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Larger than expected hog production

Hog production registered a larger than expected expansion during the second quarter of 1988. Recent USDA estimates of June 1 inventories of market hogs and pig crops on U.S. farms show much larger numbers than suggested by the previous *Hogs and Pigs* report. The larger inventory reflects a somewhat larger U.S. winter pig crop than was suggested by the 10 major producing states surveyed in March and a substantially greater increase in the spring pig crop than was suggested by farrowing intentions by this group. Initial farrowing intentions of U.S. hog producers indicate that the expansion will continue during the second half of 1988, boosting pork supplies well into 1989. However, drought conditions and higher feed costs could substantially alter these plans.

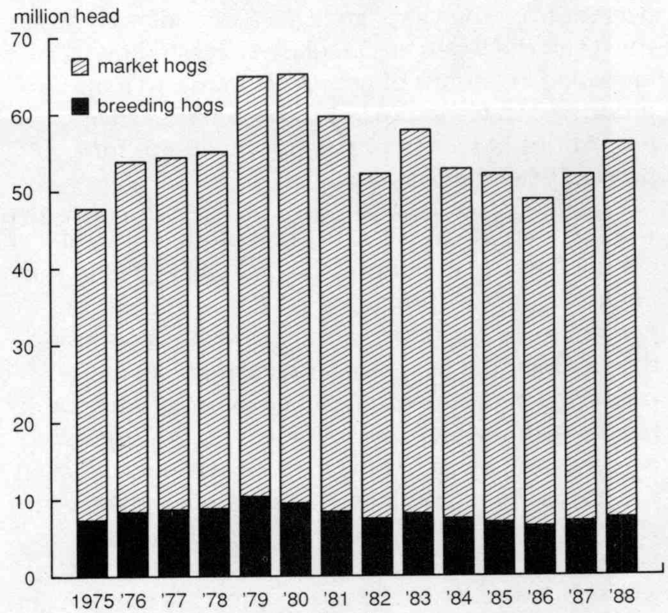
The June 1 breeding hog inventory on U.S. farms was up more than 7 percent from a year earlier and more than 17 percent above the record low registered in 1986. Market hog inventories registered an increase from a year earlier of more than 8 percent, to reach the highest June 1 inventory in five years. Increases were recorded in all weight categories, with pigs under 60 pounds up about 7 percent from last year and pigs weighing between 60 and 179 pounds up more than 8 percent. Market hogs weighing 180 pounds or more showed an increase of 11 percent from the previous year's level.

The June 1 inventory levels for the U.S. were considerably larger than what was expected following the March *Hogs and Pigs* report covering the 10 major producing states. At the time of that report, the winter pig crop in the 10 largest producing states was estimated to be up about 6 percent from the previous year, while producers intentions pointed to a year-to-year increase of only 2 percent in sow farrowings during the spring months. In contrast, the June report boosted the winter pig crop estimated increase to 8 percent and shows an 8.3 percent year-to-year gain in the spring pig crop. March-May farrowings in the 10 states were up even more, rising 9 percent from a year earlier, but a slight drop in the number of pigs saved per litter limited the increase in the spring pig crop.

Hog slaughter during the second quarter was well above year-earlier levels, continuing the gains that have been evident since last summer. Commercial hog slaughter in April and May, although trending down seasonally, totaled 10 percent more than the previous year. Preliminary figures on hog slaughter in federally-inspected plants in June suggest an increase of about 8 percent from last year. The increase during the three month period is well above the 6 percent level indicated by the March 1 inventory estimates.

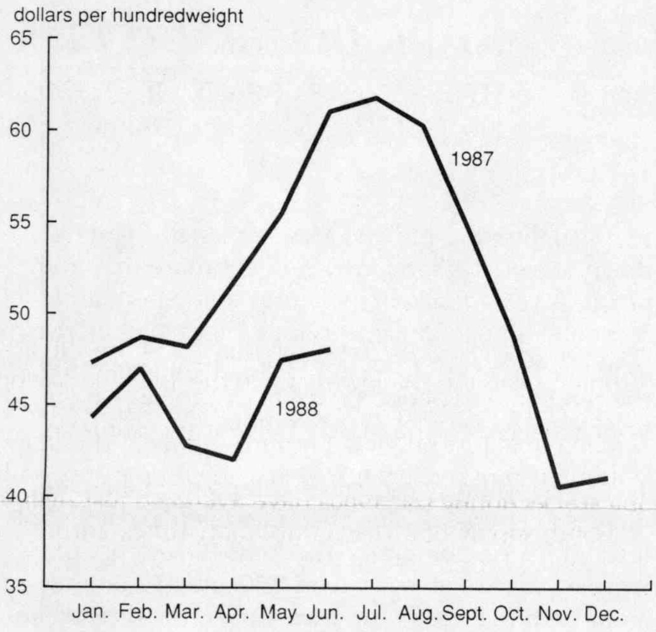
The June inventory estimates also point to a greater increase in pork supplies than had been expected following the March report. The June 1 inventory of market hogs weighing between 60 and 179 pounds, along with the size of the winter pig crop, provide an indication of what hog slaughter will be during the third quarter. The 8 percent increase recorded in the U.S. winter pig crop is consistent with the June 1 inventory of hogs approaching market weight, suggesting that third quarter pork production will be up about 8 percent from last year. However, hog slaughter and pork production could be higher if producers liquidate breeding stock because of drought conditions and sharply higher feed prices. Current USDA projection of third quarter pork production point to a 12 percent increase from last year.

