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FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

April, 1992 Number 1827

Meat production continues to trend upward

Total red meat and poultry production rose over 3 percent in 1991, paced by gains in poultry and pork. An increase of 4 percent is anticipated in 1992. Both pork and poultry production are expected to again register solid gains. However, beef production is expected to continue with only a modest gain. On a per capita basis, total meat production rose over 5 pounds in 1991, and is expected to increase another 8 pounds this year. Achieving these expectations would mark the tenth consecutive year of rising per capita production. However, the prospects for larger production suggest livestock prices will continue to be pressured during 1992.

U.S. red meat and poultry production rose to 64.8 billion pounds in 1991 according to U.S. Department of Agriculture estimates. The gain was led by a 5 percent rise in poultry production. Among the major components of poultry, broiler production rose 6 percent, slightly less than the previous year. Turkey production—after jumping 10 percent in 1990—posted a more modest gain of nearly 2 percent last year. Total red meat (beef, veal, pork, lamb, and mutton) production rose 2 percent in 1991, reversing the downtrend of the previous two years. The gain in red meat production came largely on the strength of a 4 percent rise in pork production. After falling the previous year, pork production in 1991 rose to 16 billion pounds. Beef production edged up less than 1 percent to 22.9 billion pounds in 1991 after falling the previous year.

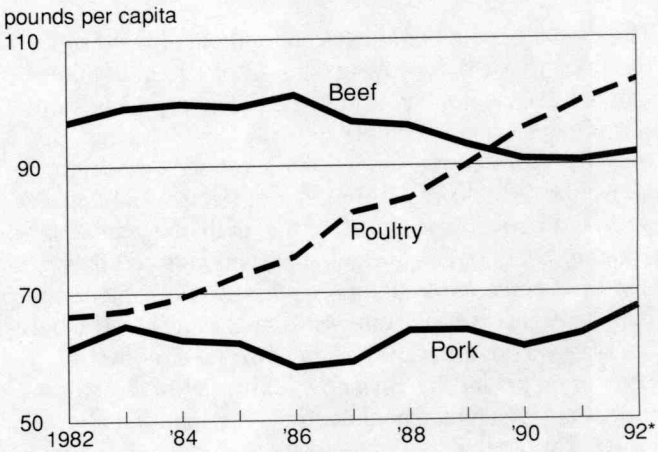
Though tending to fluctuate somewhat over time, per capita production of beef in 1991 was 7 percent lower than a decade ago. Per capita pork production was 8 percent below the cyclical high of a decade ago. In contrast, per capita poultry production has risen 50 percent over the past decade. Poultry now accounts for almost 40 percent of domestic red meat and poultry production, up from 28 percent 10 years ago.

Last year's increase in pork production came about as a result of an expansion among hog producers that has been underway since late 1990. Reflecting this, the number of pigs born and raised on farms during the 12 months ending last November was up 6 percent from the year before. The rate of expansion continued at a strong pace this past winter, but may moderate during the spring and summer months. The USDA's latest survey of hog producers indicates the December-February pig crop was up 9 percent from the previous year. The larger pig crop stemmed primarily from an increase in the number of sow farrowings, but was also aided by a relatively mild winter which contributed to a 2 percent rise in the number of pigs per litter.

The USDA survey also pegged the total number of hogs on farms as of March 1 at 56.1 million head, up 6 percent from a year earlier and up a tenth from two years ago. Overall, the number of market hogs in inventory increased nearly 7 percent. The largest gain occurred in the number of market hogs weighing under 60 pounds, which rose 8 percent. The number of hogs weighing 60 to 119 pounds was up 7 percent, while the number of hogs in the 120 to 179 pound weight class rose 5 percent. The number of hogs weighing more than 179 pounds increased 7 percent. The number of breeding hogs on farms posted a more modest increase of 3 percent—the smallest gain in a year—which suggests a slowing in the rate of expansion is on the horizon. As further evidence of a slowing, the latest indication of producers' farrowing intentions for the March-May period points to an increase of only 1 percent over a year ago. The intentions for the June-August period suggest sow farrowings this summer will be unchanged from a year ago.

