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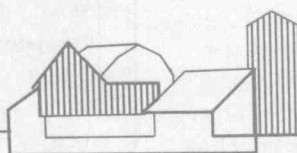
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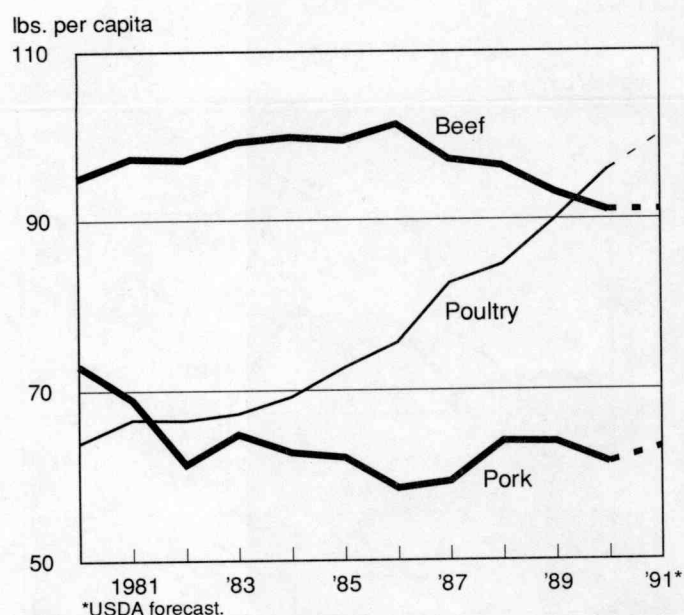


Meat production continues to grow

U.S. meat production is headed higher again in 1991, marking the ninth consecutive year of rising per capita production. Through August of this year, meat production was up nearly 2.5 percent from the same period a year ago. The latest USDA projections suggest the year-over-year gain will widen to 4 or 4.5 percent during the fall and winter quarters. The recent upturn in pork production accounts for most of the bigger gains expected in the months ahead. But continued growth in poultry production and an upturn in beef production are also anticipated. The prospects for increased meat production have trimmed cattle and hog prices and lowered prospective earnings for livestock farmers.

The rise in meat production so far this year stems mostly from the sustained growth in poultry production. Over the past decade, poultry production has risen at a compound annual rate of 5 percent. Through August of this year, poultry production was up 5.7 percent from the pace of last year and up more than 14 percent from two years ago. The increase from last year encompasses a rise of 6.7 percent in broiler production and a 3.2 percent rise in turkey production.

Meat production



Per capita production of both beef and pork have edged lower in recent years. But pork production turned up in the second quarter and beef production moved above year-earlier levels this summer. Through September, pork production was up 2.9 percent from last year's pace while beef production, despite an upturn this summer, was even with last year. Over the past decade, total red meat production (beef and pork plus modest amounts of veal, lamb, and mutton) has fluctuated in a very narrow range. On a per capita basis, red meat production has trended irregularly lower. During the last two years, per capita production of red meats declined 5 percent. The downtrend is likely to be interrupted this year given the expansion now underway among hog farmers.

Very favorable earnings for most hog farmers the past two years have culminated in a sizable upturn in production. The upturn first became evident in sow farrowings last fall and in available pork supplies at the retail meat counter this spring. The USDA's latest quarterly survey of hog farmers shows that the expansion continues at a significant pace. For example, the number of sows that were farrowed during the three months ending with August was 8 percent more than the year before and the most for that period since 1983. The continuing expansion during the summer months helped boost the number of hogs that are intended for slaughter markets to 52.0 million head as of September 1, up 6 percent from the year before. Moreover, the inventory of hogs kept for breeding purposes reached 7.27 million head, up nearly 7 percent from the year before.

In line with the expanded inventory of brood sows, producers intend to increase farrowings through the winter months. The latest survey of producer's intentions suggests that sow farrowings during the September-November quarter will be up nearly 8.5 percent from the year before and 2 percent above the intentions reported three months ago. The first reading of farrowing intentions for the December-February quarter points to a gain of 7 percent from last year. The expansion in hog production could extend well into next year. But the rate of expansion will probably slow considerably by next spring.

Hog farmers in the states that comprise the Seventh Federal Reserve District are also expanding production. The latest inventory estimates for Iowa show a 7 percent rise

in the number of market hogs and a rise of nearly 10 percent in the number of hogs kept for breeding purposes. Among the other four District states (Illinois, Indiana, Michigan, and Wisconsin) the inventory of market hogs is up about 6 percent while the inventory of hogs held for breeding purposes is up about 6.5 percent from a year ago. Iowa is the largest hog producing state, accounting for more than a fourth (27 percent) of the inventory of all hogs and pigs nationwide. The remaining District states together account for an additional 23 percent of all hogs and pigs. Elsewhere, the most notable expansion in hog production is occurring in North Carolina. In that state, hog numbers as of September 1 were up 26 percent from a year earlier.

