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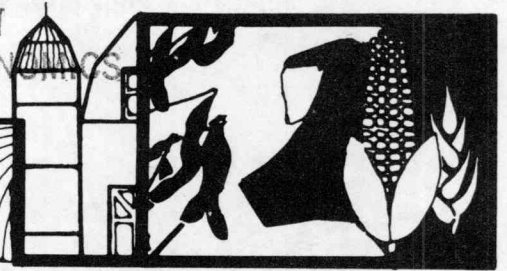
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AGRICULTURAL



LETTER

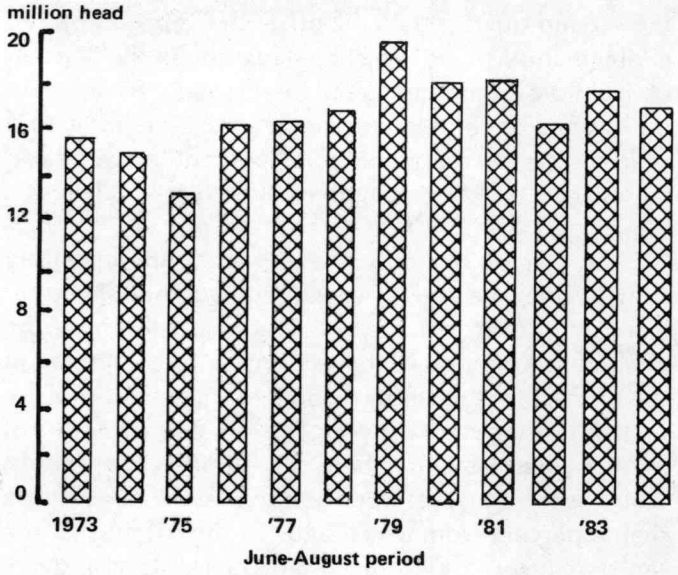
ISSN 0002 - 1512

September 28, 1984 Number 1639

THE DECLINE IN HOG PRODUCTION that began last winter has continued through the summer months according to the USDA's recent *Hogs and Pigs* report. However, the cut in hog production this summer was substantially smaller than most analysts expected. Moreover, inventories of market hogs in the ten largest producing states suggest that hog slaughter this fall and winter, although down from the year-ago level, will likely register a smaller decline than earlier expected. Nevertheless, year-to-year declines in beef and pork production are expected to hold hog prices above year-ago levels for the rest of this year and the first half of 1985.

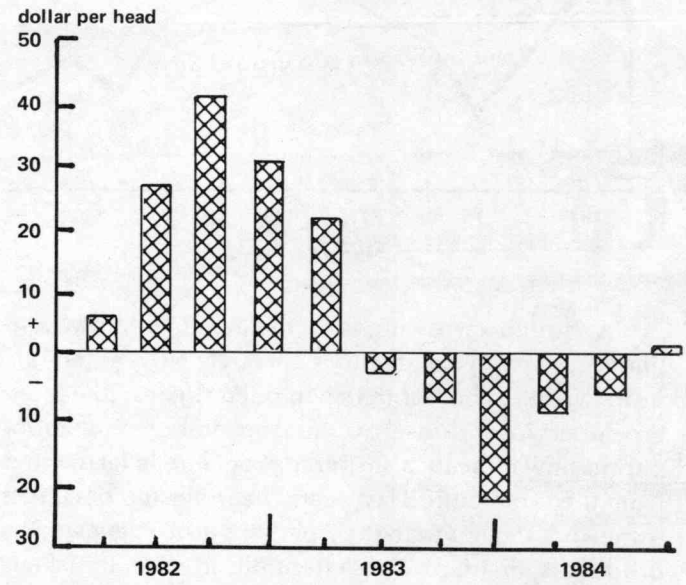
The report indicates that the June-August pig crop in the ten largest producing states continued the year-to-year declines evident during the first two quarters. At 16.9 million head, the ten-state pig crop was 4.4 percent smaller than during the comparable period of the year before but almost 4 percent larger than two years ago.

