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Smaller increases in hog production

Hog production continued to expand during the last half of 1987. However, recent USDA estimates of December 1 hog numbers and the June-November pig crop showed smaller year-to-year gains than earlier *Hogs and Pigs* reports had foreshadowed. In addition, the latest report noted a smaller than expected increase in the nation's breeding herd and a possible scaling back in sow farrowings. These latest benchmarks have helped to offset some of the recent weakness in hog prices by suggesting that the increases in hog slaughter and pork production during 1988 may be more moderate than earlier thought.

December market hog inventories on U.S. farms were up almost 6 percent from the year-earlier level. Although up sharply from the eleven-year low registered in 1986, the December market hog inventory is still below the levels that prevailed in the first half of the decade. Increases were reported in all weight categories, with pigs under 60 pounds up about 3 percent from a year earlier and pigs weighing between 60 and 179 pounds up 6 percent. Market hogs weighing 180 pounds or more showed a 12 percent increase from the previous year's level. The December 1 inventory of hogs held for breeding purposes was up more than 5 percent from last year. While the rise was only about half of what many analysts had expected, it still suggests that the expansion in hog production will continue well into 1988.

The number of sows farrowing during the June-to-November period was up 6.5 percent from the comparable period a year earlier. The increase in farrowings, however, was somewhat smaller than the intended 8 percent increase reported by all producers in June. Actual farrowings in the ten major producing states did record an 8 percent gain, but that was below the intended farrowings reported in September.

The rise in second-half farrowings, combined with a similar gain in the first half of the year, contributed to a 7 percent year-to-year increase in the 1987 pig crop. In addition, the number of pigs per litter continued to show year-to-year gains in the first half of last year, rising 1 percent to almost 7.8 pigs per litter. During the latter half of last year the number of pigs per litter held at the previous year's high level of slightly more than 7.7. The increase in last year's pig crop to more than 87.8 million head reversed the downtrend of the previous three years.

Inventories and farrowings varied considerably among the five District states, which account for almost half of the U.S. inventory of hogs and pigs. Year-to-year increases in the breeding herd were noted in all District states but the gains ranged from a low of 3 percent in Wisconsin to 15 percent in Indiana. The breeding herd in Iowa, the largest hog producing state was up 5 percent from a year earlier. Market hog inventories on December 1 were up 8 to 10 percent in Indiana, Iowa, and Michigan, with Illinois inventories showing a 5 percent year-to-year gain. Hog producers in Wisconsin, however, reported a 2 percent drop in their inventory of market hogs from a year earlier.

Producers' intentions regarding sow farrowings this winter and spring point to continued increases in hog production. During the December-May period, U.S. hog producers intend to increase farrowings 5 percent from the previous year's level. Intentions among hog farmers in the ten major producing states point to a slightly higher year-to-year gain of about 5.8 percent. However, much of the intended increase among this group is scheduled for the winter months, when farrowings may expand by 10 percent from the year-earlier level. During the spring months, producers in these states intend to increase the number of sows farrowing by only a little over 2 percent.

For the second consecutive quarter, hog slaughter during the final three months of 1987 ran well ahead of the year earlier pace. With commercial hog slaughter in October and November up about 11 percent from the previous year and preliminary estimates of federally inspected hog slaughter during December pointing to a 16 percent increase, the fourth quarter total will likely register a 13 percent year-to-year increase.

The December inventory and pig crop estimates suggest that year-to-year gains in hog slaughter and pork production will continue in 1988. The summer pig crop of all U.S. producers was up about 7 percent, while the December inventory of market hogs weighing between 60 and 179 pounds registered a 6 percent year-to-year gain. Since these two indicators account for most of the hogs to be slaughtered during the first three months of 1988, it appears that hog slaughter during the period will register a similar gain.

The December inventory of pigs weighing less than sixty pounds and the fall pig crop, which largely accounts for this weight group, provide an early indication of second quarter slaughter. However, these two measures are somewhat inconsistent regarding the magnitude of increase likely to be registered during the second quarter. The fall pig crop was up 5.4 percent from the previous year while the December inventory of market pigs weighing less than 60 pounds was up only 2.8 percent. With a projected second quarter increase in hog slaughter falling within this range, it appears from the report that the expansion in slaughter and pork production this spring will be much less than many analysts had expected.

