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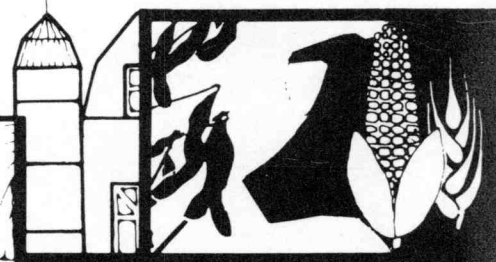
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FEDERAL RESERVE BANK OF CHICAGO

# AGRICULTURAL



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# LETTER

**LIVESTOCK PRICES** rose substantially during the first half of 1982. The index of prices received by farmers for meat animals in May was up 25 percent from December and up 12 percent from the year before. The higher prices reflected lower meat production during the first half. In conjunction with relatively low feed costs, higher prices have provided very favorable returns to cattle and hog producers, ending a string of more than two years of financial losses. Meat supplies in the second half also will be down because of a continued cut in hog production, but beef supplies are expected to increase.

The sharp upturn in livestock prices in recent months pushed second-quarter average prices to \$70 per hundredweight for choice steers at Omaha and \$55 per hundredweight for barrows and gilts at seven major markets. Cattle prices at Omaha in May were the highest since the summer of 1980, while hog prices were the highest since the fall of 1975. The average price for choice steers in the second quarter was up 11 percent from the first quarter average and up 5 percent from a year ago. For barrows and gilts, the rise in prices was more significant. Barrow and gilt prices in the second quarter averaged 17 percent higher than in the first quarter and 28 percent higher than a year earlier.

The higher prices reflected primarily the lower volume of meat production. Preliminary reports indicate that total meat production in the first half of 1982 was 3.5 percent below the same period a year ago. Reduced pork supplies accounted for most of the downturn. Pork production in the first half was down about 9 percent from the year before. Beef supplies were about 1 percent below a year ago because of lower slaughter weights. Poultry and turkey production in the first half was nominally below last year's level even though broiler production increased slightly in the period.

The reduction in beef supplies can be tied to lower slaughter weights. Marketings of fed cattle have been very current as advancing cattle prices induced feedlot operators to market cattle early at lighter weights. The live weight of cattle marketed in the first half averaged 10

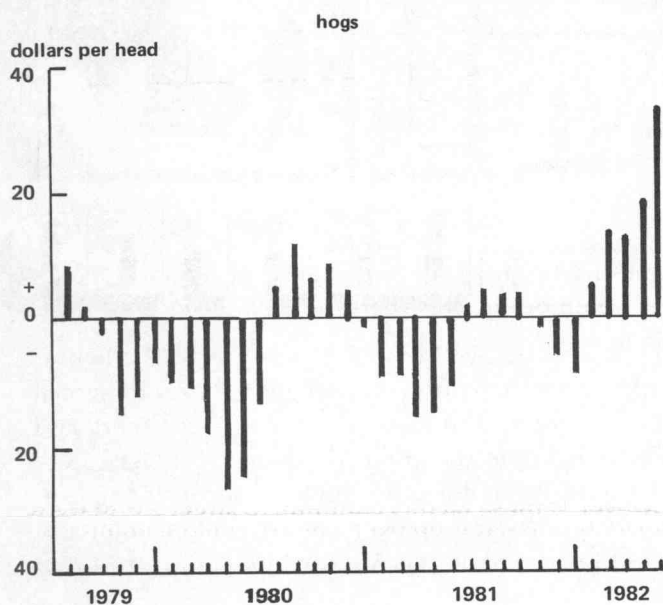
to 15 pounds below the level of a year ago. The lighter weights more than offset a 2 percent rise in commercial cattle slaughter. The number of grain-fed steers and heifers moving to slaughter in the first half lagged the year-earlier level. But cow slaughter, according to preliminary reports, was up over a tenth, while slaughter of nonfed steers and heifers was up nominally from a year ago.