Hog inventories rise



SOURCE:USDA

Hog prices



SOURCE:USDA

Estimates of fourth quarter hog slaughter can be drawn from the June inventory of pigs weighing less than 60 pounds, which came primarily from the spring pig crop. The 7 percent year-to-year increase in lighter weight pigs on U.S. farms is consistent with the reported size of the spring pig crop. Across the United States, sow farrowings between March and May were up almost 9 percent from a year earlier, but the increase was partially offset by a 1 percent drop in the number of pigs per litter. These measures suggest that fourth quarter hog slaughter will likely rise about 7 percent from the year-ago level, a considerably larger gain than the 2 percent increase suggested by farrowing intentions of producers in the 10 major producing states last March. The current USDA projections of fourth quarter pork output is for a 6.5 percent year-to-year gain.

The June report suggests that hog production will continue to expand during the first half of 1989. The intentions of U.S. producers on June 1 suggest a 7.4 percent increase in sow farrowings will occur during the summer and fall. Hog farmers in the 10 major producing states reported similar intentions for the six month period with plans to increase farrowings 6.2 percent from a year earlier. These intentions point to the possibility of continued sizeable gains in pork supplies during the first half of next year. However, farrowing intentions, particularly for the fall months, will be heavily influenced by the effects of the drought, and actual farrowings this summer and fall and will very likely show smaller year-to-year gains than the June 1 intentions suggest.

After strengthening somewhat in May, hog prices have been trending downward since early June, departing from the normal seasonal trend of stronger prices. The large inventory of heavy weight hogs evident in the report (up 11 percent from last year) were marketed during June and contributed to the weakening of prices. At about $45 per hundredweight in mid July, hog prices are well below the low $60 per hundredweight range that prevailed a year ago. Most analysts expect hog prices to average in the mid-to-upper $40 per hundredweight range during the third quarter before dropping into the low $40 range during the final three months of the year.

Crop conditions

The July crop production estimates issued by the USDA were adjusted to reflect the damage inflicted by the hot and dry weather that has characterized much of the growing season. Although objective estimates based on observations of actual field conditions will not be available until the traditional release date in August, the July estimates represent a comprehensive evaluation of conditions throughout the United States by USDA analysts. Moreover, information is provided on the likely effects of the drought and higher prices on utilization of major Midwestern crops.

Corn production was projected to be down about 26 percent from last year's harvest and almost 29 percent lower than the original projection for this year. The projected year-to-year drop in output is based on a sharp decline in yields. At 59.7 million acres, the corn acreage expected to be harvested is up about 1 percent from last year, but the implied yield on these acres points to a 27 percent drop from last year to about 87 bushels per acre. With crop conditions in many states rated worse than during the 1983 drought, many analysts were surprised by the USDA projection of a 5.2 billion bushel corn crop. Many analysts were projecting somewhat larger cuts in output, with most falling into the 3.8 to 4.8 billion bushel range. Output of other feed grains are projected to be down sharply as well. The projection for sorghum points to a 14 percent drop from the initial forecast and a year-to-year decline of more than 24 percent. Expected production of barley and oats were cut more than 40 percent from earlier projections and will register year-to-year declines of 31 and 45 percent.

The soybean crop has been hurt by drought as well, but yields could show limited damage if more favorable weather prevails late in the growing season. The USDA projection of a 1.65 billion bushel soybean crop was trimmed about 12 percent from the earlier level and represents a decline of about 13 percent from last year. However, some analysts expect soybean production will drop to about 1.5 billion bushels this year.

Although tempered by a large carryover stock from the current marketing year, the cut in this year's corn crop will sharply curtail total supplies for the coming marketing year. With higher corn prices curtailing utilization this summer, the USDA recently revised its ending stocks estimate for 1987/88 upward to almost 4.4 billion bushels. Combining the ending stocks estimate with the production estimate suggests a total supply for the 1988/89 marketing year of 9.6 billion bushels. At that level, beginning supplies of corn would be down a fifth from last year's level of almost 12 billion bushels. Nevertheless, supplies would be more than sufficient to meet expected utilization, both domestically and for export markets.