Initial indications of hog slaughter and pork output for the second half of 1988 come from producers' intended farrowings during the December-May period. The intentions of U.S. producers provided by the December report suggest a 5 percent year-to-year increase in sows farrowing this winter and spring. Producers in the ten major producing states reported similar intentions for the six month period with plans to increase farrowings by about 5.8 percent. With the intended increase in farrowings and expectations that the number of pigs per litter will hold near last year's high level, the report suggests that hog slaughter during the second half of 1988 will register an increase of 5 to 6 percent from the year-earlier level.

Hog prices dropped below year-ago levels last August and registered substantial year-to-year declines at the end of October. From the highs of around \$60 per hundredweight in the summer months, hog prices had dipped to the low \$40 per hundredweight range by the final months of 1987. That level contrasts sharply to the low \$50 per hundredweight prices that prevailed a year earlier.

Hog prices are expected to strengthen somewhat from the recent lows if the estimates from the latest *Hogs and Pigs* report prove reasonably accurate. The large inventory of heavyweight hogs indicated by the report were likely marketed during the final weeks of 1987, contributing to the weak prices evident at that time. With that backlog cleared and the smaller than expected increases in inventories, hog prices have strengthened during the early weeks of 1988. Expected declines in beef output and slower growth in poultry production this year are expected to temper gains in overall meat supplies. With smaller than expected increases in pork production, many analysts believe hog prices will move into the mid-to-upper \$40 per hundredweight range during the winter months and possibly average around \$50 per hundredweight this spring.

Peter J. Heffernan

Farm income and price support program changes

Some farm income and price support program provisions for 1988 were changed recently in the Budget Reconciliation Act. For grains, the changes result in a slightly bigger decline in target prices, and a slightly smaller decline in price support loan rates, than had been previously announced by the Secretary of Agriculture. In addition, the recent legislation requires that wheat and feed grain program participants must be offered a 0/92 option and that feed grain participants must be offered a scaled-down paid diversion option. For dairy farmers, the legislation imposes a modest assessment on all milk marketed by dairy farmers in 1988. Also, under provisions of earlier legislation, the Secretary has announced a 50 cent cut in the support price for milk.

The recent legislation lowers the 1988 target price for corn to \$2.93 a bushel, down from the previously announced 1988 target of \$2.97 and down from the \$3.03 per bushel target price that had been applicable for the 1984-1987 corn crops. For wheat harvested in 1988, the target price will be \$4.23 a bushel, down from the previously announced \$4.29 and down from \$4.38 in recent years.

While 1988 target prices have been cut more than previously announced, the planned reductions in CCC loan rates have been trimmed slightly. The national average loan rate for 1988 corn will now be \$1.77 a bushel, up from the previously announced \$1.74 but still down from \$1.82 for last year's crop. The 1988 loan rate for wheat will be \$2.21 a bushel compared to the previously announced \$2.17 and \$2.28 last year.

The latest changes in CCC loan rates and target prices effectively lower maximum deficiency payment rates, thus helping to hold the line on government outlays for farm income and price support programs. Under the support programs for grains, the deficiency payment rate per bushel is calculated as the difference between the target price and the higher of the loan rate or the crop-year average market price received by farmers. For 1988 corn, the maximum per bushel deficiency payment rate will now be \$1.16 per bushel, down from \$1.23 prior to the recent changes and \$1.21 for 1987 corn. The total deficiency payment for any farm enrolled in a program is the product of the deficiency payment rate times the program crop acreage harvested times the "established" (rather than actual) per acre yield for that farm.

The recent legislation also mandated that a paid (land) diversion option be offered to participants that enroll in the 1988 corn, sorghum, and barley programs. As was the case last year, participants who elect this option will receive a diversion payment as compensation for reducing their 1988 program crop plantings by more than the minimum 20 percent of base acreage that is required of all participants. To help reduce government outlays, however, the 1988 paid diversion option reduces the extra idling requirement from 15 percent of base acreage last year to 10 percent this year and cuts the diversion payment rate from $2 a bushel last year to $1.75 this year.

