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HOG FARMERS have scaled back production to a surprising extent, according to figures in the USDA's latest *Hogs and Pigs* report. The report, in summarizing the results of a December 1 survey of U.S. hog farmers, suggests that hog slaughter in 1982 could be down a tenth from this year and down 15 percent from the 1980 peak. These prospects buoy the profitability outlook for hog farmers who have suffered a prolonged financial squeeze. Nevertheless, a cautious outlook still prevails. Depressed grain prices portend relatively cheap feed costs for hog farmers. This may result in a smaller decline in slaughter in 1982, particularly during the second half, than indicated in the latest survey of hog producers.

The unexpectedly large cutback in hog production is evident in recent farrowings, current inventory estimates, and producers' farrowing intentions. Sow farrowings from June through November were down 8 percent from the same months the year before. The decline was about midway between the 11 percent cutback that had been suggested by farmers' farrowing intentions last June and the 5 percent cutback indicated in the September survey of farmers in the 14 major hog producing states. The cutback in actual farrowings was partially cushioned by the continuation of the unusually high number of pigs saved per litter. Litter sizes averaged 7.38 pigs per farrowing in the six months ending in November, 2 percent higher than the year before and nearly 3 percent above the average for the 1970s. The high average limited the decline in the June-November pig crop to 6 percent from the year before.

The smaller pig crop, coupled with fairly high slaughter levels in recent months, contributed to an unexpectedly large cutback in inventories. As of December 1, hogs destined for the slaughter market numbered 8 percent fewer than a year ago. More surprisingly, the inventory of hogs kept for breeding purposes was down 14 percent from a year ago and the smallest since 1975. These latest year-to-year inventory comparisons differ significantly from the September report that noted a 6 percent decline in market hogs and only a 5 percent decline in the number of hogs held for breeding purposes.

Trends in hog inventories and farrowing intentions vary widely in district states

	Market hogs		Breeding stock		Intended change in Dec.-May farrowings
	Head	Change*	Head	Change*	
	(mil.)	(percent)	(mil.)	(percent)	(percent)
Illinois	5.62	− 1	.83	− 7	− 7
Indiana	3.56	−10	.54	−14	−12
Iowa	14.24	+ 2	2.06	− 2	− 1
Michigan	.58	−18	.10	−12	−19
Wisconsin	1.16	−18	.22	−16	−14
District states	25.16	− 3	3.76	− 6	− 5
14 major states	44.09	− 6	6.71	−13	− 9
United States	50.85	− 8	7.84	−14	−11

*Change from year-earlier.

Farrowing intentions, in line with the smaller inventory of breeding hogs, point to the possibility of further significant declines in hog production. For the six months ending in May, producers intend to hold sow farrowings nearly 11 percent below the year before. Although producers may be enticed by low feed prices to alter their plans, the current intentions indicate the cutback will be most pronounced after February. If producers carry through with their intentions and the average number of pigs per litter comes down to a more normal level, the December-May pig crop would be 13 percent smaller than the year before and, except for 1975, the smallest for that period since at least 1963.

Hog Slaughter, although above expectations in recent months, has lagged year-earlier levels since late 1980. Federally inspected hog slaughter during the 11 weeks ending December 19 was down less than 3 percent from the year before. That was less than half the decline that most analysts had projected for the fourth quarter, perhaps reflecting an abnormally small retention of gilts in the breeding stock. For all of 1981, it now appears hog slaughter will register a decline of 4 or 5 percent from the previous year's peak.

Despite the decline in slaughter and pork production, total red meat production has held close to the year-earlier level in the fourth quarter while poultry production has registered further gains. For all of 1981, it now appears red meat production rose 1 percent while poultry production rose 5 or 6 percent. The large meat supplies and a lackluster demand for meat, have held livestock prices at unexpectedly low levels, particularly in recent weeks.

Pork supplies in the months ahead will likely register further significant declines if the measures in the latest *Hogs and Pigs* report are correct. The historical relationships between first-half slaughter, the June-November pig crop, and the December 1 inventory of market hogs would suggest hog slaughter in the first half of 1982 may be down 6 to 10 percent from the year before. For the second-half, the decline in slaughter could range from 12 to 16 percent if producers follow through with their current farrowing intentions. To a greater-than-normal extent, however, there is some doubt as to whether the cutback in farrowings this winter and spring will be as extensive as indicated. Low feed prices and the probability that hog prices will rise significantly from currently depressed levels could result in a more moderate cutback in farrowings and prospective second-half pork supplies.

