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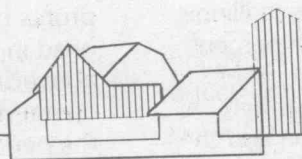
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## Hog production continues downtrend

The cutback in hog production that began in early 1984 continued during the third quarter and will likely extend into the early months of next year according to the USDA's most recent *Hogs and Pigs* report. Although slightly smaller than earlier indicators had suggested, a substantial drop in this summer's pig crop points to continued reductions in hog slaughter and pork production through early 1987. The downturn in hog marketings boosted prices sharply this summer and, along with falling feed costs, raised producers' operating margins. If the recent profitability of hog production does not cause producers to adjust their stated farrowing intentions, it appears that hog production will register further year-to-year declines during the fall and winter months. If these reductions do occur, hog slaughter and pork production will continue to show year-to-year declines through the third quarter of 1987.

September market hog inventories in the ten major producing states were 5 percent below the level of a year ago. Moreover, the September inventory was at its lowest level since 1975, reflecting the cumulative effect of year-to-year cuts in the breeding herd inventory over the last twelve quarters. The September inventory of hogs kept for breeding purposes continued the downward trend of the last few years. Breeding inventories in the ten principal states were off 10 percent from a year ago and at the lowest level since 1973, when figures for the ten-state group were first recorded.

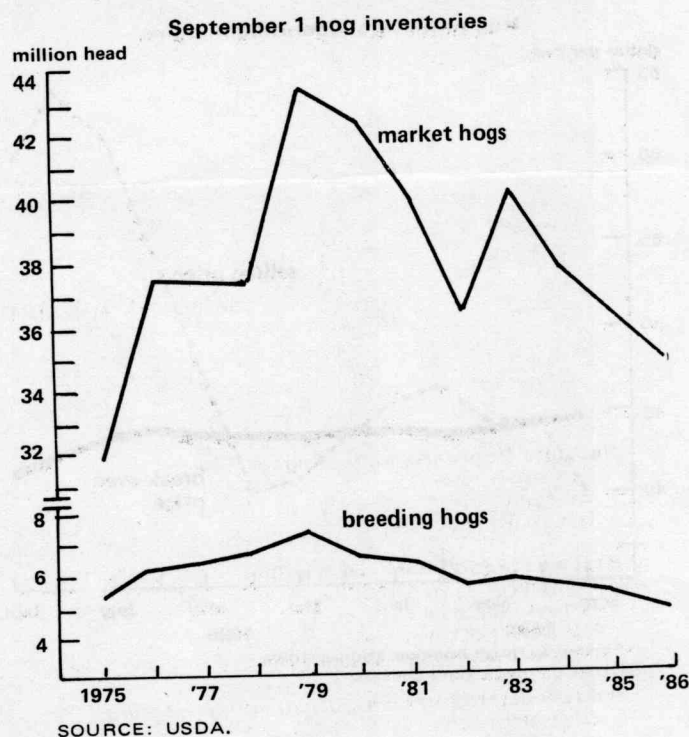
The number of sows farrowing during the June-to-August period was below a year earlier, in line with earlier indications of producers' intentions. At slightly more than 2 million, sows farrowing in the ten major producing states was 7 percent lower than the same period last year. The June survey of farrowing intentions for the summer months had pointed to an 8 percent drop.

As has been the case for the last few years, the downtrend in farrowings was partially offset by an increase in the number of pigs per litter. During the June-August quarter, the number of pigs per litter averaged 7.79, almost 1 percent above the previous record for the quarter that was established last year. Moreover, this marked the ninth consecutive quarter of record

litter sizes for producers in the ten states surveyed quarterly. The continued increase in average litter size this summer limited the decline in the June-August pig crop to 6 percent.