The recent legislation also requires that a modified version of the so-called 0/92 option be made available to 1988 wheat and feed grain program participants. This new feature will give 1988 program participants the option of holding their planted program crop acreage to some amount at least 8 percent less than would otherwise be permitted for their participation in the program and receiving 92 percent of the estimated deficiency payment that would have been applicable had the extra acreage been planted to the program crop rather than devoted to conservation uses. As an example, assume a farm with a 100 acre corn base enrolls in the corn program and elects the paid diversion option. For this farm, the program would permit 1988 corn plantings of up to 70 acres. At that level of plantings, 30 acres of the farm must be devoted to conservation uses. For any level of actual 1988 corn plantings below 64.4 acres (8 percent less than the acreage permitted) the farm could also elect the 0/92 option. If under that option 50 acres were planted to corn, another 20 acres (50 total) would have to be devoted to conservation uses. In this case, the 50 acres actually planted to corn would be eligible for a full deficiency payment rate and the other 20 acres of permitted plantings that were devoted to conservation uses would qualify for 92 percent of the estimated deficiency payment rate that was applicable during program enrollment. Alternatively under the 0/92 option, actual 1988 corn plantings on this farm could be reduced to zero, requiring 100 acres total be devoted to conservation uses. In this case, 92 percent of the estimated deficiency payment rate would be applicable on the entire 70 acres of permitted plantings.

While final details of the 0/92 option are not yet available, the USDA is apparently considering setting the estimated deficiency payment rate for corn between $1.05 and $1.10 a bushel. The estimated deficiency payment rate will likely be guaranteed for 0/92 option participants, even if final payment rates are lower because of higher-than-expected market prices. Alternatively, if final deficiency payment rates are higher than the enrollment period estimate, 0/92 option participants apparently will be fully compensated for the underestimate. And while 0/92 may not prove to be as attractive as previously speculated, there will be some enrollment limitations applicable in counties where initial 0/92 enrollment pushes the acreage idled under all programs to more than 50 percent of the base acreage in those counties.

The recent legislation also clarified some issues regarding the timing of participant payments. For instance, the legislation requires that advance deficiency payments must be made available, as of enrollment, to 1988 feed grain and wheat program participants. It also requires that the payments made in advance must be set by the Secretary at between 40 and 50 percent of the estimated total deficiency payment. And as an extra bonus to wheat program participants only, the legislation requires that 75 percent of the estimated final deficiency payments (less any advances previously accepted) be made available to 1987 program participants in February and made available to 1988 program participants in December.

In addition to affecting grain farmers, the recent legislation also attempts to hold the line on net outlays for farm income and price support programs by imposing a 2.5 cent per hundredweight assessment on all milk marketed by dairy farmers in 1988. More importantly, however, the Secretary of Agriculture recently determined that underlying conditions foreshadowed government price support purchases of manufactured dairy products of more than 5 billion pounds (milk equivalent) in 1988. Under the Food Security Act of 1985, this determination permitted the Secretary to cut the support price of milk by 50 cents per hundredweight as of January 1. As such, the milk support price is now $10.60 per hundredweight.

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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)*	August	10,021	-3.6	-4	-8
Crops*	August	3,302	-16.1	-4	-35
Livestock	August	6,334	2.5	-2	15
Government payments	August	385	37.0	-28	31
Real estate farm debt outstanding *($ billions)*					
Commercial banks	June 30	13.8	5.2†	14	30
Federal Land Banks	June 30	34.5	-3.9†	-17	-28
Life insurance companies	September 30	10.1	-0.7	-11	-16
Farmers Home Administration	June 30	10.2	-0.8†	-3	-1
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	June 30	30.4	5.7†	-11	-24
Production Credit Associations	June 30	9.88	2.5†	-22	-41
Farmers Home Administration	June 30	16.6	1.7†	-7	-8
Commodity Credit Corporation	June 30	14.3	-23.9†	-20	62
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	October 1	11.29	2.5†	0	-12
Real estate loans	October 1	10.70	2.2†	-1	-14
Commodity Credit Corporation	January	7.12	3.6	21	-8
Agricultural exports *($ millions)*	October	2,676	14.7	10	14
Corn *(mil. bu.)*	October	139	2.0	11	10
Soybeans *(mil. bu.)*	October	98	72.6	9	77
Wheat *(mil. bu.)*	October	105	-15.1	15	19
Farm machinery sales^p *(units)*					
Tractors, over 40 HP	December	4,825	39.9	38	11
40 to 139 HP	December	3,608	49.4	28	17
140 HP or more	December	1,217	17.6	81	-5
Combines	December	806	-16.6	63	-13

*Includes net CCC loans.
†Prior period is three months earlier.
^{p}Preliminary

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