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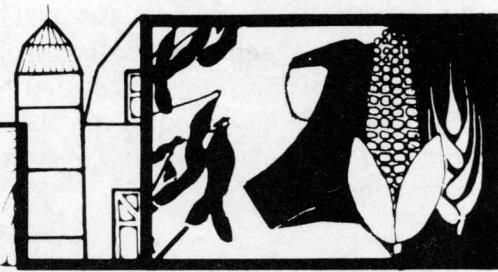
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LETTER

THE PIK PROGRAM was more popular than analysts expected. According to the USDA, farmers could take as many as 82.3 million acres of seven principal crops out of production this year under all options of the acreage reduction programs. This would be the largest amount of land ever idled under government programs, exceeding the 64.7 million acres withdrawn in 1962. The high level of participation, if realized, provides the foundation for higher commodity prices and a rapid—one year—downward adjustment in carryover stocks. It also improves prospects for farm income and may help to reduce government expenditures for programs in later years. However, it will have a serious short-term impact on the agricultural input industries.

acreage by 20 percent. Land diversion payments will be made on a portion of the base acreage idled—10 percent of the base in the case of feed grains and 5 percent for wheat. With PIK, which was initiated subsequently, an additional 10 to 30 percent of the base acreage could be idled or, by means of a bid procedure, the entire farm's crop base could be removed from production. In return for idling acreage under PIK, farmers will receive a portion of their established production—80 percent of the normal production for feed grains and 95 percent for wheat—from the government. Acreage removed from production must be devoted to conservation purposes. (See *Agricultural Letter*, Number 1595, for details of the program.)

PIK attracts unexpectedly large sign-up

Program crop	Base acreage* (Mil. A.)	Enrolled acreage		Indicated acreage diversion	
		Amount (Mil. A.)	As percent of base (percent)	Amount (Mil. A.)	As percent of base (percent)
Corn/sorghum	101.1	78.8	78	39.4	39
Oats/barley**	19.1	11.5	61	2.3	12
Wheat	90.8	78.3	86	32.1	35
Rice	4.0	3.8	96	1.7	43
Cotton	15.4	14.6	95	6.8	44
Total	230.4	187.1	81	82.3	36

*Base acreage roughly equals the acreage actually planted in 1982.

**PIK was not available to oat and barley producers.

Farmers enrolled 187 million of the possible 230 million acreage base for feed grains, wheat, rice, and upland cotton in the various programs for removing acreage from production this year. Of those acres enrolled, 90 million acres were in the feed grain program, 78 million in the wheat program, 15 million in the upland cotton program, and nearly 4 million acres in the rice program. Enrollment in these programs, which ended March 11, was necessary to determine eligibility for various payments associated with idling land and eligibility for regular and reserve loans and target price protection in 1983.

Of the total acreage enrolled, 66 million acres were enrolled by farmers participating in only the regular acreage reduction program. Some 98 million acres were enrolled by farmers who selected the 10 to 30 PIK option. Another 22 million acres were enrolled through the USDA's acceptance of whole base PIK bids. As a result of this level of sign-up, 82.3 million acres could be devoted to conservation purposes. If all the farmers who enrolled comply, about 36 percent of the base acreage for the seven major crops would be removed from production in 1983. However, some slippage can occur since non-PIK participants can withdraw from the acreage reduction program without penalty through this summer. Stiff penalties, however, are in place for those who try to withdraw from the PIK program. (For example, the penalty for corn is 57 cents per bushel of PIK entitlement). But even if all non-PIK participants withdraw, nearly 70 million acres would remain idle because of the very high level of participation in PIK.

The acreage reduction program, which was initiated first, required farmers to reduce plantings of their base

The corn/sorghum program is of special significance to the Seventh District. Nearly 79 million acres of the 101 million-acre national corn and sorghum base were enrolled. About 58 percent of farms with acreage bases were enrolled and 78 percent of the base acreage was enrolled. If all participants remain in the program, about 39.4 million acres of corn and sorghum would be

removed for conservation purposes. Requirements of PIK participants account for 35.5 million of those idled acres while the requirements of participants in only the acreage reduction program account for the other 3.9 million acres. Consequently, the USDA could transfer about 1.6 to 2.0 billion bushels of corn to meet the PIK commitment.

In District states, enrollment in the corn/sorghum program was comparable to the national results. Districtwide, 76 percent of the acreage base was enrolled, ranging from 68 percent in Wisconsin to 81 percent in Iowa and Michigan. As was the case nationwide, PIK participants accounted for the bulk of the enrollment. About 16 million acres could be idled in District states under all the options, representing 40 percent of the corn and sorghum acreage base.

