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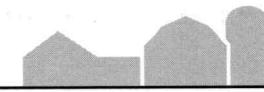
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AgLetter



LESS ACRES, HIGH USAGE BOOST GRAIN PRICES

Grain prices have surged recently as market participants weighed the problems affecting this year's crops against an unexpectedly strong pace in usage. While much uncertainty remains, recent reports from the U.S. Department of Agriculture offer updated benchmarks for gauging the potential imbalance between production and usage. The *Acreage* report confirmed that extensive planting delays this spring trimmed overall crop acreage and caused some shifting from grain to soybean seedings. The *Grain Stocks* report verified that domestic usage of corn registered further large gains this spring.

Crop acreage was expected to decline this year, largely because of the acreage-idling requirements that were reimposed on participants in the corn and rice support programs. Reflecting this, a March survey of farmers' planting intentions foreshadowed a 2 percent decline in acreage seeded to major grains. Heavy rains subsequently led to extensive planting delays in many areas this spring and triggered expectations for a larger cut in acreage. Government program changes to aid farmers hit by flooding added to those expectations. The updated estimates now show that the acreage seeded to grains this year is down more than 5 percent from last year. These estimates are still preliminary, however, because they are based on surveys conducted in early June when large areas in nine key states had not yet been planted. More refined estimates for those states will be released in August.

As summarized in the table, total feed grain acreage is now estimated to be down 8 percent from last year and nearly 4 percent below the level farmers had intended to plant. Corn acreage is estimated to be down 9 percent from last year and nearly 4.5 percent below intentions. A large share of the cut from intended corn seedings occurred in South Dakota and Missouri and—to a lesser extent—in Illinois, Indiana, and Ohio. Durum wheat seedings held close to initial intentions and were well above a year ago. Conversely, the acreage seeded to other spring wheat is now estimated to be down about 8.5 percent from both a year ago and from the area initially intended. The cut in spring wheat seedings and growing concerns about lower yields on the winter wheat now being harvested threaten to compound an already tight

world wheat market. Accordingly, the rise in wheat prices since late June has been especially large.

Overall, the area seeded to major grains this year is now indicated to be about 5.2 million acres less than had been expected earlier this spring. Only a portion of this acreage was shifted to other crops. Soybeans, which offer a longer planting season, absorbed most of the acreage that was shifted. Soybean seedings are now indicated to be up 2 percent from last year and nearly 3 percent, or 1.7 million acres, above the March intentions estimate. Hay acreage for harvest is also up from the earlier intentions estimate, probably reflecting both a shift from intended grain acreage and relaxed provisions in some flood areas that will permit haying and grazing on acreage that would normally be held out of production.

Changes in corn and soybean acreage in the five states that comprise the Seventh Federal Reserve District parallel the nationwide swings. Corn acreage in District states is now indicated to be down 9 percent from last year

Planted acreage, selected crops

	1989-93 average	1994	Intentions*	1995 June est.
(-----million acres-----)				
Feed grains	104.2	102.7	98.3	94.7
Corn	75.0	79.2	75.3	72.0
Sorghum	11.5	9.8	9.2	9.4
Barley	8.4	7.2	7.0	6.8
Oats	9.4	6.6	6.8	6.4
Wheat	73.6	70.4	70.9	69.4
Winter	53.1	49.2	49.3	49.3
Durum	3.1	2.8	3.3	3.3
Other spring	17.4	18.3	18.4	16.8
Rice	2.9	3.4	3.1	3.2
Soybeans	59.4	61.9	61.4	63.1
Sunflower	2.3	3.6	3.5	3.6
Peanuts	1.8	1.6	1.6	1.6
Cotton	12.7	13.7	16.2	16.6
Hay**	60.8	58.7	59.0	60.2
Dry beans	1.9	2.0	2.1	2.0
Sugarbeets	1.4	1.5	1.4	1.4

*As indicated by a March survey of farmers' planting intentions.

**Figures reflect harvested acreage.

Source: U.S. Department of Agriculture.

and down 4 percent from the level intended in March. Alternatively, soybean seedings are up 4 percent from last year and nearly 3.5 percent above initial intentions. The combined corn and soybean acreage in District states is down 4 percent from last year but slightly above the 1989-93 average. District states account for nearly half of the nation's corn acreage and over two-fifths of its soybean acreage.

