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Hog numbers down, but modest upturn expected

The USDA's latest quarterly survey confirmed that U.S. hog farmers held farrowings below year-earlier levels again this spring. Reflecting the cuts in sow farrowings over the past year, the June 1 inventory of hogs and pigs on farms was estimated to be down about 3 percent from both a year ago and from the cyclical high for that date set two years ago. The modest decline in production, fortified by strong pork exports and aggressive packer bidding has led to sharply higher prices and favorable returns to most hog farmers. In response to the favorable returns, hog farmers intend to expand production modestly this fall.

The smaller inventory largely reflects the fourth consecutive quarter of year-over-year declines in sow farrowings. The number of sows that farrowed during the March-May quarter was down 4.6 percent from the same period a year ago and modestly below the level reported in March as producer's farrowing intentions for the spring quarter. Due to the continuing uptrend in the number of pigs saved per litter, however, the decline in the March-May pig crop was held to 3.6 percent.

The June 1 inventory estimates showed that the number of hogs held for breeding purposes, at 7.18 million head, was down 2 percent from a year earlier while the number intended for slaughter was down nearly 3 percent. Despite fewer hogs held for breeding purposes, farmers intend to expand sow farrowings this fall. Farrowing intentions for the June-August quarter have been revised upward 2 percent from the level reported three months ago and now point to only a nominal decline from actual farrowings during the same period a year ago. Moreover, the initial report of intended sow farrowings for the September-November quarter point to a year-over-year gain of 2 percent. These intentions could be altered depending on how producers view the various factors (including this year's corn harvest) that will influence their prospective earnings in the months ahead. In the interim, however, the intentions foreshadow a 1 to 2 percent year-over-year rise in the June-November pig crop.

Hog slaughter and pork production for all of 1989 rose about 1 percent, reaching the highest annual totals since the early 1980s. On a quarterly basis, the two measures initially retreated last fall and then recovered

during the January-March period to match the cyclical first quarter high of last year. Since then, both slaughter and production have been down considerably. Preliminary estimates indicate that hog slaughter at federally-inspected plants during the 13 weeks ending June 30 lagged the year-earlier level by 7.5 percent. Based on the latest estimates of hog numbers and recent pig crops, it appears that hog slaughter during the second half of this year will be down 2 to 4 percent from year-earlier levels. The bulk of the second-half decline will come during the current quarter, with fourth quarter slaughter rising seasonally and nearly matching the year-earlier level. Based on current farrowing intentions, slaughter in the early months of 1991 will likely be near, or slightly below, year-earlier levels, followed by an upturn of perhaps 3 percent in the second quarter.

In addition to production, hog markets in recent months have also been influenced by trends in pork trade. U.S. imports of pork, net of exports, typically account for only a modest share of available domestic supplies. (Over the past 10 years, the share of domestic pork supplies attributable to net imports has ranged from a low of 1.5 percent in 1981 to a high of 7 percent in 1987 and averaged 4.4 percent.) Yet major swings in U.S. pork trade, such as occurred the past two years when exports rose rapidly and imports retreated, can have a measurable impact on changes in available domestic supplies of pork. Reflecting this,

Recent trends in hog production,
U.S. and District states

	Iowa		Other District states*		U.S.	
	Million head	Percent change**	Million head	Percent change**	Million head	Percent change**
Pigs born and raised						
Dec.-Feb.	4.77	-5.8	4.42	-1.6	20.1	-4.5
Mar.-May	6.24	-3.7	5.68	-4.1	25.0	-3.6
June 1 inventory						
Market hogs	11.9	-4.4	10.8	-2.4	47.2	-2.8
Breeding stock	1.68	-2.9	1.60	-4.2	7.18	-2.0
Total	13.6	-4.2	12.4	-2.7	54.4	-2.7
Intended sow farrowings						
June-Aug.	.71	0	.70	-1.4	2.98	-0.5
Sept.-Nov.	.68	0	.65	1.6	2.84	1.9
Total	1.39	0	1.34	0	5.82	0.7

*Illinois, Indiana, Michigan, and Wisconsin.

**From same period the year before.

SOURCE: U.S. Department of Agriculture.

a 40 percent decline in net pork imports from 1987 to 1989 offset a sizable chunk of the 10 percent rise in domestic pork production and held the two-year gain in available domestic supplies to 6 percent.

Net pork imports continued well below year-earlier levels during the first four months of this year. However, the decline may be ending. The latest USDA projections suggest that net pork imports for all of this year may be up slightly.