Hog prices and profitability prospects will be significantly buoyed by the apparent cutback forthcoming in pork supplies. In 1981, prices have been quite variable, with monthly averages for barrows and gilts at major markets ranging from a low of $39.50 per hundredweight in March to a high of $51 in August. Prices have drifted lower since the August peak, averaging about $40 in recent weeks. For the year, hog prices will likely average $44.50 per hundredweight, up from the six-year low of $40 in 1980.

Prices will likely rebound significantly from recent levels in the months ahead because of the unexpectedly large cutback in prospective pork supplies. The extent of the recovery will depend on the strength in demand—both for current consumption and for cold storage inventory restocking—and the supplies of other meats. With respect to consumer demand, the pessimistic prospects for employment and income growth raise doubts about any significant near-term revival. With respect to competing meat supplies, it now appears that total meat supplies may be somewhat smaller in 1982 despite further gains in beef and poultry production. The smaller per capita supplies of total meats could signal a return of hog prices ranging from the mid $40s to low $50s in the first half of 1982.

While prices of that magnitude portend sizeable profits, hog farmers will have to be cautious. Prospects of boom or bust as depicted in past *Hogs and Pigs* reports have often been short-lived. The current situation could prove similar if too many producers abandon current production plans because of low feed prices and favorable near-term profit prospects. Second-half pork prospects may look substantially different in three or six months.

Gary L. Benjamin

NEW FARM LEGISLATION was signed into law this week after Congress concluded the debate of the past several months. The new legislation extends for the next four years the basic structure of the farm programs that were in the 1977 farm bill. It provides for a reduction in the cost of some programs and makes a small shift toward a more market-dominated agriculture. Of particular importance to farmers in the Seventh District are the revised provisions for the grain reserve, loan support programs, the dairy support program, and the new protection against agricultural embargoes.

The legislation retains major elements of past farm programs to protect the incomes of producers of major crops such as wheat and feedgrains. The minimum price support loan rates—which essentially place a floor on market prices—for 1982 through 1985 crops will be at least $3.55 per bushel for wheat and $2.55 per bushel for corn. This year loan rates were $3.20 for wheat and $2.40 for corn. Higher loan rates may be set at the discretion of the Secretary of Agriculture. Price support loan rates for the 1982-1985 soybean crops will be set at 75 percent of the five year national average price received by farmers, but no lower than $5.02 per bushel.

Price support loan rates represent the amount an eligible farmer can borrow from the Commodity Credit Corporation by pledging the grain or soybeans as collateral for the loan. The loans typically mature in 9 months. If the loan is not repaid at maturity, the CCC takes title to the commodity in full payment of the loan and interest charges. As in the past, eligibility for CCC loans on wheat and feedgrains is restricted to those who comply with programs, when imposed, to remove acreage from production. Since no acreage restrictions were imposed in 1981, virtually all producers were eligible for loans. The new legislation extends the Secretary's authority to impose either a cropland set-aside program or a direct acreage reduction program for wheat and feedgrains when he deems such programs are necessary to avoid excessive surpluses. The Secretary may also operate a separate acreage diversion payment program if he deems it necessary.

The farmer-owned grain reserve—a program to encourage farmers to store grain during periods of low prices—is continued under the new legislation. The Secretary is required to set price support loans rates for grains placed in the three year reserve at no less than the prevailing CCC loan support price at the time the grain goes into the reserve. The Secretary is allowed to set the "release price" (the price at which grain may be withdrawn from the reserve without penalty), storage payment rates, and interest charges—including any waiver of interest. Interest rates charged cannot be less than the USDA's cost of borrowing from the Treasury. Currently, farmers who place 1981 corn into the three year reserve receive a higher loan rate—$2.55 per bushel versus $2.40 per bushel on regular CCC loans. In addition they receive a prepaid annual storage payment of 26.5 cents per bushel. Interest charges are waived for the second and third year that the grain is in the reserve. Farmers agree to keep their corn in the reserve until the national five day moving average market price is $3.15 per bushel—the trigger release price. When this level is reached, farmers may remove corn without penalty by repaying the loan. The new bill allows the Secretary of Agriculture to limit the size of the reserve, but the ceiling cannot be less than 700 million bushels of wheat and 1 billion bushels of feedgrains. Also, when a reserve is in effect the USDA cannot sell any government owned grain for less than 110 percent of the current trigger release price for grain reserves.