Advancing prices and lower input costs have restored profitability for livestock producers. According to Iowa State University, returns for a typical Iowa producer raising yearling steers to choice slaughter grade were negative for 27 out of 30 months ending with December 1981. Since then, cattle feeding has provided quite favorable returns, averaging a profit of \$34 per head in the first quarter of 1982 and \$113 per head in April and May. Lower feed costs contributed significantly to the improved profitability. The cost of feed to finish out a steer in the first five months of 1982 averaged 20 percent below the level for the same period a year ago. Farrow-to-finish hog operators did not sustain as prolonged a period of losses as did cattle feeders. Nevertheless, during the same 30-month period, hog operators had negative returns for 19 months. But returns on hogs have turned positive this year, averaging \$10 per head in the first quarter and \$26 per head in April and May.

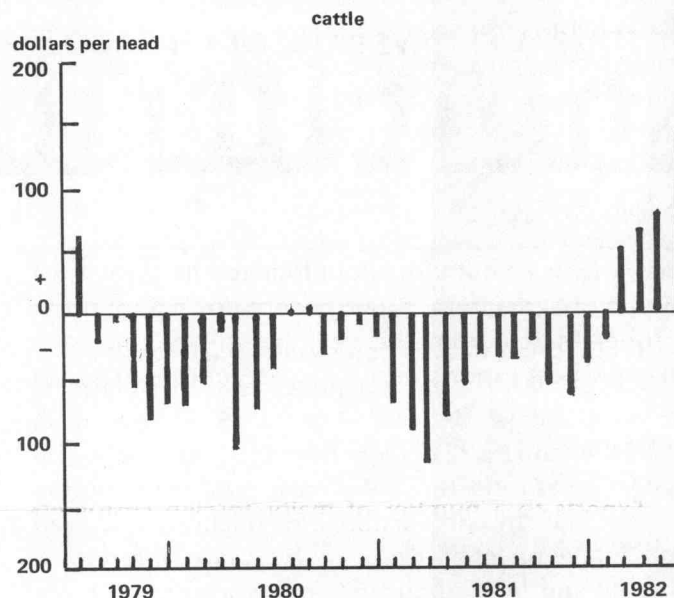
Profits from hog production are likely to be sustained for some time as producers continue to cut back production. According to the USDA's latest *Hogs and Pigs* report, the U.S. inventory of hogs intended for market on June 1 was down 13 percent from the year before and down 20 percent from two years ago. Market hogs weighing 180 pounds or more numbered 8 percent below a year ago, while those weighing 120 to 179 pounds were down 9 percent. Hogs weighing 60 to 119 pounds were a tenth below last year's level and the inventory of market pigs weighing less than 60 pounds was down 18 percent.

The inventory of hogs held for breeding purposes was down 12 percent from last year and down 22 percent

## Returns on cattle and hog marketings improved markedly in recent months



SOURCE: Iowa State University



from two years ago. The reduction in the breeding stock was slightly smaller than had been reported in March. Nevertheless, forthcoming declines in hog production are still expected to be substantial.

Producers' intentions last March pointed to a 14 percent decline in farrowings during the March-May quarter. According to the June 1 report, sow farrowings in that quarter were very close to intentions, declining 13 percent from a year ago. For the rest of the year (June-November) producers intend to cut farrowings 10 percent from year-earlier levels.

The latest measures of hog inventories and farrowing intentions suggest that hog prices may remain at profitable levels. The size of this winter's pig crop and the existing inventory of market hogs suggest that third-quarter slaughter could be at least a tenth below last year's level and fourth-quarter slaughter could be down a fifth or more. If so, pork production in the second half of 1982 would be about a sixth below a year ago.

In contrast, beef supplies in the second half are expected to slightly exceed year-earlier levels. Heavy placements of cattle into feedlots in recent months may boost fed cattle marketings in the second half 3 to 4 percent above a year ago. While a smaller nonfed steer

and heifer slaughter may offset fed cattle slaughter somewhat, cow slaughter is also expected to continue well above the year-earlier level. As a result, beef production in the second half may increase 2 to 3 percent over a year ago.