In addition to pork production and trade patterns, hog markets in the months ahead will also be influenced by supplies of other meat. The large year-over-year gains in poultry production, which averaged 10 percent during the second-half of last year and the first quarter of this year, appear to be narrowing. Federally inspected poultry slaughter since late March has been about 8 percent above year-earlier levels and current USDA projections for the third and fourth quarter point to gains of 5.5 and 6 percent. In contrast, beef production since last fall has held close to year-earlier levels. Third quarter beef production may pick-up slightly, but any gain this summer will be more than offset by a decline in the fourth quarter. And continued strong growth in exports for both beef and poultry should partially dampened the production flows in terms of available domestic supplies.

Hog prices have risen sharply over the past several months, reflecting cuts in pork production, strength in foreign demand, and aggressive bidding by pork processors and packers. In May, barrow and gilt prices

at major markets averaged over \$62 per hundredweight, up 47 percent from a year ago and the highest for any month since August of 1986. Prices retreated slightly in June but are likely to remain relatively high for several more months. USDA analysts believe hog prices during the summer quarter will average in the low \$60s per hundredweight and then retreat to an average in the low \$50s when pork production picks up seasonally in the fourth quarter. Subject to forthcoming reports that will provide a better barometer of the anticipated upturn in production, hog prices in the early months of next year are expected to range between the high \$40s and the mid \$50s per hundredweight.

Based on Iowa State University studies, the break-even cost of production for typical farrow-to-finish hog farmers in that state has averaged about \$44 per hundredweight on hogs marketed in recent months. In light of the anticipated hog prices during the rest of this year and early next year, it seems likely that the string of favorable earnings for hog farmers that began in late 1989 will extend for several more months. These prospects tend to support the indication that hog farmers will soon begin to expand production.

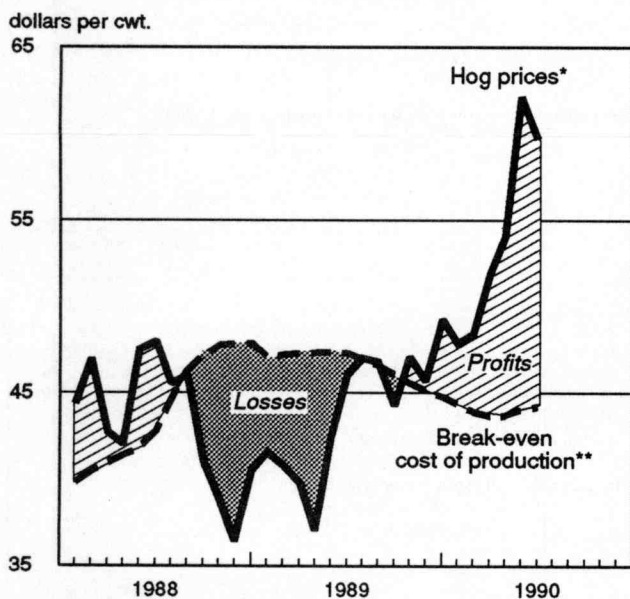
Crop acreage estimates

The U.S. Department of Agriculture recently released its first estimates of the acreage seeded to major field crops this spring. Those estimates, coupled with revisions to the estimates of small grains seeded last fall and this year's hay acreage, show that the area devoted to 14 major field crops this year will approximate 320 million acres. Such a level would mark a nominal decline of about 2 million acres from last year and be about 3 million acres below the level suggested by an earlier (March) survey of farmers planting intentions for this year. However, due to the late planting season and options available to price support program participants, many observers expect some of the latest estimates may be revised.

Given this year's late planting season, analyst had expected that the acreage estimates for some crops would differ from the levels indicated in the March survey of planting intentions. But the differences that were reported were nevertheless surprising. For instance, the latest estimate shows that this year's corn plantings will rise 3 percent from last year to about 74.6 million acres. The corn estimate was down only 230,000 acres from the earlier intentions report and about 800,000 acres above what many analysts had expected in light of the late planting season.

While the corn estimate was unexpectedly close to the earlier intentions report, estimates for other

Hog prices and cost of production



*Barrows and gilts, 7 major markets.

