USDA Prices Paid Index Update - October 2022

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Introduction

The lasted CPI inflation report came out this week and consumer prices continue to increase at a rate well above recent historical values. In September, consumer prices increase 8.2% from a year earlier. This rate came despite a decline in gas prices over the summer. Core inflation, which excludes food and energy increased at a 6.6% annual rate, a new 40-year high.

With the current high levels of consumer inflation, farmers might be wondering how their farm inputs are faring. One general measure is to look at the Producer Price Index (PPI). The PPI measures the prices of goods and services that businesses produce. On a 12-month basis, the PPI rose 8.5%. However, the PPI is an aggregate measure of goods. Many of the inputs that farmers need for production have increased more than this. This article will highlight some of those increases in farm inputs.

Increase in farm input prices

Figures 1 and 2 show the relative price increase since August 2021. The latest USDA survey data goes through August so this time frame is a year. As shown in Figure 1, the CPI is included as a baseline. As mentioned in the introduction, consumer prices have increased at a rate above 8%. Notice that nearly all the major expense categories for farmers have increased more than the consumer inflation rate over the past year. The only exception to this is labor costs and seeds.

Herbicides have increased the most and are 48% higher than last August. Fuels and fertilizer have declined in price during the summer but are still 44% and 30% higher, respectively. Machinery is nearly 30% higher while repairs are 30% higher.

Figure 2 breaks out the general fertilizer category into the specific fertilizers. Nitrogen leads the way as it is produced directly from natural gas and is thus tightly correlated with oil prices. However, all the fertilizers are price correlated to some extent.

Going forward

Because most of the expense items that farmers face have increased faster than the CPI rate, farm profitability will be under press this year and next year. Something that farmers need to watch is the price of oil. Oil cost drives not only diesel costs but also fertilizer costs. Even though oil prices have come down during the summer (along with fertilizer prices), this price decline may not be long-lasting. The Russian/Ukraine conflict could easily cause oil prices to spike back upward depending on how the conflict plays out. Also, the lack of excess oil refinery capacity in the U.S. will continue to put upward pressure on diesel prices.

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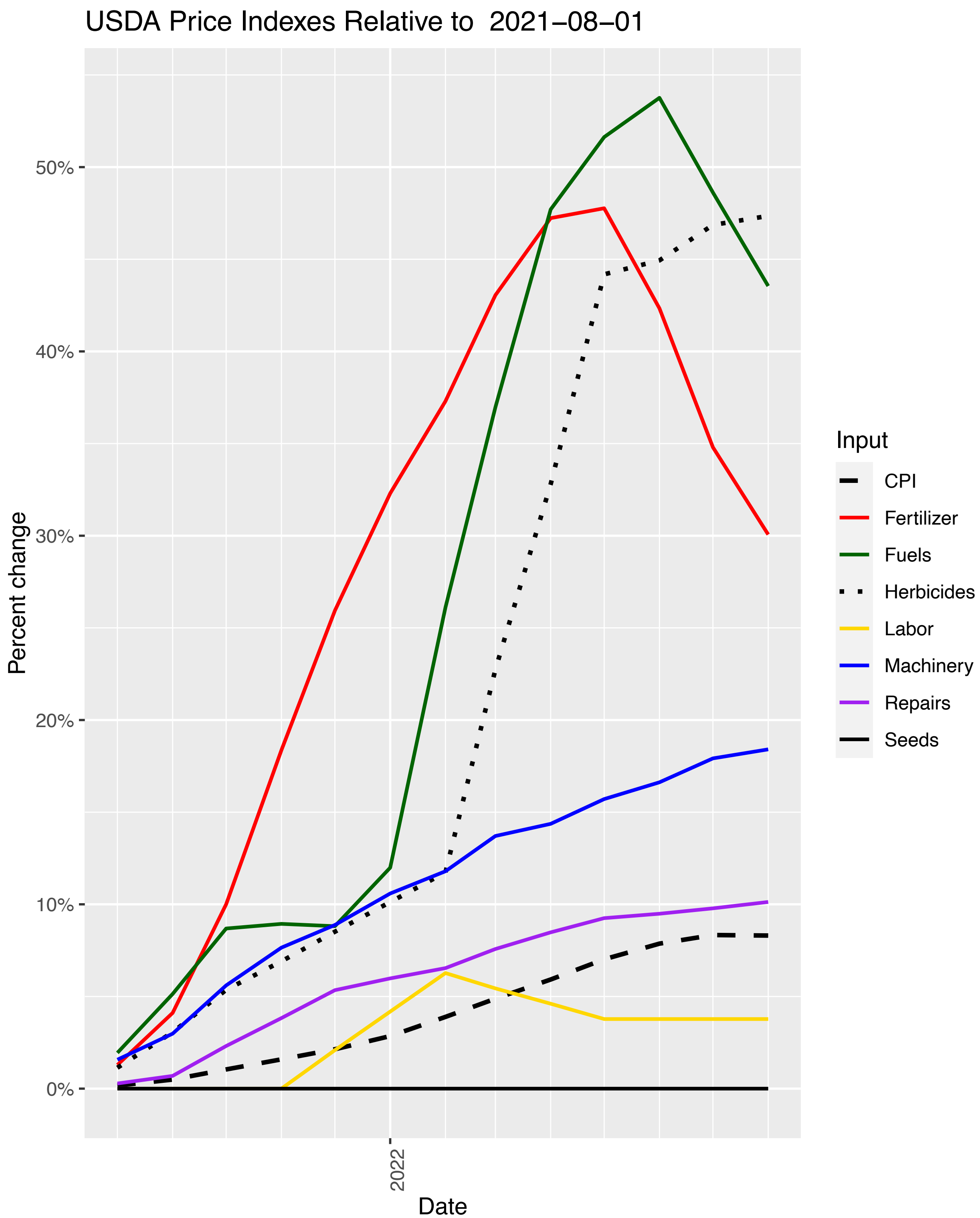

