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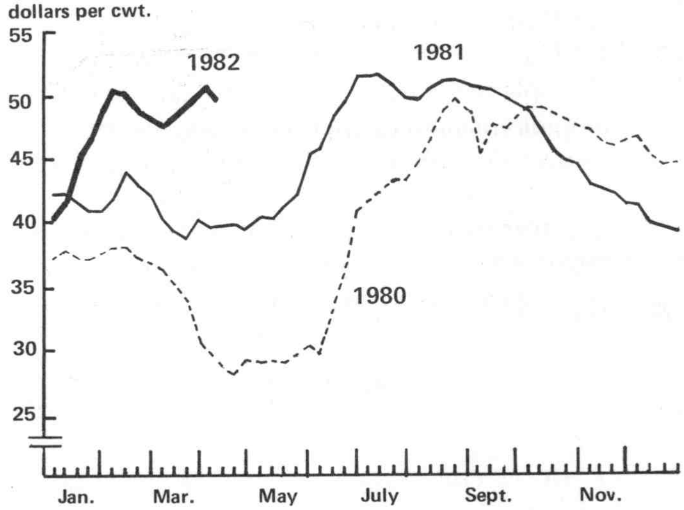
THE SHARP DOWNTURN IN HOG PRODUCTION is continuing at a faster pace than had been expected, according to the USDA's latest *Hogs and Pigs* report. The report summarizes recent and prospective trends in production among hog farmers in the 14 major hog producing states that account for more than 85 percent of U.S. production. The report shows that the winter (December-February) pig crop was down 11 percent from the year before and down 20 percent from the winter peak of two years ago. Moreover, the report indicates that the inventory of hogs held for breeding purposes was trimmed further this winter, in line with producer's intentions to cut spring and summer sow farrowings to lows surpassed only one other time in the past 13 years. These tentative measures—which may yet be altered by subsequent developments—portend a sharp decline in pork production through the early months of next year. The smaller supplies will hold hog prices at profitable levels for most producers, although demand for all meats may continue sluggish.

The cyclical downturn in hog production began in the spring of 1980 in the midst of a long period of operating losses for hog farmers. The string of losses began around mid-1979 and continued with only brief interruptions until this year, according to Iowa State University analysts. Although profit prospects improved a few months ago with earlier reports foreshadowing a significant decline in production and sharply lower feed costs, the latest measures indicate the production cutback has been intensifying, rather than moderating as was expected. Reflecting this, the estimate of winter sow farrowings and the updated measure of spring farrowing intentions are considerably below what had been indicated in the December *Hogs and Pigs* report. Nevertheless, many analysts believe that profits in the near term will be sufficient to moderate the production declines now indicated, particularly for the summer months.

The inventory of all hogs and pigs on farms in the 14 major states on March 1 was down substantially from the peak two years ago. Hogs intended for market numbered a tenth fewer than a year ago and 17 percent less than two years ago. Hogs held for breeding purposes numbered 14 percent fewer than a year ago and 25 percent fewer than the March 1 peak that occurred three years ago. In the four District states included in the latest survey (Michigan is not included) inventories of market hogs and hogs held for breeding purposes were both down about a tenth from last year. The declines were smallest in Iowa, which accounts for 55 percent of the pork produced in District states and 28 percent of the pork produced nationwide.

Barrow and gilt prices of major markets



In line with the cut in the inventory of hogs held for breeding purposes, hog farmers intend to hold spring (March-May) farrowings 14 percent below the year before and summer (June-August) farrowings 12 percent below the year ago. If these intentions are carried out, and if litter sizes are comparable to the past five-year average, the combined spring and summer pig crop would be down 15 percent from last year and, except for 1975, the smallest since at least 1969.

Hog slaughter began dipping below year-earlier levels in the latter part of 1980. For all of 1981, slaughter was down 5 percent. Preliminary evidence for the first quarter of this year points to a year-over-year decline of 9 percent. Based on the estimate of the March 1 inventory of market hogs and the fall 1980 pig crop, it appears second quarter slaughter may be slightly lower than in the first quarter and perhaps 6 to 9 percent lower than in the same period a year ago. Hog slaughter in the third quarter will likely be considerably lower than in the second quarter and perhaps 11 to 14 percent lower than in the summer of 1980.

Current slaughter projections for the latter part of this year and the early months of 1983 are largely based on producer's farrowing intentions for this spring and summer. As such, these projection are more tenuous since forthcoming profits and low corn prices may encourage hog farmers to moderate the farrowing cutbacks now planned. But if producers carry out their intentions, hog slaughter in the fall and winter months may be down 15 to 20 percent from year-earlier levels.