The increase in market hogs on farms in Seventh District states matched the nationwide increase of 7 percent. However, there was considerable variation across the five District states. Iowa—which accounts for 26 percent of the U.S. hog inventory—experienced a 10 percent

Meat production



*Projection.
SOURCE: USDA.

increase in the number of market hogs. Market hog inventories in Illinois and Indiana were up 3 to 4 percent over a year ago. In contrast, hog numbers in Michigan and Wisconsin showed little change. The inventory of hogs held for breeding purposes in the Seventh District states increased 1 percent over a year ago. Iowa registered an increase of 3 percent, offsetting a decline of 1 percent in the combined breeding inventories of Illinois, Indiana, Michigan, and Wisconsin. Farrowing intentions for the District states also indicate a moderating expansion. The March-May farrowing intentions show a gain of 1 percent over a year ago, and the intentions for the following quarter indicate a decline of 1 percent.

The ongoing expansion among hog producers suggests pork production will increase nearly 8 percent in 1992. On a per capita basis, pork production is likely to be the largest since 1981. After registering a year-over-year gain of 8 percent in the final quarter of 1991, USDA reports indicate pork production rose nearly 11 percent in the first quarter of 1992. The larger supply helped hold the first-quarter average hog price for seven markets to $38.68 per hundredweight, one-fourth lower than a year ago. Moreover, the rise in market hog inventories indicates that slaughter will continue to run well above year-earlier levels through the spring and summer, with continued pressure on prices. The USDA is currently projecting the gain in pork production will hold at 9 percent in the second and third quarters before narrowing to 3 percent in the fourth quarter. A seasonal decline in pork production could lift average hog prices into the low-to-mid $40's in the second quarter. But prices are likely to trend lower during the summer and fall months. The USDA projects the third-quarter average for hog prices will range between $38 and $44. The fourth quarter range was pegged between $36 and $42 per hundredweight. While production costs vary widely among producers, figures from Iowa State University suggest the breakeven price for farrow-to-finish operators in early 1992 was near $43 per hundredweight. This implies that earnings of hog farmers will be trimmed considerably this year.

The nation's cattle herd has been trending upward since dropping to a 28-year low at the start of 1989. But the rate of increase has been slow. As of January 1, the number of cattle on farms numbered 100.1 million head, up only 1 percent from a year earlier and only 2 percent above the 1989 low. The number of steers weighing 500 pounds and over was 2 percent higher than a year ago. The number of heifers weighing 500 pounds and over was also up 2 percent from the previous year, with the number held as beef cow replacements rising 3 percent. The number of cows on farms and ranches was up a modest 1 percent on January 1. Beef cow numbers rose 2 percent, more than offsetting a decline in the number of dairy cows. Though the size of the cow herd increased somewhat, the calf crop remained unchanged from the cyclical low of the previous year due to lower calving rates. A return to higher calving rates is expected in 1992, leading to a 2 percent increase in the calf crop.

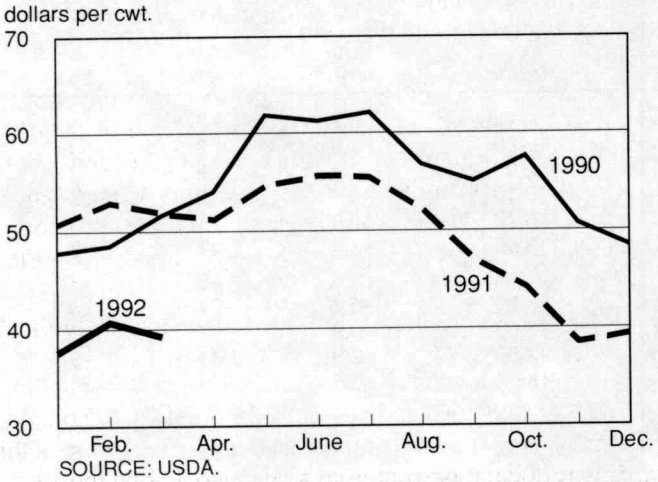
The movement of cattle through commercial feedlots over the past year has been perplexing. The number of cattle in feedlots at the start of 1991 was up considerably and represented the largest number in more than a decade. Yet the number of fed cattle marketed out of lots in the 13 major cattle feeding states was off slightly from the previous year and the lowest in 9 years. The movement of cattle into feedlots also turned sluggish last year, particularly during the third quarter when sharply declining cattle prices eroded returns to feedlot operators. For all of last year the number of cattle placed in feedlots declined 6 percent. As a result, the inventory of cattle on feed at the beginning of this year was down 6 percent from a year ago among the 13 major cattle feeding states and down 5 percent nationwide.