The indicated expansion among hog farmers foreshadows sizable gains in pork production and considerably lower hog prices. Following a third quarter rise of 5 percent, the latest report implies that the year-over-year gain in pork production will rise to 6 or 7 percent during the final quarter of this year and increase to 7 or 8 percent during the first quarter of next year. If producers carryout their current farrowing intentions, the rise in pork production during the second and third quarters of 1992 could approximate 8 or 9 percent. From a longer term perspective, it now appears that per capita pork production next year will be the highest in 11 years.

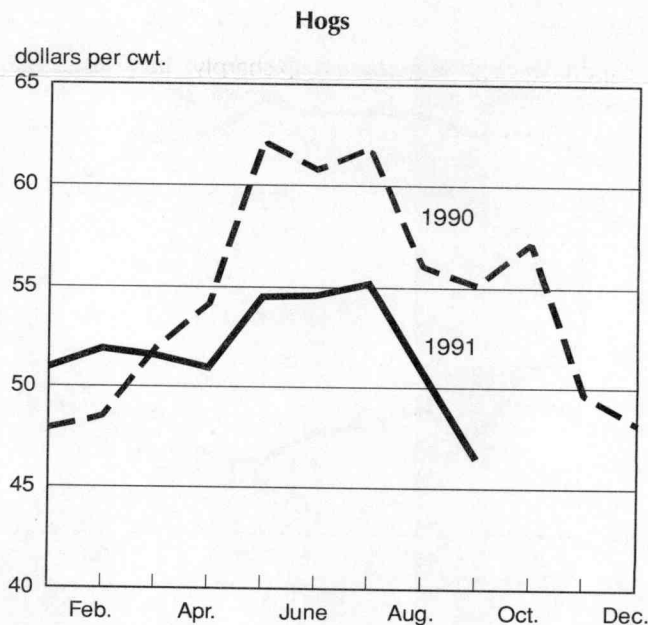
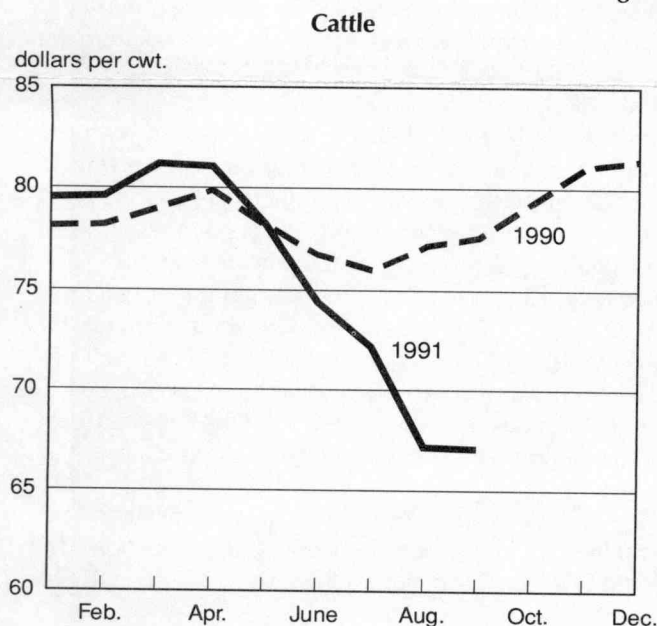
Beef production during the third quarter rose 3 percent, marking the first year-over-year gain in several quarters. The upturn was due to heavier dressed weights. The number of cattle that moved to packing plants this summer was the same as a year ago. The heavier slaughter weights reflected a pick-up in the number of cattle that

moved from feedlots to packing plants and a change in the slaughter mix toward more steers and fewer heifers and cows. According to the USDA, third quarter marketings of cattle out of feedlots in the 13 major cattle feeding states was up 4 percent from last year, the first upturn in over two years. That upturn contributed to the 5 percent rise in the number of steers slaughtered in federally inspected plants this summer. In comparison, heifer slaughter was down 2.5 percent and total cow slaughter—despite increased culling of the dairy herd—was down nearly 10 percent.

The inventory of cattle in feedlots has dropped below year-ago levels as a result of the third quarter pick-up in fed cattle marketings and a continuing decline in the movement of young cattle into feedlots. According to the USDA, net placements of cattle in feedlots in the 13 major states during the third quarter were down 16 percent and the lowest for that period in a decade. Net placements in the second quarter were also at an unusually low level. The combination of slow placements and an upturn in marketings pulled the inventory of cattle on feed from 8 percent above year-earlier levels as of April 1 to 6 percent below the year ago level as of the beginning of October.

Of the five District states, only Illinois and Iowa are covered in the USDA's quarterly survey of feedlot operators. The most recent report notes that the decline in third quarter placements in both Illinois and Iowa substantially exceeded the decline in the other major cattle feeding states. And in contrast to the upturn elsewhere, fed cattle marketings in Illinois and Iowa this summer were off slightly from last year's pace. The number of cattle on feed in Illinois as of October 1 was estimated to be down

Hog and cattle prices



4 percent from a year earlier while the decline in Iowa approached 20 percent.