Hog prices are up substantially in light of the recent and prospective cuts in slaughter. Compared to the $41 per hundredweight average in both the first quarter of 1981 and again in the last two months of 1981, barrow and gilt prices at major markets have averaged $48 since the first of this year. Prices are currently at $50. Although consumer demand for all meats is likely to remain sluggish in the months ahead, the prospective declines in hog slaughter and pork production will likely hold hog prices at quite high levels. Many analysts are anticipating second quarter prices will average $50 per hundredweight or more followed by an average of around $55 in the third quarter.

Production costs vary widely among hog farmers, depending in part on the extent of debt financing and the type of structures used. Some of the large hog production facilities constructed in recent years have high fixed costs. But the hog price forecasts, coupled with the likelihood that feeding costs will remain low for several more months, suggests most hog farmers will enjoy a significant rebound in profits this year. With the overall agricultural sector plagued by an attitude of pessimism, this is clearly a bright note.

Gary L. Benjamin

RETAIL FOOD PRICES, unadjusted for seasonal variations rose 2 percent from December to February, temporarily ending the modest uptrend that prevailed during the latter half of 1981. Increases for pork, poultry, fish and seafood, eggs, fruits, and vegetables paced the rise in food prices. For all of 1982, retail food prices are expected to average about 6 percent higher than a year ago, with meats, fruits, and vegetables continuing to lead the increase in the farm value of foods. However, most of the increase in food prices in 1982 will stem from higher processing and marketing costs for food.

Fruit and vegetable prices in February were 9.1 percent higher than in December. The large increase was led by a strong gain in fresh produce components which reflected the smaller winter vegetable acreage and the damaging January freeze in Florida. Winter vegetable acreage was down 5 percent from last year and the smallest since 1975. Vegetable production was also affected by insect problems—particularly for lettuce—in California.

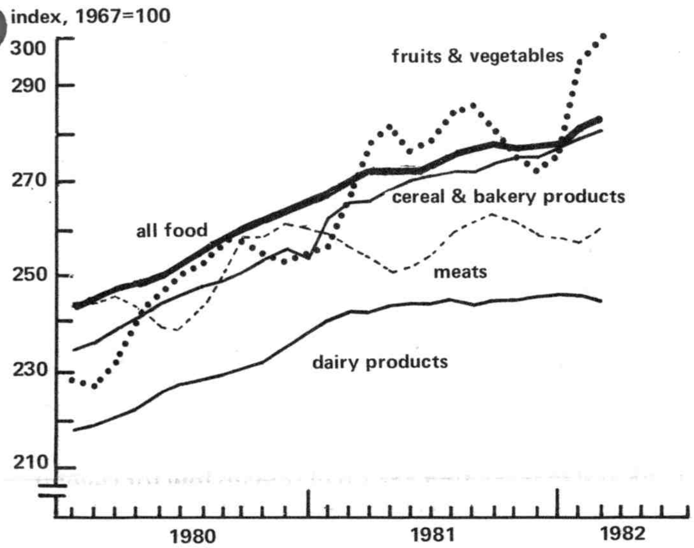
Retail prices of fish and seafood increased 3.9 percent from December to February. The severe winter disrupted coastal fishing activities and resulted in lower-than-normal supplies. Retail egg prices were up 3.6 percent from December. Non-alcoholic beverages rose 2.6 percent from December.

Retail prices of poultry and pork both rose about 2.0 percent from December to February. A sizable decline in pork production from year-ago levels and a leveling off in poultry production contributed to the rise. Also, some weather-related disruptions lowered poultry supplies during the mid-part of January.

Other food items registered smaller price increases. Sugars and sweetener prices increased 1.4 percent from December while cereal and bakery products were up 1.2 percent. The retail price of dairy products rose only 0.4 percent in two months, in part because the support price of milk has not been increased since October 1980. Retail prices of beef were up only 0.4 percent in the two-month period, in conjunction with the smaller supplies of all meats and a nominal rise in beef production.

Prices of food eaten away from home in February were 1.2 percent above December's value, half the increase for the same period a year ago. No adjustment in the minimum wage was mandated this year and employer contributions to social security increased

Trends in selected consumer food price indices



more modestly in January than a year ago.

The rate of increase in food marketing costs slowed as compared to a year ago. Food marketing costs rose 2.4 percent from December to February. Most of the increase reflected higher labor and transportation components. Labor costs were up 2.6 percent while transportation costs were up 4.1 percent. The fuel and power component was up nominally in the two-month period.