**Based on Iowa State University studies.

Corn and soybean planted acreage estimates

	1988	1989	1990	
			Mar. Int.	June Est.
(-----million acres-----)				
Corn				
Illinois	9.90	10.90	10.90	10.70
Indiana	5.20	5.35	5.70	5.60
Iowa	11.30	12.60	12.60	12.80
Michigan	2.10	2.30	2.40	2.40
Wisconsin	3.45	3.60	3.80	3.70
District states	31.95	34.75	35.40	35.20
United States	67.72	72.30	74.80	74.57
Soybeans				
Illinois	8.80	8.90	8.80	9.20
Indiana	4.30	4.60	4.45	4.30
Iowa	8.15	8.30	8.20	8.00
Michigan	1.25	1.10	1.00	1.15
Wisconsin	.43	.42	.42	.44
District states	22.93	23.32	22.87	23.09
United States	58.84	60.67	59.42	58.04

SOURCE: U.S. Department of Agriculture.

feedgrains revealed unexpectedly large declines. The latest report indicated that this year's combined plantings of barley, sorghum, and oats intended for harvest will retreat to 25.2 million acres. Such a level would be down 12 percent from last year and nearly 5.5 percent (or 1.44 million acres) below the level suggested by the March survey of farmers planting intentions. Moreover, the decline in barley, sorghum, and oat plantings will offset the rise in corn and leave this year's total feedgrain acreage below the 1989 level. The smaller acreage base and the shrinking odds — due to late plantings — of record per acre yields add considerable support to the view that this year's harvest will lead to a further drawdown in the already relatively low carryover stocks of corn and other feedgrains.

Analysts were also surprised by the estimate of soybean plantings. Since soybeans have a later critical planting date than corn, most analysts believed that the late planting season would result in slightly more soybean acreage than suggested by the March intentions report. To the contrary, however, the 58.0 million acres of estimated soybean seedings for 1990 was down 1.38 million acres from the level indicated in March. Moreover, it was down 4.3 percent from actual plantings last year and the lowest for any year since 1976. Subject to the usual uncertainties at this juncture regarding per acre yields and future usage levels, it now appears unlikely that this year's seedings will result in a further buildup in carryover stocks of soybeans.

Some of the unexpected swings in the recent acreage estimates may be clarified by future USDA reports.

The latest acreage estimates were primarily based on surveys conducted during the first half of June. Since a larger than normal share of this year's acreage had not been planted or — in drowned-out areas — replanted at the time of the surveys, it's possible that subsequent estimates this summer may result in comparatively large revisions to the June estimates.

Further clarification could also be provided when compliance tabulations are finalized for the amount of acreage idled by participants enrolled in 1990 price support programs. A recently issued preliminary report on program enrollment indicated that participants would idle some 24.8 million acres from production this year, down from the 30.9 million acres idled by program participants in 1989. Of the total for this year, some 12.6 million acres will apparently be idled under so-called 0/92 options that are available for the various program crops. Corn program participants, based on the preliminary enrollment report, will idle some 9.7 million acres, of which 3.7 million will be idled under the 0/92 option.

Due to the late planting season, the post-enrollment flexibility that program participants have for exercising the 0/92 option, and the relatively large "guaranteed" deficiency payments for 0/92 participants in the feed grain program, final reports on 1990 program compliance may reveal a larger amount of idled acreage for this year. A similar development occurred last year. The recently released report on 1989 program compliance indicated that the amount of acreage idled under 0/92 options was 1.7 million acres more than had been indicated by the initial 1989 program enrollment report. Virtually all of the increase was among corn and other feed grain program participants. By area, much of the increase was in Ohio and Indiana (where rains also substantially delayed plantings in 1989) and in North Central states where lingering drought problems last year diminished initial crop prospects.

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AGRICULTURAL LETTER (ISSN 0002-1512) is published bi-weekly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice-president, Peter J. Heffernan, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

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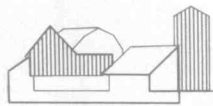
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	February	11,805	-20.5	-10	10
Livestock	February	3,919	-42.0	-4	-6
Government payments	February	6,869	-10.9	2	9
	February	1,017	166.2	-55	256
Real estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	15.4	0.7 [†]	6	15
Farm Credit System	March 31	26.1	-1.1 [†]	-4	-11
Life insurance companies	December 31	8.89	3.1 [†]	0	-4
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	27.8	-4.6 [†]	3	5
Farm Credit System	March 31	9.19	-3.2 [†]	4	2
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	April 1	11.93	-1.0 [†]	-5	8
Real estate loans	April 1	11.07	-0.7 [†]	-5	6
Commodity Credit Corporation	July	8.12	-3.0	-6	8
Agricultural exports (\$ millions)					
Corn (mil. bu.)	April	3,292	-18.5	-4	7
Soybeans (mil. bu.)	April	194	0.6	9	17
Wheat (mil. bu.)	April	44	-50.0	6	-35
	April	91	-17.0	-26	-42
Farm machinery sales^p (units)					
Tractors, over 40 HP	May	6,155	-25.0	17	44
40 to 100 HP	May	4,021	-14.0	20	31
100 HP or more	May	2,134	-39.6	12	77
Combines	May	813	7.8	84	295

*Includes net CCC loans.

[†]Prior period is three months earlier.

^pPreliminary



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