise by 12 to 15 percent by October of 1981.

The prices of agricultural chemicals rose less during the 1970's than those of other agricultural inputs, but 1979-80 prices increased about 21 percent. Higher research and development costs for pesticides have brought about a dramatic concentration in the industry. In spite of the small number of firms that produce a large share of products, significant competition still exists in the ag chemical industry. Although excess production capacity and abundant inventories exist, prices could still increase 12 to 14 percent for the year ahead because of higher costs for production and raw materials.

The cost of farm fuels increased about 1 percent from March, 1980 through October, 1980. An increase of 22 percent occurred from October of last year to October of this year. The consumption of gasoline in the United States dropped about 8 percent. The use of diesel fuel was down by 14 percent during the first half of 1980. Inventory buildups have resulted in cutbacks of imported crude oils. Refiners have lowered prices. Wholesalers and retailers have cut their margins in order to cut the large inventories. As supplies tighten, prices will increase as higher-priced crude oil enters the production lines. For the remainder of 1980, few changes in the prices of diesel fuel and gasoline are expected, although a 10-percent increase is expected during the first half of 1981. Even though the prices for diesel fuel and gasoline have risen faster during the last few years than electric rates, electricity is still the highest-priced form of energy. Natural gas remains the least-expensive form of energy. The supplies of natural gas and LP gas appear to be adequate for the coming year. Their prices will rise slower than those of diesel fuel and gasoline.

Machinery and equipment costs take more than a fifth of total farm-production expenses each year. An annual increase in machinery price of about 12 percent during the past year resulted in a cutback of 25 percent in tractor sales during the first half of 1980. For the same period, combine sales were off 14 percent; balers, 30 percent; and forage harvesters, 12 percent.

The easing of interest rates and credit availability since mid-spring probably contributed to a comeback that began to show up this summer. Higher prices for farm commodities may trigger higher expectations for farm income during 1981, resulting in improved machinery sales next year. Higher costs for material and labor will increase machinery prices by about 10 percent over the year ahead.

Feed costs make up about 15 percent of all farm-production costs. Feed costs increased about 20 percent from October, 1979 to last month. Lower feed-grain production in 1980 will keep 1980-81 grain prices well above those of 1979-80. Feed prices may go 35 to 40 percent higher in 1981.

The prices for feeder cattle are likely to strengthen as the prospects for grazing improve. With a large slaughter of nonfed steers and heifers during the second half of 1980, the supply of feeder cattle is being reduced, which will lead to higher prices next spring.

R.B. Schwart

R.B. Schwart, Extension Economist, Farm Management