FRB CHICAGO

AGRICULTURAL LETTER

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Pork production falling short of expectations

Pork production so far this year, although matching the record-setting pace of last year, has fallen well short of expectations. A similar pattern now appears likely to extend well into 1994. An updated ***Hogs and Pigs*** report from the U.S. Department of Agriculture revealed smaller-than-expected estimates of recent and prospective trends in production among hog farmers. The developments have helped to firm hog prices while flooding concerns have added to prospective feed costs.

USDA surveys of hog farmers last December suggested that 1993 would mark the third consecutive year of a sizable rise in pork production. Most analysts were forecasting a rise of 3 or 4 percent for all of this year, paced by a particularly large rise in the first half. But a downturn during the winter months offset a second-quarter increase, leaving first-half pork production virtually unchanged from last year. The shortfall from expectations—especially during the first quarter—was one of the largest in recent memory and it prompted USDA officials to trim their earlier estimates of hog numbers and sow farrowings. Many analysts think further revisions will be forthcoming. So far, however, the revisions have trimmed the year-over-year gain in the estimates of hog numbers and sow farrowings for the latter part of 1992 by 1.5 percentage points. Similarly, the level of sow farrowings during the six months ending with May is now estimated to be down slightly from the same period a year earlier and 2.5 percentage points below the figure reported as producers' intentions last December.

The latest benchmarks for hog production show a slight increase in the inventory of market hogs, but fewer hogs held for breeding purposes. While sow farrowings during the winter and spring months dipped below the year-earlier pace, the number of pigs saved per litter continued to edge upward. The resulting small increase in the December-May pig crop helped to hold the June 1 inventory of market hogs 1 percent above the year-earlier level. Conversely—and despite a decline in sow slaughter so far this year—the inventory of hogs held for breeding purposes as of June 1 was reported to be down more than 2 percent from a year ago. Despite the smaller inventory, however, producers apparently intend to farrow about the same number of sows during the summer and fall months as they did last year.

The indicated scaling-back in production is especially evident among hog farmers in states comprising the Seventh Federal Reserve District. The revisions to earlier inventory estimates were particularly large for Iowa. And the updated June 1 estimates show the foundation stock on hog farms is down 5 percent from a year ago in Iowa and down 3 percent among the other four District states. Elsewhere, the trend in hog production is dominated by large gains in North Carolina and Missouri. Producers in those two states plan to boost sow farrowing 20 percent and 9 percent, respectively, during the rest of this year. The sustained, rapid expansion continues to boost North Carolina's state ranking in hog numbers. Over the past year, North Carolina moved ahead of Nebraska and Indiana into the fourth-place ranking. The current expansion plans imply that by next year it may surpass Minnesota and Illinois and rank second only to Iowa.

District states account for most of the scaling back in hog production

	Iowa		Other District states*		U.S.	
	Million head	Percent change	Million head	Percent change	Million head	Percent change
Pig crop						
Dec.-Feb.	5.98	1.2	4.95	-0.5	23.7	1.5
Mar.-May	7.05	-2.2	5.73	-4.7	27.0	-0.8
June 1 inventory						
Market hogs	14.0	0.7	10.8	-3.3	52.2	1.1
Breeding stock	1.8	-5.3	1.6	-3.0	7.4	-2.1
Total	15.8	0	12.4	-3.3	59.7	0.7
Intended sow farrowings						
June-Aug.	.80	-2.4	.69	-3.8	3.16	0
Sept.-Nov.	.75	-2.6	.65	-1.5	3.03	0.6

*Illinois, Indiana, Michigan, and Wisconsin.

The latest numbers suggest that pork production the rest of this year and into the first half of next year may only about match the year-earlier levels. The number of hogs moving to packing plants during the third quarter may be up slightly—both seasonally and with respect to a year ago. Hog slaughter in the fourth quarter, while likely to reach its usual seasonal high for the year, will probably dip below the year-earlier level. First-half 1994 prospects are very tentative, in part, because further revisions to past inventory estimates, if made, could alter year-over-year benchmark comparisons. In addition, the extensive flooding and higher corn prices in recent weeks may cause hog producers to alter their farrowing intentions for late summer and fall. In general, however, it appears hog slaughter will be up on a year-over-year basis in the first quarter and down slightly in the second quarter of 1994.

These projections imply per capita pork supplies over the next 12 months will level off. However, total meat supplies for the rest of 1993 will likely remain above the record levels of last year. After slight upward revisions this month, the latest USDA projections point to second-half gains of about 2.5 percent for beef and 4.0 percent for poultry.