The cut in this summer's pig crop was smaller than expected



SOURCE: USDA

Hog producers' operating margins

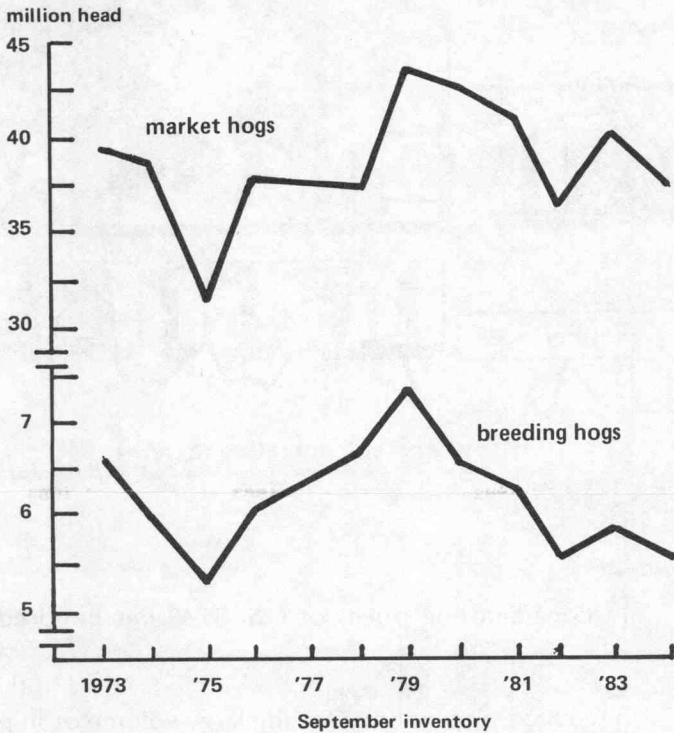


SOURCE: Iowa State University

The 2.2 million sows that farrowed during the June-August period, down 7.3 percent from a year-ago, coincided closely with producers' intentions as stated in the USDA's June report and was slightly higher than the level of two years ago. However, the average litter size for the period was at a record 7.60 pigs per litter, up substantially from the 7.37 pigs per litter average of the previous three years.

The declines in this year's pig crops reflect the pressure on producers' operating margins from high feed costs. During the second half of last year and the first half of this year, increasing production costs and high levels of hog marketings resulted in negative operating margins for most hog farmers. Estimates from Iowa State University suggest hog producers had an average loss of \$5 per hundredweight of finished animal marketed during that period. However, as declines in marketings firmed hog prices and production costs began to ebb, third quarter operating margins edged above the break-even level for the first time in more than a year.

September 1 hog inventories



SOURCE: USDA

Although farrowings are expected to show continued year-to-year declines through November, the drop will likely be less than had been suggested earlier. Producer intentions for the September-November period now indicate a 4.6 percent decline in farrowings from the same period last year. The indicated decline is somewhat smaller than the 7 percent drop suggested by producers' first farrowing intentions in June. Initial farrowing intentions for the December-February quarter point to a 1 percent decline from the level of a year ago, and the lowest level of sow farrowings for the period since 1976.

Hog inventories, reflecting the continued decline in production, remained below year-ago levels during the third quarter. On September 1 the inventory of all hogs and pigs in the ten major producing states stood at 42.8 million head, down about 6.8 percent from the previous year's level but 2.7 percent above the level of two years ago. Breeding hog inventories registered a 5.4 percent decline. At 5.5 million head, it was the smallest September 1 inventory of breeding animals recorded for the ten states since 1975.

A larger decline was registered in the inventory of market hogs. The September 1 inventory of market hogs in the ten states was down almost 7 percent from the level of a year ago but about 3 percent above the 1982 inventory. Reflecting the decline in the summer pig crop, the inventory of market hogs weighing less than 60

pounds was down almost 6 percent from the previous year's level. The inventory of market hogs weighing between 60 and 179 pounds was down more than 8 percent from a year ago. Hogs weighing 180 pounds or more, most of which were likely marketed during September, registered a year-to-year decline of almost 6 percent.