Producers' intentions point to additional large declines in farrowings this fall and winter. During the September-November period, producers in the ten major states intend to have about 9 percent fewer sows farrowing than during the same months last year. These intentions are largely unchanged from those reported in the June survey. Intentions for the December-February quarter point to a somewhat smaller drop of about 6 percent compared to the same months last winter.

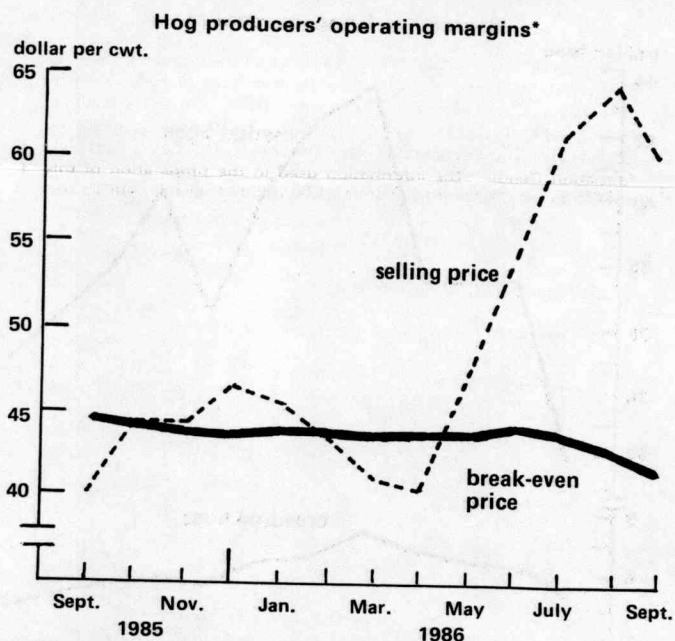
Among the three District states surveyed quarterly, trends in Illinois and Iowa for the most part followed the 10 state pattern, while Indiana showed a marked departure from the trend. Breeding and market hog inventories were down 11 percent and 6 percent, respectively, in both Illinois and Iowa, but Indiana producers reported a total inventory of hogs that was unchanged from a year ago as a 3 percent drop in breeding hogs was offset by a slight increase in market



hog inventories. The June-August pig crops in Illinois and Iowa were also down, dropping 7 and 8 percent from last year. The Indiana pig crop, on the other hand, registered a 2 percent gain from a year ago. A similar divergence in trends between Indiana and the other District states persists in the report of producers' farrowing intentions over the next six months. While Indiana producers intend to farrow the same number of sows as a year earlier over the next two quarters, Illinois and Iowa producers' intentions point to sharp declines of 17 and 12 percent, respectively, during the fall and more moderate year-to-year declines of 4 and 6 percent during the winter months.

Hog slaughter this summer will remain below the year-earlier level for the fourth consecutive quarter, registering the largest decline since the trend started. The most recent drop is attributable to an 11.4 percent year-to-year decline in commercial hog slaughter during July and in August. Estimates of federally inspected hog slaughter, which typically account for 97 percent of the total, point to continued large reductions in September. If that trend holds, hog slaughter during the third quarter will register a decline of about a tenth from 1985.

With declines in hog slaughter applying upward pressure on prices, producers' operating margins improved substantially this summer. After a lackluster performance through the early months of the year, margins began to show improvement in late spring. Iowa State University estimates of returns to a typical farrow-to-finish hog operation in Iowa, which are indicative of conditions throughout much of the Midwest, show



profits becoming positive in May and rising to \$24 per head in June. With feed costs falling and prices rising above \$60 per hundredweight during the third quarter, operating margins averaged almost \$44 per head for the period.