Hog prices have firmed in recent weeks as slaughter fell short of expectations and the updated inventory estimates foreshadow at least a temporary leveling-off in the current expansion phase. Prices rose seasonally in the second quarter, with monthly averages peaking in June at around \$49 per hundredweight. Prices this summer and into the early fall months will no doubt drift lower as supplies rise seasonally. However, prices will probably hold \$1 to \$2 per hundredweight above last year's third and fourth quarter averages of about \$44.50 and \$42.50, respectively. Prior to the recent flooding, those prospective prices would likely have rekindled the expansion incentives of most hog farmers. While that still might be the case, many hog farmers may be reluctant to speculate on the prospective returns until more definitive estimates of this year's crop harvest are available. This is particularly true since Iowa, the state ranking first in both corn and hog production, has probably been hit the hardest by the recent floods.

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Corn and soybean outlook

The USDA released reports on crop acreage and stocks at the end of June, and updated commodity supply and usage estimates less than two weeks later. The usage estimates for 1992/93 are fairly reliable measures since the end of the marketing year is drawing near. However, the current outlook for corn and soybean production and use during the upcoming marketing year is very uncertain, primarily due to recent weather-related developments.

Total use of corn is expected to reach a record level of 8.46 billion bushels for the 1992/93 marketing year. Domestic use is expected to post a solid gain, with increased livestock and poultry feeding accounting for most of the growth. Rising meat production, along with last winter's bad weather and reports of lower-quality corn (both of which led to reduced levels of feed conversion) are expected to lead to a jump of 8 percent in the amount of corn fed to livestock. In addition, the use of corn for food, seed, and industrial purposes is projected to increase by 4 percent. Corn exports are expected to be up 7 percent from the previous year's disappointing level, as strong gains so far this year have offset continued stiff competition from China and Argentina and a decline in shipments to the nations comprising the former Soviet Union. USDA data through July 1 indicate larger shipments to Canada, Japan, and Eastern Europe. In addition, U.S. corn export tallies received a significant—though temporary—boost as a result of drought-induced shortages in the Republic of South Africa.

The increase in total corn usage, while substantial, will not be enough to offset the gain in corn production achieved last fall. Reflecting this, corn stocks as of June 1 were up over one-third from a year earlier. Furthermore, the USDA anticipates that stocks at the end of the 1992/93 marketing year will approach 2.1 billion bushels, almost double the level of last year and the largest since 1988. This build-up in corn stocks has helped to cushion the supply implications of the recent flooding.

The domestic crush of soybeans is driven primarily by the underlying demand for soybean meal as livestock feed. The gain in livestock production has led USDA analysts to forecast record levels of crushings and meal use for the current marketing year. In addition, increased shipments to the European Community have played a major role in boosting soybean exports during the current marketing year, more than offsetting a decline in shipments to the nations comprising the former Soviet Union. USDA reports indicate that, through July 1, shipments to the European Community were up over one-fourth from a year earlier. For the marketing year, total soybean exports are expected to post an increase of 13 percent to reach the highest level in five years.

The uncertainty surrounding this fall's production is linked to several important weather-related concerns. First, it is not clear to what degree the intended soybean acreage was reduced due to persistent rainfall. The crop acreage report released by the USDA on June 30 indicated that the acreage seeded to corn was 2.2 million acres less than what farmers had intended in March, and that the cropland seeded to soybeans was 2.3 million acres more than what had been expressed in the March intentions. In general, the reduction in corn acreage was expected by most analysts in view of the wet weather that plagued the Midwest throughout the planting season. However, soybean plantings were far from complete at the time the acreage survey was conducted by the USDA, leading many analysts to question whether farmers had found a sufficient break in the weather to seed those acres. Second, it is not yet known to what extent river flooding and ponding will reduce the number of acres harvested this fall, nor is it certain how average yields will be affected. Finally, questions have recently been raised regarding the potential for frost damage to the corn crop this fall due to late plantings and delayed crop development. Weekly USDA reports indicate the maturity of crops in several states is well behind the average. Reflecting these concerns, the USDA reduced its projection of harvested acres for corn and soybeans in its July supply/usage tables, and also cut projected yields.

Among District states, Iowa has been hit particularly hard by excessive rainfall and flooding. Weekly USDA reports indicate that more than one-fourth of the corn crop and nearly one-third of the soybean crop in Iowa are considered to be in poor or very poor condition. In addition, the condition of nearly one-fifth of the corn crop in Wisconsin is rated as poor or very poor. In contrast, conditions are perceived to be much better in the other District states of Illinois, Indiana, and Michigan, although slow development remains a concern.