Figure 1. Selected Farm Input Price Indexes Since August 2021

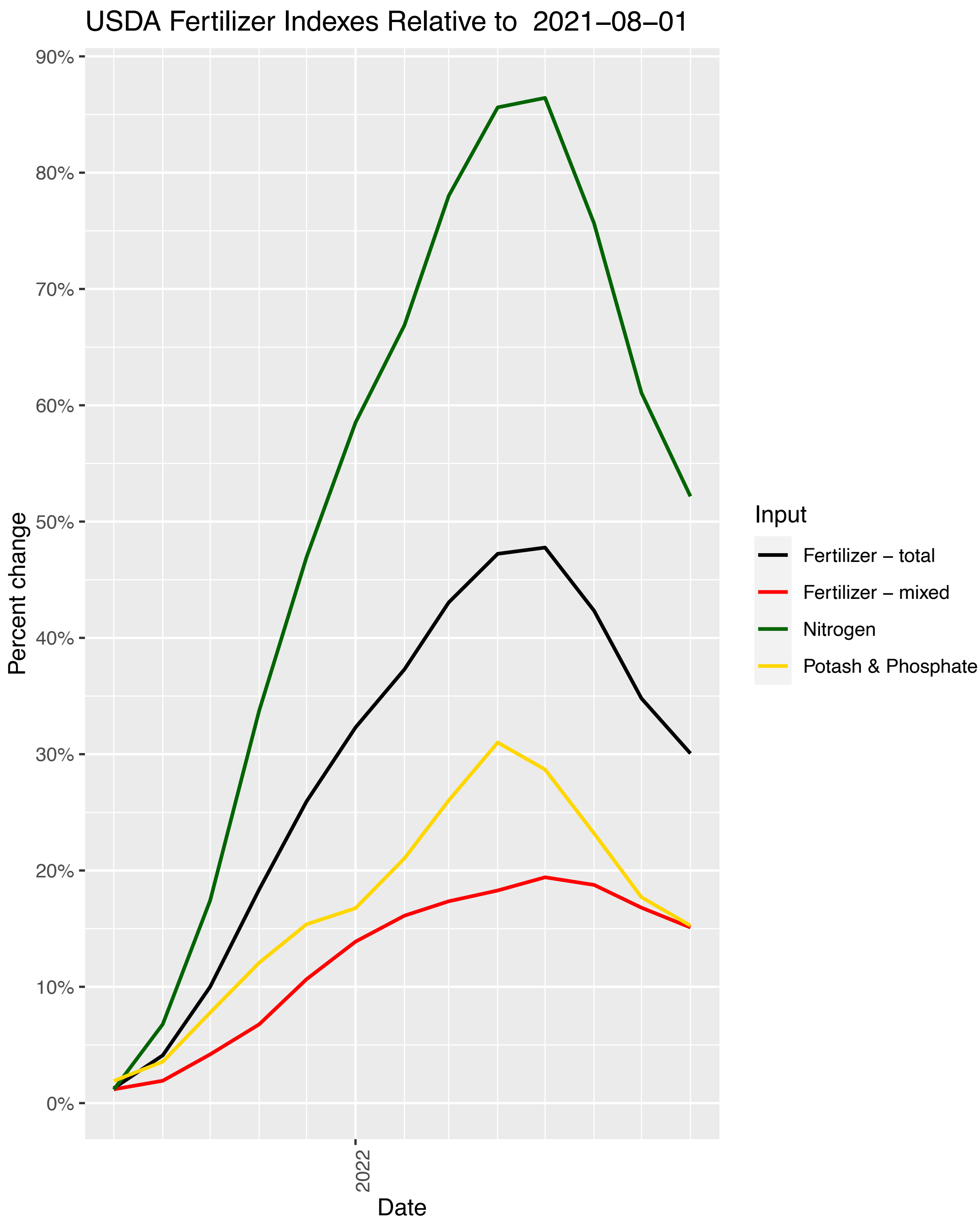

Figure 2. Fertilizer Price Indexes Since August 2021