Total meat supplies in the second half could be down 3 to 4 percent from the year earlier. The sharp decline in pork production and a nominal decline in poultry production will more than offset the increase in beef production in the second half.

With the tightening of meat supplies, any improvement in the strength of consumer demand bodes well for second-half prices in the livestock complex. However, there has been a lag in the upward adjustment of retail prices as live cattle and hog prices moved sharply higher in the first half. Consequently, farm level price gains could be affected by further increases in retail meat prices and, in particular, by the widening of retail margins which narrowed appreciably in the first half. Nevertheless, it appears that hog prices this summer and fall could average in the mid to upper \$50s per hundredweight and perhaps range in the low \$60s at times. In comparison, cattle prices, which reached \$73 recently, may average in the mid \$60s in the second half of 1982.

**U.S. AGRICULTURAL EXPORTS** for the fiscal year ending September are expected to decline to \$42 billion, down \$1.8 billion from a year ago, according to revised estimates from the USDA. The decline reflects lower prices since the volume of shipments is projected to rise

4 percent to 168.5 million metric tons. Agricultural imports are expected to fall to \$15 billion in fiscal 1982, down 13 percent and the lowest since 1978. The agricultural trade surplus, forecast at \$27 billion, could slightly exceed last year's record of \$26.5 billion.

The fiscal 1982 export forecast presumes a fairly strong rebound from the slow pace in the October-March period. The value of farm exports for October-March was down a tenth from the year earlier, as prices of major export commodities edged lower. However, the volume of agricultural exports in the first six months also lagged the year earlier by 3 million metric tons. Sharply lower feedgrain exports offset volume gains for soybeans, wheat, and some other products. Corn exports, which account for about four-tenths of the total volume of agricultural exports, were down a fourth in October-March from the year before. In the same period, wheat exports were up 13 percent and soybean exports rose a fifth. Wheat and soybean exports combined make up another four-tenths of export volume.

Exports to a number of major foreign customers were down in the period. The value of shipments to Eastern Europe was half that of a year earlier because of a sharp decline in grain exports to Poland and Romania. Exports to Asia were off 15 percent because of reduced grain purchases by Japan, the major buyer in that region. Exports to China were off nearly a third in the six-month period. First-half shipments to Latin America were down a third due to sharply lower shipments of grains and soybeans to Mexico. In contrast, exports to Western Europe increased 6 percent due to increased purchases of soybeans. Moreover, exports to the USSR were up 35 percent since the embargo of a year ago.

Several factors contributed to the lags in both the volume and value of exports. Economic activity, particu-

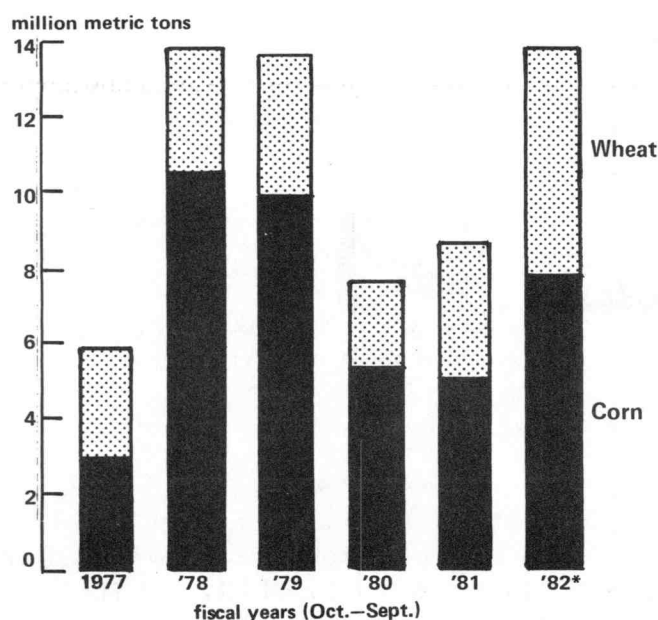
larly in the developed countries, is down appreciably this year. High interest rates have increased the debt service requirements for most countries, and several countries, especially in East Europe, have found it more difficult to get international credit financing. The U.S. dollar appreciated further against currencies of other industrialized countries this year, continuing a trend that makes U.S. farm commodities more expensive to foreign customers despite much lower market prices domestically. In addition, because of larger stocks of farm commodities this year, some countries have been able to reduce imports.