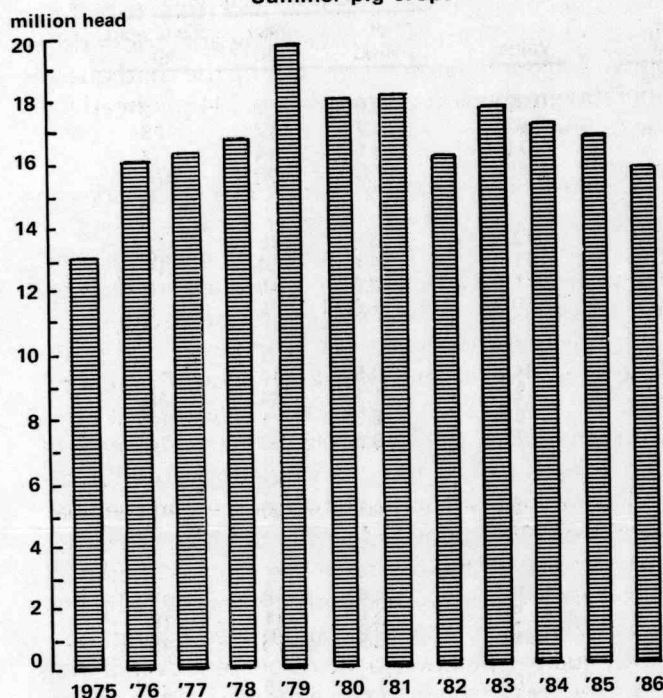
The September readings of market hog inventories and pig crop suggest that year-to-year declines in hog slaughter and pork production will continue this fall and winter. However, the two measures are not consistent with respect to the extent of the decline that each indicates. The spring pig crop for all U.S. producers reported in June was down about 7 percent from last year. Given the historical relationship between the size of the spring pig crop and subsequent fourth quarter slaughter, that measure pointed to a decline in hog slaughter of 6 to 7 percent in the final months of 1986 compared to a year earlier. In contrast, the September ten-state inventory of market hogs weighing between 60 and 179 pounds, which accounts for most of the hogs slaughtered during the fourth quarter, points to a 4 to 5 percent drop in hog slaughter during the final three months of the year. The current USDA estimate for fourth quarter pork output points to a 5.5 percent drop from last year. Assuming that strong hog prices and low feed costs will continue to encourage the uptrend in hog weights that has characterized the last several quarters, the USDA pork production estimate appears to be more consistent with the greater slaughter reduction estimate implied by the spring pig crop.

The September inventory of market hogs weighing less than 60 pounds and the summer pig crop provide an indication of hog slaughter for the first three months of 1987. Again a large discrepancy exists, with the sharp drop in light-weight hog inventories suggesting an almost 8 percent decline in slaughter, and the June-August pig crop, based on historical norms, indicating a smaller 5.5 to 6 percent decline in first quarter hog slaughter compared to a year earlier. USDA currently projects a 4.6 percent drop in pork output during the first quarter of next year.

Initial indicators of hog slaughter and pork production during the second and third quarters of next year suggest that the downturn in production will continue. Hog producers in the ten principal states reported intentions to cut farrowings by 9 percent from a year earlier during the September-November period. If these intentions are carried through, a substantial year-to-year drop in this fall's pig crop would lead to a large reduction in hog slaughter next spring. Further, the initial intentions of producers in the ten-state group for the December-February period point to an almost 6 percent drop in sow farrowings from the previous year's level, leading to continued year-to-



Summer pig crops



SOURCE: USDA.

year declines in hog slaughter and pork production in the third quarter of 1987.

While these farrowing intentions suggest that hog slaughter will continue to register large declines through most of 1987, a number of factors could temper the actual cuts in hog slaughter over that period. There is some flexibility in farrowing intentions of producers, particularly with respect to the December-February period. Given that some adjustment can take place, it could be expected that the recent prices and prospects of continued high prices would encourage operators to expand output. Further incentive is provided by low and declining feeding costs that are dropping producers' breakeven prices and adding to profit levels. With typical operators' profit levels above \$40 per hundredweight throughout the summer months and September inventories below year-earlier levels applying additional pressure on prices, it would be surprising if operators do not respond by boosting output above the currently indicated levels.