Adjusting for the upward pressure on prices, the USDA trimmed its projection of corn utilization for the coming marketing year that begins in September from what had been a record level. The revised projection sharply curtailed domestic feed use, reversing the earlier projection of a 7.5 percent year-to-year increase into a 7.5 percent decline. Similarly, a projected 3 percent rise in corn exports was revised to a 3 percent drop from last year. As a result, total utilization of corn during the marketing year is expected to reach 7.2 billion bushels, 10 percent lower than initial projections for the coming year and almost 5 percent lower than this year's utilization. However, total utilization at that level would still exceed the average use during the first eight years of the 1980s.

Although the cut in utilization will partially offset the sharp decline in output, inventories at the end of the 1988/89 marketing year will be well below this year's levels. Carryover stocks of corn next fall are projected to total almost 2.4 billion bushels, down about 46 percent from this year. However, corn stocks would still equal about a four month supply at the relatively high utilization rates of the last few marketing years.

Soybean supplies for the coming marketing year will be down considerably as well. An upward revision in this year's ending stock estimate to 290 million bushels combined with the projected crop suggests total supplies of just over 1.9 billion bushels. That would mark a 17 percent reduction from last year, and put supplies at the 1983/84 level.

Soybean utilization, which had been projected to hold at the 2 billion bushel level of recent years during 1988/89, has been revised downward to just under 1.8 billion bushels. The revisions trimmed about 7 percent from expected crushings and cut the export forecast by almost 17 percent from what had been expected earlier. It is now projected that higher prices will reduce domestic soybean crushings by about 8 percent from this year's level and result in a 20 percent drop in the volume of exports.

Soybean stocks at the end of the next marketing year are now projected to total 145 million bushels, or half the 1988 marketing year level. That would place ending stocks below the 176 million bushels of the 1983/84 drought year and the lowest since the 1977 marketing year. Moreover, ending stocks of 145 million bushels would equal just under a 1 month supply at the utilization rates of the last few years. In comparison, ending stocks during the 1980s have averaged just over a 2 month supply of a year's utilization, ranging from just over 1 month in 1983/84 to almost 3.5 months in 1985/86.

Given the considerable uncertainty surrounding the drought's effect, prices have been highly volatile in recent weeks. Prices trended sharply higher during June as the drought worsened, with cash corn prices reaching $3.23 per bushel late in the month and central Illinois soybean prices approaching $10 per bushel. In early July, however, corn and soybean prices fell sharply in the week prior to the government crop production report. Prices climbed following the report as hot weather seared much of the Midwest until cooler temperatures and rains prompted large declines. Prices are likely to continue to register wide swings with changes in the weather pattern until the first objective yield estimates are released by the USDA in mid-August.

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)*	June	139	3.7	7	14
Crops *(1977=100)*	June	129	10.3	18	18
Corn *($per bu.)*	June	2.43	24.6	44	5
Oats *($per bu.)*	June	2.22	20.7	46	102
Soybeans *($per bu.)*	June	8.56	22.5	60	65
Wheat *($per bu.)*	June	3.50	17.1	43	42
Livestock and products *(1977=100)*	June	147	-2.6	-1	10
Barrows and gilts *($per cwt.)*	June	48.60	3.2	-20	-9
Steers and heifers *($per cwt.)*	June	70.10	-5.0	4	32
Milk *($per cwt.)*	June	11.30	-0.9	-5	-5
Eggs *(¢per doz.)*	June	45.7	6.0	-9	-10
Prices paid by farmers *(1977=100)*	April	168	1.8†	4	6
Production items	April	155	2.0†	5	7
Feed	April	112	0.0†	11	-1
Feeder livestock	April	198	2.6†	11	35
Fuels and energy	April	163	1.2†	3	4
Producer Prices *(1982=100)* Agricultural machinery and equipment	June	108	0.4	2	5
Fertilizer materials	June	111	-0.3	1	2
Agricultural chemicals	June	96	-1.6	8	9
	June	108	0.6	5	5
Consumer prices *(1982-84=100)*	June	118	0.4	4	8
Food	June	118	0.5	3	9
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	5,833	N.A.	-8	17
Soybean stocks *(mil. bu.)*	June 1	655	N.A.	-22	-23
Beef production *(bil. lbs.)*	June	2.02	5.5	3	0
Pork production *(bil. lbs.)*	June	1.23	0.1	13	16
Milk production *(bil. lbs.)*††	June	10.5	-5.1	0	-1

N.A. Not applicable

†Prior period is three months earlier.

††21 selected states.

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