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On Sep 2, 2021 the USDA¹ reported a 7.3% cost increase for the farm sector compared to last year. However, this estimate underestimates current cost conditions and expected costs over the next several months, as there are many cost increases that have yet to work their way through the farm input supply chain.

Feed and labor are the top two cost categories for dairy farmers and feed costs are up 11.0% and labor costs have increased 6.6%. Beef farmers face similarly higher feed costs, while costs for buying feeder livestock are up 14.1%. On the crop side, the jump in fertilizer prices has received a lot of attention. The USDA reports only a 3.9% increase, but this underestimates current conditions, as fertilizer costs have continued to increase since Sep 2nd. Some prices have almost quadrupled.² Prices have not hit the all-time highs from 2008 but have surpassed the highs in 2011-2014 during the commodity price spike. How high fertilizer prices will go has yet to be seen, with limited supplies expected in some cases.

Machinery costs are also higher. Tractor list prices are as much as 20% higher from 2020, while combine list prices are only up only 7%.³ Used machinery markets have also seen cost increases and limited supplies of key equipment. Supply chain disruptions have created chaos in new and used machinery markets missed by these numbers. New equipment and parts for repairing used equipment simply unavailable in some cases. Any reported cost increases for machinery miss the costs of farmer time to search for parts, to make workarounds for unavailable parts, and lost productivity while making repairs.

Corn and soybean crop budgets for 2022 published in August estimated non-land costs had increased 15% for corn and 8% for soybeans.⁴ Even with these cost increase, expected returns also increased due to high price expectations, but these positive margins could disappear if crop prices decline due to a collapse in exports or domestic demand.

Cropland prices have increased 10% to 15% in Wisconsin the last year.⁵ Higher land prices, along with current high corn and soybean prices, have put upward pressure on rental rates that has yet to be fully realized due to the timing of lease renewals, use of multi-year leases and leasing arrangements among relatives.

In conclusion, the Sep 2, 2021 USDA report of a 7.3% cost increase is an underestimate. I would put the current cost increase in the range of 15% to 20% relative to a year ago, with more increases likely to come before the 2022 crops are planted.

¹ <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/>

² <https://farmpolicynews.illinois.edu/2021/10/a-profitable-harvest-but-farmers-leery-of-rising-production-costs-and-parts-shortage/>

³ <https://farmdocdaily.illinois.edu/2021/10/machinery-cost-estimates-for-2021.html>

⁴ https://farmdoc.illinois.edu/assets/management/crop-budgets/crop_budgets_2022.pdf

⁵ https://www.nass.usda.gov/Publications/Todays_Reports/reports/land0821.pdf and <https://www.chicagofed.org/publications/agletter/2020-2024/august-2021>