FRB CHICAGO

AGRICULTURAL LETTER

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Surveys tally grain stocks and prospective plantings

The U.S. Department of Agriculture last week released its most recent quarterly survey of grain and soybean stocks and its annual survey of farmers planting intentions. The *Grain Stocks* report indicated that domestic usage of corn continued to rebound during the winter months. That, coupled with a strong pace in exports, suggests that this year's drawdown in carryover stocks of corn may be more than recently forecast by the USDA. The *Prospective Plantings* report indicated farmers intend to boost corn acreage about 3.5 percent this year while reducing soybean acreage about 2 percent.

The March 1 corn stocks estimate, at 4.8 billion bushels, was off 7.5 percent from the year before and the lowest for that date since 1985. Relative to total supplies at the start of the marketing year, the estimate implies that total usage of corn during the first 6 months of the 1989/90 marketing year was up a sixth from the same period a year ago and up 6 percent from the record-setting pace of two years ago. Exports account for a proportionately large share of the gain in total use of corn. Preliminary measures indicate that corn exports during the six months ending with February were up more than a fourth from the same period a year ago and the highest for that period since 1980/81 marketing year. At the same time however, the residual implication is that domestic use of corn from September through February was up about 13 percent from the curtailed pace of last year and second only to the record pace in domestic use of corn set two years ago.

In light of the first-half performance, it would appear that total use of corn during the 1989/90 marketing year will exceed the USDA's March projection. With respect to domestic use of corn, the strong, first-half pace would suggest that the USDA's March projection of 5.70 billion bushel for the entire 1989/90 marketing year may prove to be 100 to 200 million bushels too low. Corn exports from March through August could dip below the fairly strong pace of a year ago and still achieve the projected 2.28 billion bushels for the entire 1989/90 marketing year. Recent developments related to the USSR (including slow payments on recent shipments and the emerging tensions in the Baltic region) raise some concern about potential corn exports during the spring and summer. Yet outstanding corn export orders remain well above year-ago levels. That, coupled with the breadth of recent gains in shipments and orders from numerous foreign destinations offers hope that the projected corn exports for all of 1989/90 will be achieved. In short, total usage of corn this year may approach 8.2 billion bushels.

In contrast to corn, usage estimates for soybeans are more neutral to price prospects. Exports through the first half of the 1989/90 soybean marketing year, although up 14 percent from the drought-related level of a year ago, were otherwise the lowest for that period in many years. Domestic soybean crushings during the same period were up modestly from a year ago but still lackluster by historical comparisons. The disappointing crush performance largely reflects difficulties in U.S. exports of soybean meal. With an apparent record soybean harvest now underway in the Southern Hemisphere, U.S. exports of both beans and meal will likely face increased pressures from foreign supplies in the months ahead. Overall, it appears that total usage of soybeans for the 1989/90 marketing year will come close to the 1.8 billion bushels forecast by the USDA in March.

The *Prospective Plantings* report indicated that farmers intend to seed some 266 million acres to 15 major crops for harvest this year. Such a level would be the highest since 1986 but less than 1 percent above last year. The total includes about 106 million acres of intended plantings for feed grains, unchanged from last year. Total wheat plantings, including the area seeded to winter wheat last fall, are indicated to rise just over 1 percent to 77.6 million acres. Intended soybean plantings, at 59.4 million acres, would mark a decline of 2 percent from last year. While farmers could yet alter their intentions, actual plantings of major crops usually come fairly close to the levels indicated by the USDA's survey of planting intentions.

The mix of feed grain acreage this year will likely contain more corn and less sorghum, oat, and barley acreage. Nationwide, farmers intend to plant about 74.8 million acres to corn, up 3.5 percent from last year. In contrast, barley seeding intentions point to a decline of 3 percent while sorghum and oat seeding intentions both point to a decline of 9 percent.

Seeding intentions of farmers in states comprising the Seventh Federal Reserve District closely parallel the changes indicated nationwide. Farmers in the five District states intend to seed 35.4 million acres to corn, up 2 percent from last year, while reducing the area seeded to other feed grains to 3.7 million acres, down 8 percent. Farmers in Illinois and Iowa intend to hold corn plantings at last year's level while those in Indiana, Michigan, and Wisconsin intend to expand corn acreage by 4 to 6 percent. Soybean plantings intentions point to slight declines in all District states except Wisconsin. For the five states combined, farmers intend to seed about 22.9 million acres to soybeans, down 2 percent from last year. The area seeded to wheat for harvest in District states this year is estimated at 4.2 million acres, up 12 percent from last year and up 40 percent from two years ago.