More light will be shed on acreage and yields when the USDA releases updated estimates in August. The new report will not only contain the results of an objective yield survey, but reflect new information collected on the number of acres planted to corn and soybeans. In the interim, projections for the 1993/94 marketing year must be viewed as very tentative. In its July report, the USDA based the projection for this fall's corn production on "judgmental" assessments that pointed to a harvest of some 66.5 million acres at an average yield of 118 bushels per acre. In contrast, 72.1 million acres were harvested last fall, yielding an average of 131 bushels per acre. The current projections imply a fall harvest of 7.85 million bushels, 17 percent below last year. However, a significant portion of the production decline is counterbalanced by the anticipated increase in carryover stocks this fall, leading to a more moderate decline of 6 percent in total supply. Usage is expected to fall slightly during the 1993/94 marketing year as modest gains in livestock feeding and in food, seed, industrial use are more than offset by a decline in exports. Nevertheless, with usage exceeding production, ending stocks for the upcoming marketing year are projected to be down by nearly one-fourth from the previous year but still above the levels of the three preceding years.

Soybean production is currently projected to be near 1.98 billion bushels, based upon an estimate of 58.0 million harvested acres and an average yield of 34.1 bushels per acre. The production estimate is 10 percent below the 1992 harvest, but is still above the average of 1989-91. Total use is expected to suffer a moderate decline as both crush and exports retreat to levels similar to two years earlier. The expected decline in supply, however, is relatively greater than the decline in use, and suggests ending stocks will fall to their lowest level in five years.

Soybean prices have recently been pushed higher by concerns over the new crop. Cash bean prices in central Illinois surpassed $7 per bushel in mid July, the highest level in four years. November soybean futures have risen as well, and were also above $7 in mid July. The USDA estimates that cash soybean prices will average $5.50 nationally for the 1992/93 marketing year, and is currently predicting bean prices will average between $5.75 and $7.00 for 1993/94.

The year-to-date average (for the current marketing year) of cash corn prices in central Illinois is at its lowest level in five years, due to last fall's abundant harvest. Corn prices were hovering near $2 per bushel as recently as mid June. However, the uncertainty surrounding the new crop helped lift corn prices above $2.30 in early July. December corn futures prices were also up, closing at $2.52 per bushel on July 19. For the current marketing year, the USDA projects the national average corn price to fall between $2.05 and $2.10, with the expectation that the new crop will average between $2.00 and $2.40 per bushel. The projections for both corn and bean prices could change markedly in the near future, however, as more information is gained regarding acreage and crop conditions.

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Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1977=100)*	June	141	−2.1	1	−7
Crops *(index, 1977=100)*	June	113	−5.8	−7	−20
Corn *($ per bu.)*	June	2.00	−6.1	−19	−13
Hay *($ per ton)*	June	80.50	−6.7	8	8
Soybeans *($ per bu.)*	June	5.64	−2.9	−5	1
Wheat *($ per bu.)*	June	2.82	−9.0	−18	11
Livestock and products *(index, 1977=100)*	June	167	−0.6	6	3
Barrows and gilts *($ per cwt.)*	June	49.10	3.2	3	−12
Steers and heifers *($ per cwt.)*	June	78.70	−2.6	7	2
Milk *($ per cwt.)*	June	13.20	1.5	0	16
Eggs *(¢ per doz.)*	June	65.4	4.0	23	11
Consumer prices *(index, 1982-84=100)*	June	144	0.1	3	6
Food	June	140	−0.5	2	2
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	3,709	N.A.	35	24
Soybean stocks *(mil. bu.)*	June 1	683	N.A.	−2	−6
Wheat stocks *(mil. bu.)*	June 1	529	N.A.	12	−39
Beef production *(bil. lb.)*	May	1.86	4.2	−2	−5
Pork production *(bil. lb.)*	May	1.31	−10.6	2	1
Milk production* *(bil. lb.)*	June	11.0	−3.8	1	4
Receipts from farm marketings *(mil. dol.)*	February	13,070	−15.9	5	11
Crops**	February	5,019	−42.7	3	8
Livestock	February	6,998	6.6	4	6
Government payments	February	1,053	374.3	28	114
Agricultural exports *(mil. dol.)*	April	3,631	−6.2	−2	15
Corn *(mil. bu.)*	April	153	12.8	8	6
Soybeans *(mil. bu.)*	April	49	−38.8	−14	16
Wheat *(mil. bu.)*	April	134	7.8	11	46
Farm machinery sales *(units)*					
Tractors, over 40 HP	June	6,252	16.9	26	−4
40 to 100 HP	June	4,450	20.1	18	7
100 HP or more	June	1,802	9.7	52	−22
Combines	June	595	42.7	17	−49

N.A. Not applicable
*21 selected states.
**Includes net CCC loans.

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