WEEKLY OUTLOOK
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FARM INPUT COSTS

THE INDEX OF PRICES PAID BY FARMERS for production items increased about 4 percent from November 1980 to May 1981, but decreased 2 percent from May 1981 to November 1981. Prices of input items may show a 6 to 8 percent increase for the period from November 1981 to November 1982. Costs of farm-produced inputs decreased about 8 percent from May 1981 to November 1981. In that period, feed costs were down about 13 percent and feeder livestock prices about 3 percent. Supplies of feed grains, feeding rates, and export demand suggest little change in feed prices. Butcher hog and fat cattle prices provide little incentive for increases of feeder livestock price in the next 6-month period.

Fuel and Energy. Petroleum stocks have been large this year as consumption has declined. November 1981 fuel prices increased about 9 percent over prices a year earlier. Farm demand for diesel fuel in 1982 may increase slightly as the use of diesel power increases proportionately on the farm. Farm production use of gasoline should average about the same in 1982 as in 1981. Although stocks have been reduced in 1981, supplies of diesel, gasoline, and L. P. gas should be plentiful for the 1982 farming season. Fuel prices in 1982 should rise less than the 9 percent increase of 1981.

Fertilizer. Fertilizer prices in November 1981 were about 6 percent higher than a year earlier. Declining energy costs and fertilizer use may increase fertilizer costs 8 percent at most in 1982.

Agricultural Chemicals. In November 1981, pesticides and other agricultural chemical costs were up about 9 percent from a year ago. Pesticide use may be lower in 1982 if planted acreages are lower. The prices of chemicals should reflect inflation rates with price increases of about 8 percent in 1982.

Farm Machinery. Farm machinery prices increased about 12 percent from November 1980 to November 1981. The annual output of tractors decreased about 5 percent in 1981 from that of a year earlier. Industry forecasts estimate a 5 percent increase in output in 1982. Farm purchasing power largely determines equipment sales from one year to the next. For the last two years and for the year ahead, farm incomes have not been and will not be favorable for machinery purchases. Higher interest rates have also reduced machinery sales. Farm machinery price increases in 1982 will be held at inflation levels of 8 to 10 percent.

Interest Rates. The index of prices paid by farmers includes interest, but this refers to interest payable on farm real estate debt. The interest index increased about 11 percent from November 1980 to November 1981. Interest rates for 1982 are expected to move down from 1981 levels. Even though interest rates on bonds will be lower, combined with earlier interest rates on bonds, the Federal Land Bank interest rates will continue upward on loans to farmers during 1982.

Production Credit Associations face some of the same problems with rising interest rates as the Federal Land Bank system. Since the Federal Intermediate Credit Bank bonds are relatively short-term, the average cost of bonds outstanding could drop if the cost of new issues in 1982 drops significantly.

Interest rates on agricultural loans in commercial banks vary greatly. If the inflation rate drops below 10 percent and if the Federal Reserve system maintains a middle-of-the-road position on growth in money supply, a significant reduction in bank interest rates might be expected in 1982. With some moderation in the inflation rate in general, farm input price increases should start becoming moderate.

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