Most analysts believe that beef production during the rest of this year and in 1992 will match or slightly exceed year-earlier levels. The reported intentions of feedlot operators point to a slight decline in fed cattle marketings during the fourth quarter. However, a bulge in the number of heavier-weight cattle on feed suggests the upturn in fed cattle marketings could extend well into the current quarter. The USDA projections made in October suggest that fourth quarter beef production might be up 4 percent as the bulge in heavy-weight cattle move out of feedlots. Thereafter, the gain is expected to narrow to 1 percent in the first quarter of next year. For all of 1992, the USDA is anticipating a rise of just over 1 percent in beef production.

In conjunction with the upturn in red meat production, growth in poultry production will likely continue. However, the rate of growth may ease slightly. Recent projections imply the year-over-year gain in poultry production will range between 3 and 4.5 percent this fall and winter. For all of next year, the USDA is projecting a 4 percent increase in poultry production.

Year-to-year changes in domestic meat supplies are dominated by changes put in place by domestic livestock producers. Trends in U.S. trade in meat and live animals typically have only a negligible influence on domestic meat supplies. On balance, the meat and live animal trade developments this year are modestly cushioning the pick-up in domestic meat production. For example, net beef imports through August of this year have leveled off following a strong rise last year. Net pork imports through August were down a fifth. Broiler exports were comparable to the strong pace of a year ago despite a sharp downturn in shipments to the USSR this year. Turkey exports through August were up sharply. In terms of U.S. trade in live animals, net cattle imports are down 11 percent. Net imports of hogs through August are up slightly from last year's pace. However, hog imports will likely slow in light of a recent increase in the counter-vailing duty imposed in hogs moving into the U.S. from Canada.

The recent upturn in red meat production and prospects for further gains in the months ahead have led to consid-

erably lower prices for cattle and hogs. In September, barrow and gilt prices at major markets averaged \$46.50 a hundredweight, down from this year's monthly high of nearly \$55.25 in July and \$55.10 a year ago. More recently, hog prices have retreated to the low \$40s as pork production pushes to a seasonal peak this fall. Cattle prices also fell sharply this summer, dropping from a monthly average of over \$81 a hundredweight in March and April to just over \$67 in August and September. The September average for cattle prices was off more than \$10 a hundredweight from the year before and the lowest for any month since early 1988. This month, cattle prices firmed slightly, with recent quotes in the low \$70s.

In light of the large gains expected in pork production, hog prices through next summer are likely to range mostly from the low to the mid \$40s. Continued expansion could push prices during the latter part of 1992 down to the upper \$30s per hundredweight. Cattle prices should hold up better than hog prices, but will likely lag year-earlier levels. In general, analysts believe that cattle prices will hold mostly in the lower \$70s this fall and in the mid-to upper-\$70s during the early months of next year. Production costs vary widely among livestock farmers. But reports from Iowa State University suggest that production costs for hog farmers average in the low- to mid-\$40 a hundredweight. For feedlot operators, production costs average in the mid \$70s. The implications are that earnings of livestock farmers will shrink next year.

Gary L. Benjamin

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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 (1977=100)					
Crops (1977=100)	September	148	0.7	0	3
Corn (\$ per bu.)	September	140	3.7	14	10
Oats (\$ per bu.)	September	2.37	1.7	2	3
Soybeans (\$ per bu.)	September	1.15	5.5	6	-17
Wheat (\$ per bu.)	September	5.79	2.3	-3	2
	September	2.89	9.9	17	-22
Livestock and products (1977=100)	September	155	-1.9	-10	-3
Barrows and gilts (\$ per cwt.)	September	47.60	-8.8	-14	8
Steers and heifers (\$ per cwt.)	September	70.10	-1.7	-11	-3
Milk (\$ per cwt.)	September	12.60	2.4	-9	-10
Eggs (¢ per doz.)	September	63.0	-1.3	-8	-12
Prices paid by farmers (1977=100)	July	189	-0.5*	3	6
Production items	July	173	-1.1*	2	4
Feed	July	119	-4.8*	-8	-11
Feeder livestock	July	214	-4.0*	0	11
Fuels and energy	July	196	-1.0*	5	5
Producer prices (1982=100)	September	121	-0.3	1	7
Agricultural machinery and equipment	September	125	0.7	2	5
Fertilizer materials	September	99	-0.9	2	7
Agricultural chemicals	September	126	0.1	5	8
Consumer prices (1982-84=100)	September	137	0.4	3	10
Food	September	136	0.0	2	8
Production or stocks					
Corn stocks (mil. bu.)	September 1	1,521	N.A.	13	-21
Soybeans stocks (mil. bu.)	September 1	329	N.A.	38	81
Beef production (bil. lbs.)	September	1.94	-6.6	7	1
Pork production (bil. lbs.)	September	1.32	1.2	7	-3
Milk production (bil. lbs.)*	September	9.94	-3.6	0	3

N.A. Not applicable.

*Prior period is three months earlier.

**21 selected states.

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