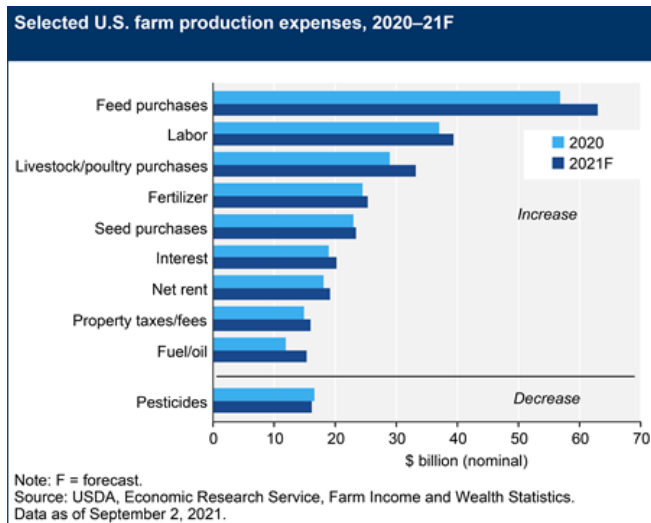


Farm Input Costs are Up drafted October 14, 2021

By Paul D. Mitchell, Director Renk AgriBusiness Institute, UW-Madison Professor and Extension State Specialist

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 expenses are the top two cost categories for



Wisconsin dairy farmers. 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, noted by Illinois Extension.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 for Wisconsin farmers. Tractor list prices are as much as 20% more than 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 are simply unavailable in some cases. Any reported cost increases for machinery miss the opportunity 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 increases, expected returns

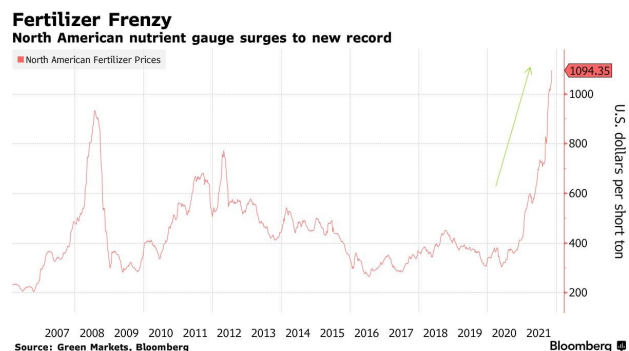
also increased due to high price expectations, but these positive margins could disappear if crop prices decline due to a collapse in exports or domestic demand.

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.

Update—November 14, 2021

Bloomberg writer Elizabeth Elkin reported that, “Fertilizer prices keep soaring to unprecedented heights, signaling escalating costs for farmers and consumers around the world.” The Bloomberg article⁶ pointed out that, “As fertilizer and other input costs rise, Bloomberg’s Green Markets anticipates American farmers next year will switch 2.5 million acres from corn to soybeans, which is less fertilizer-intensive.”



Mitchell suggests that farmers should buy fertilizer now (for 2022 crop season), as prices will likely not go down and may go up. He notes that even if the price is reasonable next spring, the supply may not be there due to logistics (supply chain disruptions, demand).

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>
⁶ <https://www.bloomberg.com/news/articles/2021-11-12/fertilizer-prices-rocket-to-new-record-for-second-week>