In addition to altering cropping plans, a late planting season can also raise the odds of experiencing other problems that affect the final harvest. Consequently, many observers expect a modest decline this year in the share of the planted acreage that will be harvested and a large decline from last year's exceptionally high yields per harvested acre. Reflecting the latter, corn and soybean yields in 1994—at a record high of 138.6 bushels and 41.9 bushels, respectively—were a fifth or more above the 1989-93 average. The range of possible outcomes for this year remains very wide. Yet many analysts are suggesting that the chances of achieving per acre yields much above average are remote, even assuming the best of weather during the rest of the growing season. These views are reflected in the latest judgmental projections from the USDA that point to a probable corn harvest of 7.8 billion bushels and a soybean harvest of 2.24 billion bushels. In comparison, last year's record harvest produced 10.1 billion bushels of corn and 2.56 billion bushels of soybeans.

Analysts are also trying to gauge how this year's harvest will stack-up against current rates of usage. The export pace for both corn and soybeans has rebounded sharply so far this year, tracking slightly above the latest USDA projections for the entire 1994/95 marketing year that ends with August. Those projections point to a rise of nearly 60 percent for corn exports and a rise of almost 40 percent for soybeans. They also imply the second highest level for corn exports in 14 years and the highest for soybean exports in 12 years. The gains in domestic use of corn and soybeans this year are also impressive. The pace in soybean crushings (into oil and meal) in domestic plants is headed toward a gain of 9 percent and another new annual high. And as implied by the most recent quarterly stocks estimate, domestic disappearance of corn is headed toward a rise of 17 percent and also a new high. In short, total usage of corn is expected to be about 9.46 billion bushels this year while that for soybeans is likely to approximate 2.35 billion bushels.

Relatively large carryover stocks from past crops will help to buffer the potential imbalance between this year's harvest and a continuation of the high usage levels for corn and soybeans. For soybeans, carryover stocks look sufficient to sustain this year's usage level for another year. That is not the case for corn, however. At best, the currently

projected corn harvest, supplemented with the maximum "safe" drawdown in carryover stocks, implies corn usage next year might need to be cut to about 8.60 billion bushels. Such a level would mark a sizable decline from this year but would otherwise still be the second highest on record. The question to be resolved by the market is what price will it take to rein in corn usage during the 1995/96 marketing year. The answer will hinge on a more complete assessment of both the forthcoming harvest and the strength in user needs for the year ahead. However, some observers have noted that prices tend to peak early when supply "shortages" begin to appear on the horizon. In that vein, it is interesting to note that the recent prices of \$2.75 a bushel were at the midpoint of the 40-cent range in average corn prices now forecast by the USDA for 1995/96.

Gary L. Benjamin

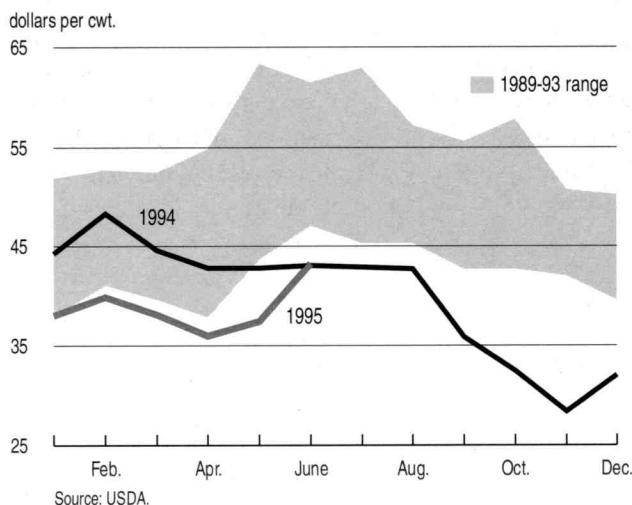
GAINS IN PORK PRODUCTION EXPECTED TO FADE

The number of hogs on farms as of June 1 declined a modest 1 percent from a year earlier, reversing a string of gains that began early last year. According to the USDA's latest quarterly *Hogs and Pigs* report, the number of market animals was down only nominally from a year earlier, while the size of the breeding herd registered a steeper decline. The implication is that pork production will dip below year-earlier levels during the fall and winter months. Hog prices have responded to the indicated decline by registering an unusually large seasonal increase in recent weeks. This may give pork producers pause when considering further adjustments to the breeding herd over the next few months.

The decline for breeding hogs accounted for most of the overall reduction in hog numbers. At 7.2 million head, the breeding herd contracted 4 percent from a year earlier as farmers continued trimming their herds in response to weak or negative returns. In comparison, the number of market hogs was down only a half percent from last year to tally 52.9 million head. A decline in the pig crop for the March-May period pulled the inventory of lighter weight market hogs down relative to the heavier groups. The number of hogs weighing under 60 pounds dropped 3 percent from a year earlier, while the inventory weighing 60 to 119 pounds was nearly the same as a year earlier. In contrast, the count of hogs weighing from 120 to 179 pounds was up 2 percent and the tally of heavier hogs was up 3 percent. These weight breakdowns suggest that pork production will continue to show year-over-year gains in the near term but then level off and decline later this year.