Despite the recent acceleration, the overall rise in food prices for 1982 is expected to be quite modest. Most analysts believe this year's average rise in retail food prices will be held to about 6 percent, down substantially from the 7.9 percent in 1981. As a result, food prices could trail the increase in overall consumer prices for the fourth consecutive year. Farm level prices of raw food commodities will probably be a major moderating influence on retail food prices. With supplies of most domestic food products expected to be adequate, the farm value of domestically produced foods may rise only 2 to 4 percent this year. Nevertheless, the prices of some domestically produced foods, particularly meats, are expected to increase substantially this year. And prospective supplies of some foods, particularly vegetables, could still be altered by adverse weather patterns.

Meat supplies are expected to trail the year-earlier levels throughout most of 1982, due mostly to a sharp cutback in pork production. Hog slaughter in the second half of 1982 could be down 15 percent, exceeding the near 10 percent decline expected in the first half. As a result, the farm value of pork is likely to rise significantly, pushing the retail price of pork considerably higher by the latter part of 1982.

Fruit and vegetable supplies are expected to trail year-ago levels. Because of the mid-January freeze in Florida, the U.S. citrus crop is now expected to be a sixth below the level of last year. Fruit prices, which rose substantially in recent months, are expected to continue to increase this spring because of the reduction in supplies of oranges and tighter supplies of non-citrus fruit in storage. Current stocks of many canned non-citrus fruits are below last year's holdings. Retail prices of processed vegetables are also expected to pace the rise in food prices, particularly in the first half of 1982. A smaller 1981 pack of major canned vegetables, coupled with the continuing uptrend in marketing costs, could boost processed vegetable prices a tenth or more this year.

Despite an overall moderate increase in raw food commodity prices, costs of processing and distributing food will add considerable pressure at retail. These costs rose 11 percent last year and accounted for slightly over two-thirds of the $285 billion spent in 1981 for domestically produced food.

Labor costs—which make up about half of the marketing cost—may rise 7 to 9 percent this year, down from the 10 percent gain a year ago. A majority of the labor contracts in the food industry—including processing and retailing—are up for renegotiation this year. Based on early settlements of some contracts, it appears that wage and benefit demands are lower than previously expected. Some contracts have included delays of 9 months to a year in COLA adjustments or resulted in moderate wage increases over the length of the contract.

Transportation costs—which accounted for about 8 percent of the food marketing bill—may register the sharpest increase this year. Last year transportation costs rose 17 percent. This year, the rise will be considerably less but will likely still exceed 10 percent. Increases in transportation costs, in part, are based on fuel costs through adjustments allowed in rate structures. But in recent months, the cost of fuel has either leveled off or declined. Carriers also are allowed to adjust rates to "recover overall costs"; however these costs have moderated considerably.

Increases in the fuel and power component of marketing costs will be restrained in the months ahead by little if any increase in the price of petroleum products. Overall, food marketing costs, which tend to follow the general rate of inflation, are expected to increase from 6 to 8 percent this year.

Jeffrey L. Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	March	246	+ 0.8	+ 6
Total loans at agricultural banks†	1972-73=100	March	267	+ 1.8	+ 3
Production credit associations					
Loans outstanding					
United States	mil. dol.	February	20,457	− 0.1	+ 2
Seventh District states	mil. dol.	February	4,173	0	+ 2
Loans made					
United States	mil. dol.	February	2,896	− 5.6	−10
Seventh District states	mil. dol.	February	656	+ 6.0	−13
Federal land banks					
Loans outstanding					
United States	mil. dol.	February	44,462	+ 0.9	+20
Seventh District states	mil. dol.	February	10,588	+ 0.7	+21
New money loaned					
United States	mil. dol.	February	541	−18.2	−25
Seventh District states	mil. dol.	February	101	−30.3	−37
Interest rates					
Feeder cattle loans††	percent	4th Quarter	17.75	− 2.2	+12
Farm real estate loans††	percent	4th Quarter	17.01	+ 0.5	+16
Three-month Treasury bills	percent	3/25-3/31	13.17	+ 6.9	+ 4
Federal funds rate	percent	3/25-3/31	14.99	+ 6.5	+11
Government bonds *(long-term)*	percent	3/25-3/31	13.68	+ 0.6	+ 9
Agricultural trade					
Agricultural exports	mil. dol.	February	3,500	+ 7.5	− 9
Agricultural imports	mil. dol.	February	1,068	−12.6	−35
Farm machinery sales[P]					
Farm tractors	units	February	5,467	−30.3	−10
Combines	units	February	509	−63.0	−50
Balers	units	February	199	−49.7	−52

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[P]Preliminary.

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