While this year's crop harvest will be critically dependent on weather patterns and per acre yields, the indicated planting intentions provide additional insight into the potential harvest. Under normal conditions, the intended plantings imply that some 67.3 million acres of corn will be harvested for grain this year. Corn yields since 1985, excluding the 1988 drought year, have ranged from 116.2 bushels per acre (in 1989) to the 1987 peak of 119.8 bushels per acre. If per acre yields this year average between 118 and 122 bushels per acre, the indicated plantings would foreshadow a 1990 corn harvest of some 7.9 to 8.2 billion bushels. A harvest of that magnitude, with carryover stocks lower-than-normal and assuming usage in the 1990/91 marketing year holds at this year's indicated level, is not likely to be a burden on corn prices.

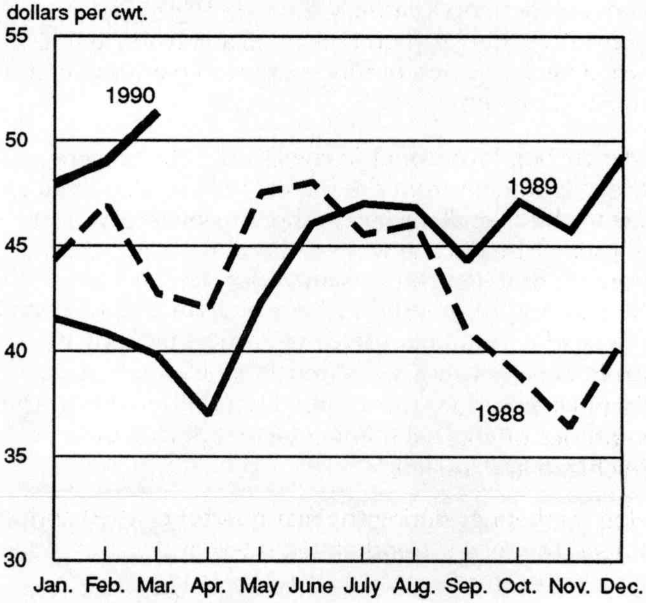
For soybeans, the implications would appear to be somewhat more bearish for prices. The report on intended seedings would suggest about 58.1 million acres of soybeans will be harvested this year. Soybean yields since 1985, excluding 1988, ranged from 32.4 to 34.1 bushels per acre. A comparable yield this year would foreshadow a 1990 soybean harvest of 1.9 to 2.0 billion bushels. Without a pickup in usage, this year's cut in acreage may not be sufficient to halt the buildup in carryover stocks of soybeans.

Gary L. Benjamin

Hogs and pigs

Hog production and slaughter supplies continued to show year-to-year declines during the early months of 1990, and the lag in the breeding herd inventory apparently widened as well. In addition, the recent USDA estimates of March inventories of market hogs and pig crops on U.S. farms suggest that hog slaughter and pork production will hold below year-earlier levels this spring and summer. According to producers' farrowing intentions, the year-to-year declines in

Hog prices*



*Barrows and gilts at 7 markets.
SOURCE: USDA, AMI

slaughter supplies may continue through the fall and into the early months of 1991.

Inventories of hogs and pigs on U.S. farms at the beginning of March continued below year-earlier levels, a trend that first surfaced in June of last year. The number of market hogs, at almost 44.9 million head, was down 2 percent from the previous March 1 level. Much of the drop was accounted for by an almost 4 percent decline in the number of pigs weighing less than 60 pounds, reflecting a significant decline in the winter pig crop. Market hogs weighing between 60 and 179 pounds recorded a 1.4 percent year-to-year drop. Heavy-weight hogs, those weighing 180 pounds or more and likely to have been marketed during March, numbered almost 1 percent less than last year. In addition to the decline in market hog inventories, the number of hogs kept for breeding purposes on March 1 recorded a year-to-year drop of 3.8 percent. That marked an unexpected widening from the 2.6 percent year-over-year decline reported in the previous quarterly report.

Changes in hog inventories varied considerably across the District states, which account for just under half of the U.S. inventory of all hogs and pigs. Although the hog and pig inventory in the District was down about 2 percent from a year ago, changes in inventories ranged from a 4.5 percent decline in Iowa to a 4.5 percent increase in Michigan. The breeding herd in District states declined far less than the national total, recording a 1.4 percent drop from the previous year's level. The breeding inventory on Iowa farms, by far the largest hog producing state, dropped less than 2 percent while year-to-year declines of almost 3 percent and 5.5 percent were reported by Wisconsin and Illinois producers. Partially offsetting these declines, March breeding inventories in Indiana rose 2 percent, while Michigan hog producers reported a jump of almost 12 percent.