For the second half of the fiscal year, the USDA expects the volume of agricultural exports to pick up considerably, rising 11 percent from the year before. However, if these factors continue to affect world trade as they have in recent months, the outlook for U.S. agricultural export volume may deteriorate. To meet expectations, corn exports in the second half would have to be up 15 percent from the year-earlier level, soybeans up 30 percent, and wheat up 11 percent. Thus, soybean and wheat exports will have to continue the strong pace that was evident in the first half of the fiscal year and corn exports will have to pick up substantially in the second half. Interestingly, preliminary reports show that corn exports in April and May were up 3 percent from the year before but at a record pace for those two months. Soybean exports were up 36 percent while wheat exports were up 29 percent.

It appears that prospects for meeting the overall export tonnage projection will be tied to the continued strength of corn, soybean, and wheat exports in the near term. In that regard, trade developments and relations with the USSR may be important. In the first six months of the fiscal year grain shipments to the Soviets constituted a fifth of the corn shipped by the United States and a fourth of the wheat. Since March, however, the Soviets have not entered U.S. grain markets, and nearly all of the grain purchased earlier has been shipped.

Agricultural imports are expected to decline \$2.2 billion from last year to \$15 billion. Nearly all of the decline is expected to reflect lower import prices. However, import volume is also expected to be down 2 percent from the year before. Coffee imports and sugar imports, which will be regulated by quotas, will likely be lower. For the first time in five years, imports of competitive products—products that are also produced in the U.S., such as meats, sugar, and vegetables—will be down from the year before.

**Soviet imports of U.S. grains  
in recent years**



\*Sales and exports as of June 3, 1982 for delivery this fiscal year.

Jeffrey L. Miller



## Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
<b>Farm finance</b>					
Total deposits at agricultural banks†	1972-73=100	June	254	+ 0.9	+10
Total loans at agricultural banks†	1972-73=100	June	273	+ 1.3	+ 4
Production credit associations					
Loans outstanding					
United States	mil. dol.	May	21,320	+ 1.6	- 1
Seventh District states	mil. dol.	May	4,279	+ 0.9	- 3
Loans made					
United States	mil. dol.	May	2,763	-16.0	- 1
Seventh District states	mil. dol.	May	644	-15.5	+ 6
Federal land banks					
Loans outstanding					
United States	mil. dol.	May	45,895	+ 0.9	+16
Seventh District states	mil. dol.	May	10,991	+ 0.8	+17
New money loaned					
United States	mil. dol.	May	516	-12.3	-41
Seventh District states	mil. dol.	May	122	-14.3	-41
Interest rates					
Feeder cattle loans††	percent	1st Quarter	17.12	- 3.6	+ 1
Farm real estate loans††	percent	1st Quarter	16.66	- 2.1	+ 7
Three-month Treasury bills	percent	6/17-6/23	12.70	+10.1	-14
Federal funds rate	percent	6/17-6-23	14.17	+ 3.4	-26
Government bonds ( <i>long-term</i> )	percent	6/17-6/23	14.18	+ 7.4	+ 9
<b>Agricultural trade</b>					
Agricultural exports	mil. dol.	April	3,482	- 6.0	- 7
Agricultural imports	mil. dol.	April	1,189	- 9.9	-15
<b>Farm machinery sales<sup>P</sup></b>					
Farm tractors	units	May	5,735	-29.5	-34
Combines	units	May	597	+ 1.2	-49
Balers	units	May	675	+79.5	-45

†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.

<sup>P</sup>Preliminary.

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