Target prices for wheat, feedgrains, and other commodities continue as part of the new legislation. These prices are set for wheat and corn over the next four years and are used as the basis for determining disaster and deficiency payments which serve to stabilize farm income. In the past, most farmers qualified for disaster payments whenever yields fell below 60 percent of normal due to a natural hazard. But beginning with 1982 crops, disaster payments will only be made to producers in areas where federal crop insurance is not available. The Federal Crop Insurance Program was expanded this year so as to become the primary mechanism for disaster payments (see Agricultural Letter #1547). The Secretary, however, will have discretion to make disaster payments to a corn or wheat grower if the disaster losses create an economic emergency which cannot be alleviated by crop insurance or other federal assistance.

Target prices for corn and wheat

crop year	corn	wheat
	(per bushel)	
1981	$2.40	$3.81
1982	$2.70	$4.05
1983	$2.86	$4.30
1984	$3.03	$4.45
1985	$3.18	$4.65

Deficiency payments remain tied to target prices. These payments result when the average market price received by farmers during the first five months of the marketing year falls below the target price. The payment rate per bushel is equal to the difference between the target price and the higher of the five month average prices received by farmers or the national loan rate. The deficiency payment is determined by multiplying the payment rate times the farm program acreage times the farm program yield established for a farm.

Future grain embargoes are clearly discouraged in the new farm bill. The legislation requires that the Secretary compensate affected farmers whenever "selective" embargoes (agricultural goods only) are imposed on exports to a country that typically purchases more than 3 percent of the total U.S. exports of that commodity. In the case of a selective embargo, the compensation to farmers would be equivalent to 100 percent

Dairy support program provisions were scaled back significantly in the new legislation. The dairy portion of the legislation breaks the tradition of maintaining the milk support price at 80 percent of parity. Reflecting the high cost of dairy support programs in recent years, the new legislation extends the current milk support price of $13.10 per hundredweight through fiscal 1982. The minimum support price would rise to $13.25 in 1983, $14.00 in 1984 and $14.60 in 1985. But for any year in which purchases are anticipated to be less than $1 billion, the minimum could be raised to 70 percent of parity. The support floor could rise further to 75 percent of parity if removals are expected to fall below 4 billion pounds (milk equivalent) in fiscal 1983, 3.5 billion pounds in 1984 or 2.69 billion pounds in 1985.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from: Prior period	Percent change from: Year ago
Index of prices received by farmers	1977=100	November	129	– 0.8	–10
Crops	1977=100	November	120	+ 0.8	–14
Livestock	1977=100	November	138	– 1.4	– 7
Index of prices paid by farmers	1977=100	November	151	0	+ 5
Production items	1977=100	November	147	0	+ 2
Producer price index* *(finished goods)*	1967=100	November	275	+ 0.2	+ 7
Foods	1967=100	November	253	– 0.4	+ 2
Processed foods and feeds	1967=100	November	245	– 0.8	– 5
Agricultural chemicals	1967=100	November	295	+ 1.1	+13
Agricultural machinery and equipment	1967=100	November	299	+ 2.3	+10
Consumer price index** *(all items)*	1967=100	November	281	+ 0.3	+10
Food at home	1967=100	November	271	– 0.4	+ 3
Cash prices received by farmers					
Corn	dol. per bu.	November	2.33	– 4.9	–25
Soybeans	dol. per bu.	November	6.00	– 1.0	–27
Wheat	dol. per bu.	November	3.80	+ 0.8	–12
Sorghum	dol. per cwt.	November	3.96	+ 1.5	–27
Oats	dol. per bu.	November	1.91	+ 7.3	+ 4
Steers and heifers	dol. per cwt.	November	58.60	– 2.3	–11
Hogs	dol. per cwt.	November	42.20	– 6.2	– 7
Milk, all sold to plants	dol. per cwt.	November	14.10	+ 0.7	+ 1
Broilers	cents per lb.	November	25.2	– 2.7	–17
Eggs	cents per doz.	November	69.5	+ 8.9	+ 6
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	145	– 0.5	+ 4
Net farm income	bil. dol.	3rd Quarter	25	+ 6.9	+26
Nonagricultural personal income	bil. dol.	November	2,437	+ 0.6	+10

*Formerly called wholesale price index.

**For all urban consumers.

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