Trends in the three District states included in the quarterly survey varied widely. (Michigan and Wisconsin are not included in the quarterly ten-state survey.) The June-August pig crops in Indiana and Iowa were down 4 and 5 percent, respectively, from the previous year's level, while the Illinois crop registered a 4 percent increase. In addition, market hog inventories in Indiana and Iowa recorded declines of 9 and 6 percent, respectively, while Illinois producers had only 1 percent fewer market hogs than a year ago.

The September 1 inventory of breeding stock in the three District states exhibited considerable variation as well. The inventory of hogs kept for breeding recorded declines of 10 and 7 percent in Indiana and Iowa, respectively, while Illinois producers had 5 percent more breeding animals on hand than a year ago. In line with these breeding stock levels, producers in Indiana and Iowa intend to reduce fall farrowings by 3 and 5 percent, respectively, from last year's levels. Hog producers in Illinois, however, intend to increase farrowings by 6 percent this fall. Producers' initial farrowing intentions for this winter point to increases in Illinois and Iowa but continued year-to-year declines in Indiana.

Hog slaughter, after holding above the year-ago level during the first three months of the year, recorded a 2.5 percent year-to-year decline during the second quarter. The drop in commercial hog slaughter during the second quarter partially offset the gains registered earlier in the year, holding hog slaughter for the first half of 1984 to a 2.5 percent year-to-year gain. Preliminary indications of third quarter hog slaughter point to a year-to-year decrease of about 7 percent that will drop cumulative 1984 hog slaughter below year-ago levels.

The size of the September 1 market hog inventory suggests that the year-to-year declines in hog slaughter will continue through the rest of the year. Moreover, the decline may moderate the seasonal supply increase in the fourth quarter, strengthening hog prices during the final three months of the year. The ten-state inventory of market hogs weighing between 60 and 179 pounds, which will be marketed during the fall, is down more than 8 percent from a year ago. To the extent that the ten-state inventory is indicative of the U.S. total and hog

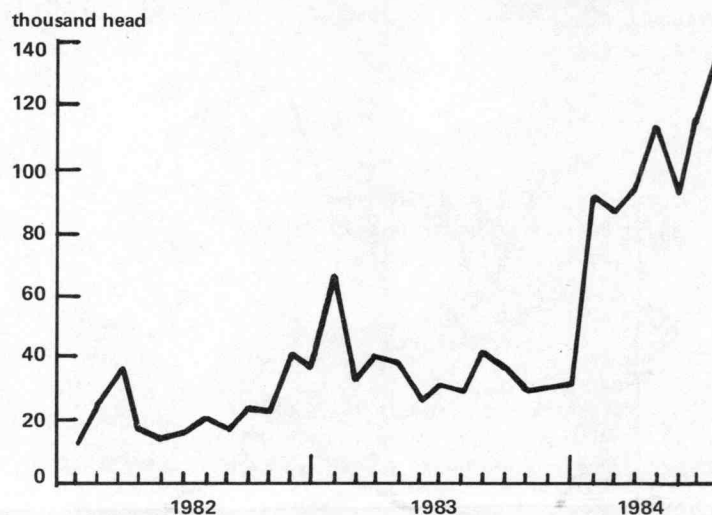
imports continue at the current level, commercial hog slaughter is likely to be down 8 to 9 percent during the fourth quarter of 1984 compared to earlier estimates of a 10 to 12 percent year-to-year decline.

Initial indicators suggest continued year-to-year declines in hog slaughter through the first half of next year. The drop in this summer's pig crop and the intended decline in farrowings this fall indicate that hog slaughter during the first six months of 1985 could fall 4 to 5 percent below this year's level. Initial farrowing intentions for the December-February quarter point to a 1 percent year-to-year decline in hog slaughter during the third quarter of 1985. However, prospects for higher hog prices and lower feed costs next year would likely cause producers to revise these intentions.

Imports of pork products and live hogs have partially offset the decline in U.S. production and have contributed to lower-than-expected hog prices this year. Pork imports during the first six months of 1984 were up 26 percent from the year-ago level and are expected to show a 25 percent increase for the year. The 454 million pounds of pork imported during the first half of the year is equivalent to 6 percent of U.S. pork production through June. Similarly, live hog imports during the first seven months of the year registered a year-to-year increase of more than 150 percent. The 741 thousand head of live hog imports, all from Canada, represent 1.5 percent of U.S. commercial hog slaughter through July. Live hog imports for all of this year are expected to exceed 1 million head, more than double the year-ago total of 447 thousand head.