Market hog inventories in the District states were down 2 percent from the March 1989 level, comparable to the overall decline in the U.S. inventory. Virtually all of the decline was attributable to an almost 5 percent drop in Iowa's inventory of market hogs. Market hog inventories in Illinois were about unchanged from a year ago in March, while Wisconsin producers reported a rise of just over 1 percent. Somewhat larger year-to-year increases in market inventories of about 3 percent were reported for Michigan and Indiana.

Hog marketings during the first quarter of 1990 continued the recent trend of year-to-year declines. Preliminary estimates of hog slaughter in federally inspected plants point to a slight drop from year-earlier levels through March. The inventory of market hogs weighing between 60 and 179 pounds along with the size of the fall pig crop suggest that hog slaughter will show larger year-to-year declines during the second quarter. However, there is some inconsistency in the magnitude of the indicated decline. Although the inventory figures suggest a year-to-year drop of 1 to 2 percent, last fall's pig crop was down 4.5 percent from a year earlier, suggesting a much larger decline in slaughter supplies this spring.

The March 1 inventory of market hogs weighing less than 60 pounds and the size of the winter pig crop provide an indication of third quarter slaughter supplies. Both of these measures show year-to-year declines of just over 3.5 percent, suggesting that hog marketings during the summer months will continue well below the year-ago level.

Producers' intentions regarding sow farrowings during the spring and summer months point to continuing declines in hog slaughter next fall and winter. During the March to May period, U.S. producers intend to cut farrowings by more than 3 percent compared to the same months last year. If these intentions are carried out and the number of pigs per litter holds at last year's high level, hog slaughter during the final three months of 1990 will show a similarly large decline. Farrowing intentions for the June to August period point toward a drop of more than 2.5 percent. While these intentions are a very preliminary indication of the size of the summer pig crop and next winter's market supplies, they suggest that the downtrend in hog production will continue.

The further declines suggested by these farrowing intentions along with the sharp drop in breeding inventories, are surprising given the prospects for profitability in the hog industry. Lower feed prices in 1990 will reduce cost pressures, while hog prices are expected to average considerably above year-ago levels. Hog prices at the seven major markets have held above year-earlier levels since last fall, and through the first three months of this year have averaged close to \$50 per hundredweight, more than 21 percent higher than the same period a year ago. Barrow and gilt prices in recent weeks have held in the low \$50 per hundredweight range, and many analysts expect prices to average in the mid \$50s or higher during the current quarter, well above the \$41.84 average registered last year. Current USDA estimates suggest that the year-to-year gains will also extend into the third quarter, with barrow and gilt prices holding in the low to mid \$50 per hundredweight range.

Peter J. Heffernan

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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)*	March	154	1.3	3	18
Crops *(1977=100)*	March	134	0.8	-3	21
Corn *($ per bu.)*	March	2.34	0.9	-10	26
Oats *($ per bu.)*	March	1.39	-2.8	-42	-22
Soybeans *($ per bu.)*	March	5.58	0.2	-26	-8
Wheat *($ per bu.)*	March	3.42	-3.9	-16	25
Livestock and products *(1977=100)*	March	173	2.4	7	17
Barrows and gilts *($ per cwt.)*	March	52.50	8.0	32	22
Steers and heifers *($ per cwt.)*	March	79.70	1.5	3	10
Milk *($ per cwt.)*	March	13.80	-4.2	9	16
Eggs *(¢ per doz.)*	March	79.3	12.6	-1	60
Prices paid by farmers *(1977=100)*	January	180	1.1†	3	9
Production items	January	168	1.8†	2	11
Feed	January	128	0.0†	-9	14
Feeder livestock	January	205	4.6†	1	6
Fuels and energy	January	200	9.3†	21	22
Producer Prices *(1982=100)*	February	117	-0.1	5	11
Agricultural machinery and equipment	February	119	0.1	2	7
Fertilizer materials	February	93	2.6	-17	-5
Agricultural chemicals	February	118	0.6	4	11
Consumer prices *(1982-84=100)*	February	128	0.5	5	10
Food	February	131	0.7	7	13
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	4,813	N.A.	-8	-37
Soybean stocks *(mil. bu.)*	March 1	1,056	N.A.	19	-8
Beef production *(bil. lbs.)*	February	1.71	-11.7	-2	-7
Pork production *(bil. lbs.)*	February	1.22	-10.6	1	3
Milk production *(bil. lbs.)*††	February	9.81	-6.4	1	0

N.A. Not applicable.
†Prior period is three months earlier.
††21 selected states.

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