Hog prices began trending up in April, and exceeded year-earlier levels by increasing amounts throughout the spring and summer months. From less than \$40

per hundredweight in mid-April, prices for barrows and gilts at the seven major markets averaged more than \$60 per hundredweight by early July. Prices continued to rise through most of August before beginning to tail off. Nevertheless, hog prices averaged near \$60 in September, well above the \$40 per hundredweight average of last year.

Although hog prices can be expected to decline seasonally during the fourth quarter from the very high summer levels, year-to-year declines in pork output and expected cuts in beef production will maintain livestock prices well above year-ago levels. While an expected 6 percent jump in poultry production during the fall months will be partially offsetting, declines of 4 to 5.5 percent in beef and pork output, respectively, are expected to hold total meat supplies 1.4 percent below a year ago during the fourth quarter. As a result, hog prices are expected to average in the mid-\$50 per hundredweight range, well above the \$45 average of the final three months of 1985. Further cuts in beef and pork production of about 3.4 and 4.6 percent during the first three months of 1987, although likely to be largely offset by an estimated 8 percent jump in poultry production that will keep total meat supplies only slightly below first quarter 1986, will continue to hold hog prices well above year-earlier levels. Current USDA estimates have barrow and gilt prices at the seven major markets averaging between \$53 and \$59 per hundredweight for the period, compared to the \$43.30 per hundredweight average during the early months of this year.

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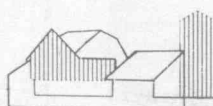
# Selected Agricultural Economic Indicators

			Percent change from		
	Latest period	Value	Prior period	Year ago	Two years ago
<b>Receipts from farm marketings (\$ millions)</b>					
Crops*	May	10,321	-9.9	7	2
Livestock	May	2,927	-26.7	-17	-23
Government payments	May	5,714	3.1	-4	-7
	May	1,680	-12.8	708	1,075
<b>Real estate farm debt outstanding (\$ billions)</b>					
Commercial banks	June 30	12.1	3.8 <sup>†</sup>	15	22
Federal Land Banks	June 30	41.4	-4.6 <sup>†</sup>	-14	-16
Life insurance companies	May 31	11.5	-0.9 <sup>†</sup>	-5	-8
Farmers Home Administration	June 30	10.9	1.0 <sup>†</sup>	2	8
<b>Nonreal estate farm debt outstanding (\$ billions)</b>					
Commercial banks	June 30	34.2	0.9 <sup>†</sup>	-14	-17
Production Credit Associations	June 30	12.7	-1.1 <sup>†</sup>	-24	-35
Farmers Home Administration	June 30	18.8	5.3 <sup>†</sup>	1	12
Commodity Credit Corporation	June 30	17.9	-9.5 <sup>†</sup>	103	174
<b>Farm loans made (\$ millions)</b>					
Life insurance companies	May	54	-6.1	-86	-47
<b>Interest rates on farm loans (percent)</b>					
7th District agricultural banks					
Operating loans	July 1	11.82	-4.4 <sup>†</sup>	-9	-18
Real estate loans	July 1	11.25	-3.8 <sup>†</sup>	-11	-19
Commodity Credit Corporation	September	6.13	-3.9	-25	-48
<b>Agricultural exports (\$ millions)</b>					
Corn (mil. bu.)	July	1,703	1.2	-5	-37
Soybeans (mil. bu.)	July	45	-20.0	-53	-65
Wheat (mil. bu.)	July	27	-7.6	38	-32
	July	110	29.0	59	-20
<b>Farm machinery sales<sup>p</sup> (units)</b>					
Tractors, over 40 HP	August	2,709	-8.8	-23	-30
40 to 139 HP	August	2,363	-5.6	-12	-17
140 HP or more	August	346	-26.1	-58	-66
Combines	August	1,656	114.0	91	73

\*Includes net CCC loans.

<sup>†</sup>Prior period is three months earlier.

<sup>‡</sup>Preliminary



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