The indicated high level of participation in the program portends a significant short-run adjustment in production of these major crops. If the corn acreage base is about 83 million acres—roughly equivalent to last year's planted acreage—and total enrollment in the corn program is in the same proportion as for the corn/sorghum program, then about 65 million acres of corn were enrolled and about 32 million acres of corn could be idled. As a result, planted corn acreage could fall to 51 million acres this year. This low planted acreage estimate assumes, however, that all the acreage enrolled remains in the program. In light of higher prices, acreage enrolled by non-PIK participants could be withdrawn and planted. About a tenth of the acreage to be idled, 3.2 million acres, applies to non-PIK participants. Moreover, higher prices could encourage farmers, who did not sign up for any part of the program, to plant more corn acreage this year. Allowing for these possibilities, many analysts are suggesting that planted corn acreage could exceed 55 million acres this year. This implies that corn production this year, depending on yield assumptions, could range between 5.5 and 6.0 billion bushels. By the fall of 1984, then, carryover stocks could be in the 1.5 to 2.0 billion bushel range, down significantly from this fall's estimated 3.5 billion bushels.

Corn prices have risen sharply in line with the prospective cut in supplies. Corn prices recently averaged \$2.90 per bushel, up from \$1.90 at the low point last fall and \$2.50 per bushel a year ago. If prices hold at these

EXPANSION IN HOG PRODUCTION is underway, according to the USDA's latest *Hogs and Pigs* report. The report showed that the winter (December-February) pig crop was up 10 percent from the year before, the first year-to-year gain since 1980. Moreover, the report indicated that the inventory of hogs held for breeding pur-

poses was up 6 percent, portending continued year-to-year increases in the spring and summer pig crops. The report surprised many analysts, who were not expecting expansion to be as far along as suggested by these numbers. The latest measures imply larger supplies of pork in the months ahead and lower prices for produc-

levels or move higher, then prices for the 1982/83 marketing year could average 10 cents per bushel above last year's \$2.50 per bushel.

PIK is expected to boost farm income. Net farm income may improve considerably from last year's \$20.4 billion. The bulk of the improvement will reflect lower production expenditures since the reduced acreage this year significantly lowers production input costs for crop farmers. Lower demand for some inputs also will stimulate price-cutting and lower input prices. Crop receipts will be down slightly because of lower volume, but higher crop prices will be nearly offsetting. PIK-entitlements and other government payments will be a significant boost this year to overall receipts.

The high level of participation in PIK may not cut the CCC's expenditures any this fiscal year. Prior to introduction of PIK, CCC net expenditures were expected to total \$18.9 billion in fiscal 1983, up from \$12.6 billion the year before. When PIK was first announced, total acreage idled under all programs was expected to be about 30 million acres and this was estimated to reduce CCC expenditures by \$600 million to \$18.3 billion. Because of the higher level of participation, however, it is possible that CCC expenditures may not be trimmed further.

PIK will affect the farm inputs industry the most severely. Based on the indicated levels of participation, purchases of inputs such as seed, fuel, and chemicals may be down by a tenth or more from the year earlier. Fertilizer purchases, though down, may not decline as much, particularly if farmers try to increase yields on planted acreage. The farm equipment industry is undoubtedly on its way to suffering its fourth year of depressed farm sales. However, since farm equipment sales tend to fluctuate with farm income historically, sales could improve later in the year as farm incomes improve. The USDA expects 2 to 3 percent of the employment in agriculturally-related industries to be affected. However, in some localized areas, where as much as 45 percent of the acreage may be removed, the impact is likely to be more dramatic on the rural economy. Nevertheless, while the attractiveness of PIK will provoke additional closings of farm supply plants and more layoffs of workers, it is interesting to note that many agribusiness leaders support the program because of its longer term benefits.

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ers. However, recent developments regarding the PIK farm program could help to slow the momentum of the expansion in hog production as corn prices—feed costs—rise.

The March *Hogs and Pigs* report summarizes the recent and prospective trends in production in the 10 major hog-producing states. The 10 states—Georgia, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Carolina, and Ohio—account for about 80 percent of U.S. production.

The cyclical upturn in hog production this winter ended a decline that began in the spring of 1980 during a long period of operating losses. The string of losses began in the latter half of 1979 and continued virtually uninterrupted through 1981. According to Iowa State University budget analysts, however, hog producers have realized favorable returns since the start of 1982. During 1982, hog prices rose to their highest levels since 1975 as hog slaughter averaged a tenth or more below the low year-earlier level. But this period of profitability may soon end as hog production expands and higher feed costs and lower hog prices prevail.

The larger winter pig crop reflected both an increase in the number of sows farrowed and an increase in the number of pigs per farrowing. Farrowings were up 5 percent from the year before, in contrast to producer intentions of last September to hold December-February farrowings nominally below the year-earlier level. The average number of 7.4 pigs per litter was up from the year-ago (and 5-year average) of 7.1.