The decline in the number of cattle on feed was proportionately greater for the Seventh Federal Reserve District as compared to the nation as a whole, falling 11 percent on January 1 from a year earlier. However, there was considerable variation across the five District states. The greatest decline occurred in Iowa, where the number of cattle on feed fell 15 percent. The number of cattle on feed was down 9 percent in Michigan, with Illinois feedlots posting an 8 percent decline. Wisconsin and Indiana experienced a decline of 7 and 5 percent, respectively.

Commercial cattle slaughter declined nearly 2 percent in 1991 to 32.7 million head. However, beef production edged marginally higher due to heavier carcass weights and a small shift in the mix of cattle moving through processing plants toward more steers and fewer cows and heifers. For all of 1992, the USDA has projected that beef production will register an increase of 2 percent. USDA figures for the first quarter of 1992 indicate that beef production rose 1 percent over the year-earlier level. The number of federally-inspected cattle slaughtered through March 28 was also up about 1 percent. Looking ahead, the USDA anticipates beef production will exceed year-earlier levels by 3 and 2 percent in the second and third quarters, respectively. Production is expected to be near the previous year's level in the final quarter.

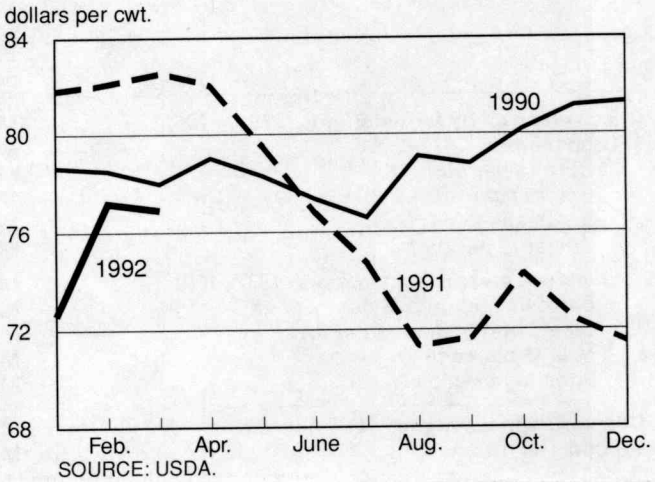
Iowa State University budgets indicate the breakeven price for feedlot operators was around $75 per hundredweight in early 1992. Choice steer prices at Nebraska during the first quarter of 1992 averaged $75.77 per hundredweight, implying that returns to feedlot operators continued to be narrow. Steer prices firmed this spring, but for the second quarter are projected to average between $73 and $77 per hundredweight. Seasonal declines during the summer months will likely pull the third quarter average lower. Prices are expected to strengthen somewhat in the fall as production moderates.

Barrow and gilt prices



SOURCE: USDA.

Steer and heifer prices



SOURCE: USDA.

The remarkable long-term growth in poultry production is likely to continue in 1992. However, the rate of expansion is expected to again moderate this year. Current USDA projections point to a 5 percent rise in broiler production and a 3 percent rise in turkey production. The rate of growth in turkey production has fallen sharply from two years ago due to producer losses stemming from large production increases and competing supplies of red meat. Wholesale turkey prices averaged near 61 cents per pound in 1991, and are expected to be marginally lower in 1992. In contrast, net returns to broiler producers are expected to remain positive in 1992, but at a reduced level. The USDA projects annual broiler prices will range between 48 and 52 cents per pound in 1992, compared to an average of 52 cents the previous year.