The surge in hog shipments from Canada is attributable to recent changes in the relationship of hog prices in the two countries. During the second half of 1983, the average price of hogs in the U.S. exceeded the Ontario average price (stated in U.S. dollars) by about 8 percent, resulting in an average differential between U.S. and Canadian hog prices of U.S. \$3.38 per hundredweight. But with a faster rise in U.S. hog prices and the appreciation of the U.S. dollar relative to the Canadian dollar in the first half of this year, the average price of hogs in the United States was almost 13 percent higher than the U.S. dollar equivalent of the Ontario average price. The resulting average differential between U.S.

Hog imports have risen sharply this year



SOURCE: USDA

and Canadian hog prices of U.S. \$5.49 per hundredweight more than compensated for the transportation costs associated with moving hogs from Canada to the United States, accounting for the large volume of shipments during the first half of this year.

Hog prices during the third quarter, although trending down, have remained above year-ago levels. Third quarter barrow and gilt prices at the seven major markets averaged \$52.26 per hundredweight through the middle of September compared with \$47.39 per hundredweight during the comparable period of a year ago. However, prices have declined continuously over the period and are presently near the year-ago level of \$45 per hundredweight. Liquidation of inventories of pork products that were accumulated in anticipation of this year's downturn in production and continued large hog and pork product imports have pressured hog prices lower in recent weeks. However, year-to-year declines in fourth quarter pork and beef production are expected to offset a rise in poultry output and hold hog prices near the \$50 per hundredweight level, well above the \$42.18 per hundredweight level of a year ago. Moreover, prices are expected to strengthen further during the first half of 1985, averaging in the mid-\$50 per hundredweight range.

Peter J. Heffernan

Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (1977=100)	August	144	0	+ 4	+ 7
Crops (1977=100)	August	145	+ 2.1	+ 4	+20
Corn (\$ per bu.)	August	3.13	- 5.2	- 7	+36
Oats (\$ per bu.)	August	1.67	- 2.3	+15	+20
Soybeans (\$ per bu.)	August	6.46	- 7.1	-15	+16
Wheat (\$ per bu.)	August	3.37	+ 2.7	- 7	+ 1
Livestock and products (1977=100)	August	142	- 2.1	+ 2	- 4
Barrows and gilts (\$ per cwt.)	August	52.30	- 2.6	+ 7	-16
Steers and heifers (\$ per cwt.)	August	61.00	- 2.1	+ 5	- 2
Milk (\$ per cwt.)	August	13.10	+ 1.6	- 2	- 2
Eggs (¢ per doz.)	August	58.6	- 2.2	- 7	+15
Prices paid by farmers (1977=100)	August	165	0	+ 2	+ 4
Production items	August	155	- 0.6	+ 1	+ 3
Feed	August	133	- 2.9	- 4	+11
Feeder livestock	August	151	+ 0.7	0	-12
Fuels and energy	August	199	- 1.0	- 3	- 6
Producer prices (1967=100)	August	292	- 0.3	+ 2	+ 3
Agricultural machinery and equipment	August	338	+ 0.1	+ 3	+ 8
Fertilizer materials	August	233	- 2.3	+ 5	- 2
Agricultural chemicals	August	450	+ 0.2	- 1	- 4
Consumer prices (1967=100)	August	313	+ 0.4	+ 4	+ 7
Food	August	305	+ 0.5	+ 4	+ 6
Production or stocks					
Corn stocks (mil. bu.)	June 1	2,137	N.A.	-57	-45
Soybean stocks (mil. bu.)	September 1	175	N.A.	-49	-31
Beef production (bil. lbs.)	August	2.11	+ 9.1	0	N.A.
Pork production (bil. lbs.)	August	1.18	+13.0	- 6	N.A.
Milk production (bil. lbs.)	August	11.2	- 2.8	- 4	N.A.

N.A. Not applicable



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