The inventory of all hogs and pigs on farms in the 10-major states on March 1 was 41.6 million, up 3 percent from last year, but down 8 percent from the peak of 1980. Hogs held for breeding purposes were up 6 percent from the year before, but 20 percent below the peak of March 1, 1979. Hogs intended for market were 2 percent above a year ago. The number of hogs in the mid-to-heavy-weight classes were 2 to 3 percent below the year earlier level, while lighter-weight hogs were 2 percent above the preceding year. The number of pigs under 60 pounds was 7 percent above last year's count.

Trends in hog production in the three District states included in the survey varied from the 10-state pattern. (Michigan and Wisconsin are not surveyed.) The expansion in hog production in Iowa and Illinois, the two leading hog producing states, was not as evident as in other states, but was substantial in Indiana. Winter farrowings in Iowa were 4 percent higher than a year ago, in Indiana 12 percent higher, and 4 percent below the year earlier in Illinois. Despite the mixed trends in winter farrowings, the pig crop in Illinois and Iowa was up 6

percent and 8 percent, respectively, and was 17 percent higher in Indiana. The inventory of all hogs and pigs was down 2 percent in Illinois and Iowa, but up 9 percent in Indiana.

The larger number of hogs held for breeding purposes suggests that farrowings will increase in the months ahead. In line with this, producers' intentions for the spring (March-May) point to an 8 percent increase in sow farrowings from the year before. For the June-August period, producers intend to increase farrowings 7 percent. If these intentions are realized and if litter size is comparable to the latest five-year average, the spring and summer pig crop would be up similar percentages.

Hog slaughter, which began to decline in late 1980, continues to lag the year earlier. In 1982, hog slaughter was down a tenth from the year before and at its lowest level since 1978. Preliminary estimates for the January-March 1983 period indicate that slaughter was down 9 percent from the year before. Based on estimates from the March 1 inventory, it appears that second quarter slaughter may be slightly below the year-earlier level, particularly if more gilts are held back for expansion. Based on the latest inventory and estimates of the pig crop, hog slaughter in the third quarter could be up 3 to 5 percent from a year ago.

Based on farrowing intentions for the spring and summer, hog slaughter could be up 7 to 10 percent in the fourth quarter and the early part of 1984. However, these projections are tenuous because higher feed costs may discourage producers from expanding their hog operations further. The popularity of the PIK program has already sparked a significant increase in corn prices. If prices hold at these levels for long or continue to rise, hog producers' profits and their expectations of profits may be trimmed.

Hog prices are down in view of the prospective increase in slaughter. Barrow and gilt prices at major markets have dipped below \$50 recently, down from \$55 per hundredweight a month ago and an average of \$55 per hundredweight in the fourth quarter of 1982. While prices may rise somewhat seasonally from recent levels, analysts are anticipating second- and third-quarter prices to average in the low to mid \$50s per hundredweight. This fall, prices are expected to decline seasonally, perhaps averaging in the upper \$40s. Based on current costs, breakeven for hog production is about \$43 per hundredweight. Higher feed costs could result in a higher breakeven level later in the year, cutting profits for producers.

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	274	+ 1.0	+11
Total loans at agricultural banks†	1972-73=100	March	280	+ 1.9	+ 5
Production credit associations					
Loans outstanding					
United States	mil. dol.	February	19,367	- 0.7	- 5
Seventh District states	mil. dol.	February	3,801	- 1.2	- 9
Loans made					
United States	mil. dol.	February	2,587	-17.6	-11
Seventh District states	mil. dol.	February	582	- 5.9	-11
Federal land banks					
Loans outstanding					
United States	mil. dol.	February	47,339	+0.1	+ 6
Seventh District states	mil. dol.	February	11,282	0	+ 7
New money loaned					
United States	mil. dol.	February	274	-22.9	-49
Seventh District states	mil. dol.	February	54	-29.2	-47
Interest rates					
Feeder cattle loans††	percent	4th Quarter	14.96	- 8.7	-16
Farm real estate loans††	percent	4th Quarter	14.91	- 7.7	-12
Three-month Treasury bills	percent	3/24-3/30	8.61	+ 8.6	-35
Federal funds rate	percent	3/24-3/30	8.88	+ 5.2	-41
Government bonds (<i>long-term</i>)	percent	3/24-3/30	10.67	+ 1.5	-22
Agricultural trade					
Agricultural exports	mil. dol.	December	2,888	- 5.3	-20
Agricultural imports	mil. dol.	December	1,226	- 1.4	-11
Farm machinery sales^P					
Farm tractors	units	February	6,486	-12.3	-13
Combines	units	February	707	-60.6	+39
Balers	units	February	324	-17.1	+60

†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.

^PPreliminary.

AGRICULTURAL LETTER
FEDERAL RESERVE BANK
OF CHICAGO
 Public Information Center
 P.O. Box 834
 Chicago, Illinois 60690
 Tel. no. (312) 322-5112



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