The decline in hog numbers in the states that comprise the Seventh Federal Reserve District—Illinois, Indiana

Barrow and gilt prices



Source: USDA.

ana, Iowa, Michigan, and Wisconsin—was relatively larger than that experienced nationwide. The number of breeding animals in District states dropped 7 percent, while the tally of market hogs was down 3 percent. Each District state experienced a decline in both breeding and market hog inventories. However, there was considerable variation among the individual states regarding the extent of the contraction in total hog numbers, which ranged from a negligible 1 percent in Indiana to a substantial 14 percent in Wisconsin.

The five Seventh District states are part of a group of sixteen major hog-producing states for which the USDA provides individual estimates in their quarterly report on hogs and pigs. Together, these sixteen states account for over 90 percent of U.S. hog numbers. Similar to District states, most of the other states in this group reported a decline in hog numbers. However, North Carolina stood out as a notable exception. The count of market hogs in that state rose by a fifth and the breeding herd registered an increase of over a tenth. The only other major states to avoid a contraction were Missouri and Ohio, where the June 1 hog numbers held at year-earlier levels.

The recent string of year-over-year gains in pork production appears to be nearing an end, at least temporarily. A large 7 percent rise in the first quarter was followed by a 4 percent gain in the second quarter. The gains will likely narrow further during the summer and then turn negative in the fall. Current indicators are that hog marketings this summer will hold slightly above a year earlier. In contrast, fourth quarter marketings are likely to be down between 3 and 4 percent. Nevertheless, per capita pork production is expected to register an annual gain of 1 percent this year. In comparison, per capita beef and poultry production are projected to rise 2 percent and 5 percent, respectively.

Looking ahead to next year, the outlook is less clear. The latest USDA projections point to a nominal year-over-year decline in pork production during the first quarter of next year, followed by a 1 percent rise in the second quarter. This forecast is consistent with the reported number of sows farmers intend to farrow from June through November (about the same as last year) and the upward trend in the number of pigs saved per litter. These farrowing intentions, however, appear to be high relative to the June 1 inventory of breeding animals. Assuming the reported intentions are on the mark, the decline in the breeding herd may not be quite as large as currently indicated. Moreover, the recent run-up in hog prices may well encourage producers to retain more gilts and reduce the culling of mature sows. However, producers will have to weigh the higher hog prices against the pressures on feed costs that might follow the recent rise in grain and oilseed prices.

Barrow and gilt prices at Iowa-Southern Minnesota markets averaged about \$38 per hundredweight during the first five months of 1995, 15 percent below the previous year. Reports from Iowa State University further indicate that breakeven costs for a representative hog farm—at \$42 per hundredweight—exceeded the prices received by farmers, contributing to the decision to shrink their breeding herds. But the recent—and uncommonly large—seasonal price increase pushed the June average price to over \$43 per hundredweight, slightly above the year-earlier level. Prices continued to rise this month and exceeded \$49 per hundredweight in mid-July. However, USDA analysts are skeptical that these prices can be sustained. The midpoint of their predicted range for barrow and gilt prices in the third quarter stands at \$42 per hundredweight, while that for the fourth quarter is seasonally lower at \$38 per hundredweight.

On a year-to-date basis, pork exports through April were up significantly from a year earlier. The improvement stands in sharp contrast to the expectations that existed at the beginning of the year. At that time pork exports were expected to fall, largely due to the peso crisis that adversely affected the sale of U.S. goods to Mexico. Though shipments of pork to Mexico did register an extensive decline, exports to other nations—such as Japan, Canada, and Russia—recorded substantial gains. At the same time, pork imports weakened, allowing the U.S. to post a small but positive trade balance through April. But despite the favorable start, the export pace is expected to wane in the second half while imports gain strength, leaving the U.S. pork trade in a deficit position for the entire year.