Meat trade takes on added importance in the face of record domestic production, as exports provide an outlet for the expanding supply. A 19 percent increase in U.S. pork exports combined with a 14 percent decrease in imports to drive net pork imports (imports less exports) down 25 percent in 1991. Much of the shift came from a decline in imports from Canada, Denmark, and Poland, while exports to Mexico increased 121 percent to 70.3 million pounds. Mexico is currently the second-largest market for U.S. pork exports following Japan. The USDA anticipates a marginal decline in net imports of pork during 1992.

Net imports of beef and veal fell nearly 10 percent in 1991 due to sharp increases in exports to Mexico and South Korea. The South Korean government raised its beef import quota in 1991, and is required by the 1990 U.S.-Korean Beef agreement to eliminate all beef import restrictions by the middle of 1997. Beef and veal exports to Mexico rose 137 percent to 172.8 million pounds as Mexican beef production fell off due to herd rebuilding and a restructuring of the meat packing industry. Japan and Canada remain the principal customers for U.S. beef, accounting for two-thirds of beef exports. The USDA expects net beef imports to fall again in 1992 as imports post a marginal decline and exports again show solid gains.

Canada and Mexico are the most important trading partners of the U.S. in terms of live cattle and hogs. Overall net imports of live cattle declined 19 percent in 1991 as exports of cattle to both Mexico and Canada rose substantially. Net imports of live hogs fell about 5 percent in 1991 as exports to Mexico increased fivefold to over 253,000 head.

Broiler exports expanded 10 percent in 1991 to a record level. However, broiler exports to the former USSR—a principal customer in 1990—fell nearly 40 percent in 1991. The continued weakening of this market is expected to cause broiler exports to post a marginal decline in 1992. In contrast, turkey exports are expected to expand again after reaching a record level in 1991. Turkey meat exports nearly doubled in 1991 as shipments to Mexico rose substantially.

Mike A. Singer

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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)*	March	143	0.7	–3	–4
Crops *(index, 1977=100)*	March	130	1.6	2	1
Corn *($ per bu.)*	March	2.53	2.4	6	7
Hay *($ per ton)*	March	70.10	–0.7	–13	–20
Soybeans *($ per bu.)*	March	5.70	2.0	–1	1
Wheat *($ per bu.)*	March	3.65	–3.4	44	5
Livestock and products *(index, 1977=100)*	March	155	–0.6	–8	–8
Barrows and gilts *($ per cwt.)*	March	39.20	–3.7	–24	–24
Steers and heifers *($ per cwt.)*	March	76.90	0.9	–7	–1
Milk *($ per cwt.)*	March	12.60	–2.3	11	–9
Eggs *(¢ per doz.)*	March	54.2	–0.2	–33	–31
Consumer prices *(index, 1982-84=100)*	March	139	0.5	3	8
Food	March	138	0.4	2	5
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	4,559	N.A.	–5	–5
Soybean stocks *(mil. bu.)*	March 1	1,177	N.A.	–1	11
Wheat stocks *(mil. bu.)*	March 1	886	N.A.	–37	–6
Beef production *(bil. lb.)*	February	1.71	–16.3	1	0
Pork production *(bil. lb.)*	February	1.33	–12.8	10	10
Milk production* *(bil. lb.)*	March	11.1	8.5	0	1
Receipts from farm marketings *(mil. dol.)*	December	16,671	–8.5	2	13
Crops**	December	7,694	–26.5	1	9
Livestock	December	7,605	2.2	12	7
Government payments	December	1,373	329.1	–26	112
Agricultural exports *(mil. dol.)*	January	3,668	–6.0	14	–2
Corn *(mil. bu.)*	January	99	–21.9	–32	–58
Soybeans *(mil. bu.)*	December	96	6.4	73	46
Wheat *(mil. bu.)*	January	135	16.3	95	62
Farm machinery sales *(units)*					
Tractors, over 40 HP	March	5,603	99.4	–16	–16
40 to 100 HP	March	3,208	85.6	–3	–8
100 HP or more	March	2,395	121.3	–29	–25
Combines	March	487	51.7	–17	–21

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

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