Mike A. Singer

SELECTED AGRICULTURAL ECONOMIC INDICATORS

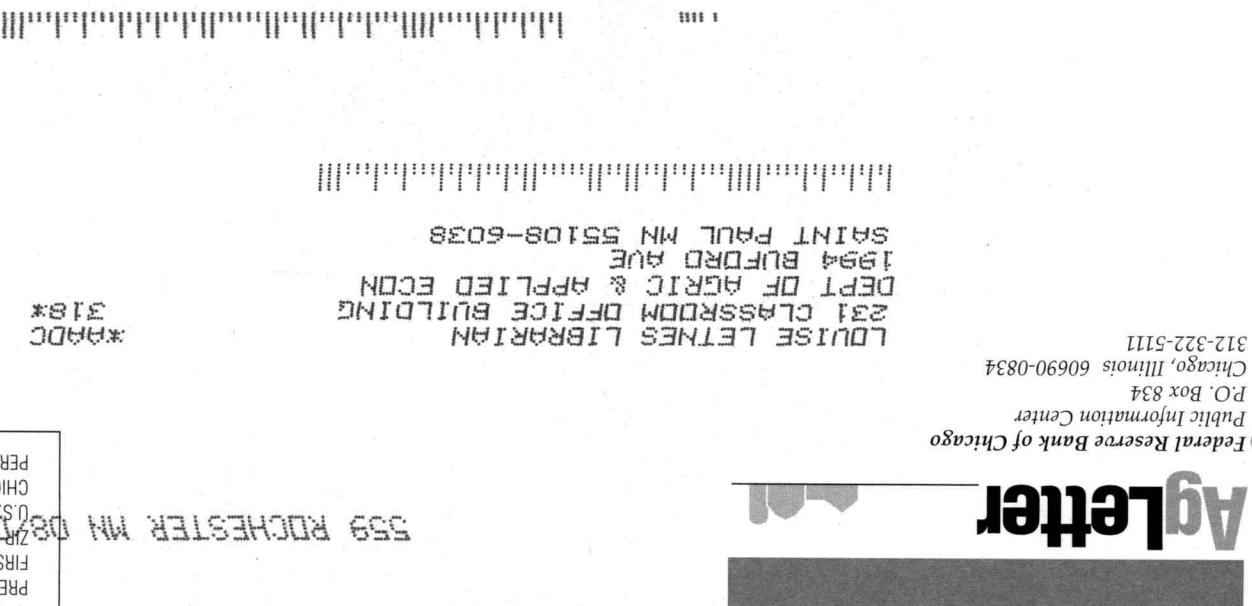
				Percent change from		
		Latest period	Value	Prior period	Year ago	Two years ago
Prices received by farmers (index, 1990-92=100)		June	100	0.0	0	-1
Crops (index, 1990-92=100)		June	113	-1.7	5	14
Corn (\$ per bu.)		June	2.56	6.2	-2	22
Hay (\$ per ton)		June	83.90	-7.2	-5	5
Soybeans (\$ per bu.)		June	5.62	1.1	-16	-5
Wheat (\$ per bu.)		June	3.85	5.2	20	36
Livestock and products (index, 1990-92=100)		June	90	2.3	-4	-12
Barrows and gilts (\$ per cwt.)		June	42.70	13.9	-2	-13
Steers and heifers (\$ per cwt.)		June	64.10	0.8	-1	-17
Milk (\$ per cwt.)		June	12.20	-1.6	-3	-6
Eggs (¢ per doz.)		June	57.8	2.7	0	-13
Consumer prices (index, 1982-84=100)		June	153	0.2	3	6
Food		June	148	-0.3	3	5
Production or stocks						
Corn stocks (mil. bu.)	June 1		3,416	N.A.	45	-8
Soybean stocks (mil. bu.)	June 1		792	N.A.	43	16
Wheat stocks (mil. bu.)	June 1		510	N.A.	-10	-4
Beef production (bil. lb.)	May		2.18	18.1	10	18
Pork production (bil. lb.)	May		1.53	8.5	9	17
Milk production* (bil. lb.)	June		11.5	-4.0	2	N.A.
Receipts from farm marketings (mil. dol.)		February	12,848	-24.6	-4	0
Crops**	February		5,164	-45.3	6	10
Livestock	February		6,956	-7.5	-5	-1
Government payments	February		727	698.9	-39	-32
Agricultural exports (mil. dol.)		April	4,510	-10.5	31	24
Corn (mil. bu.)	April		165	-15.9	91	8
Soybeans (mil. bu.)	April		81	-2.9	132	66
Wheat (mil. bu.)	April		92	-13.4	21	-31
Farm machinery sales (units)						
Tractors, over 40 HP	June		5,647	-2.4	-9	-10
40 to 100 HP	June		4,169	6.1	-4	-7
100 HP or more	June		1,478	-20.3	-19	-18
Combines	June		776	25.6	-7	32

N.A. Not applicable

*22 selected states.

**Includes net CCC loans.

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