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FEDERAL RESERVE BANK OF CHICAGO

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CORN AND SOYBEAN PRICES are recovering from the unexpectedly large declines in early December. Cash prices for soybeans at Chicago have risen to $8 a bushel, up a dollar from the mid-December low but still a dollar below the November peak. Chicago cash prices for corn have risen to $3.65 per bushel despite the recent "call" of all CCC loans on corn in the three-year reserve program. The current corn price is about 25 cents a bushel higher than the mid-December low and about 10 cents higher than the November peak.

The call of the corn reserve was announced in late December and will become effective January 16 when all reserve participants will receive formal notification. After that, farmers will have 90 days to repay the CCC loans on their reserve corn. Farmers who fail to repay the reserve loans within 90 days will forfeit ownership of their corn to the CCC.

The call does not force participants to sell their reserve corn. However, high interest rates will likely discourage the practice of refinancing with commercial lenders in order to repay the CCC loans. Most of the roughly 700 million bushels of corn now in the reserve was enrolled at a loan rate of $2.00 or $2.10 per bushel. Proceeds from the sale of two bushels of this corn, at current prices, will be more than sufficient to repay the CCC loan on three bushels of reserve corn. Legislation last month that raised the loan rate on 1980 corn entering the reserve to $2.40 a bushel and waived the first-year interest charge, however, apparently triggered considerable enrollment of 1980 corn at the higher rate. This trend may continue until January 16 when further enrollment is precluded by the formal notification of the call.

Corn and soybean prices this winter will be influenced mostly by the rate of disappearance—both domestically and through exports—and by crop developments in the Southern Hemisphere. Prices normally rise seasonally during the winter and spring. Even so, pricing trends this year will still reflect the way emerging developments stack up with the anticipated sharp drawdown in carryover stocks by this fall. For the 1980/81 corn marketing year, the USDA is projecting exports will register a 7 percent increase while domestic utilization—despite a large increase in utilization for food and industrial purposes—will likely decline about 2 percent. In light of last fall's small harvest, the USDA is projecting the 1980/81 marketing year will register a 6 percent decline in soybean exports and a 7 percent decline in soybean crushings.

So far in the 1980/81 marketing years for corn and soybeans, export trends have been mixed. Corn exports for the first three months of the 1980/81 marketing year are up 7 percent from the year-ago pace—on target with the USDA's projected increase for the entire marketing year. But soybean export inspections for the first four months of the 1980/81 soybean marketing year are down a fifth from the same period a year earlier—a much bigger decline than indicated in current projections for the entire marketing year. If the projection for the entire marketing year is to be achieved, soybean exports must exceed year-ago levels in the months ahead. Corn and wheat are also expected to maintain a record export pace. For all three commodities to achieve record shipments this winter may be difficult unless temperatures are mild enough to permit relatively unobstructed flows through the lower Mississippi River system. The low water levels presently reported for the lower Mississippi River and the Mexican embargo on U.S. rail cars entering that country raise additional concerns about the overall export pace this winter.

Evidence of recent utilization of corn domestically will remain sketchy until the USDA's *Grain Stocks* report is released later this month. Crushing reports, however, indicate that domestic utilization of soybeans through late December has exceeded the rate needed to meet the USDA's projected decline of 7 percent for the entire marketing year. However, mill stocks of soybean meal are large, and crushing margins have been sharply lowered by the recent decline in prices of oil and meal.

Southern Hemisphere crop developments will mostly influence soybean prices. Initial reports suggest the soybean crops in Brazil and Argentina were planted under fairly good conditions and that the coming harvest in early spring may exceed the large crop of last year. However, it is still early in the Southern Hemisphere growing season and these prospects could change significantly in another month or two.

On balance chances of significant increases from current corn and soybean prices may be limited this winter. The call of the corn reserve along with earlier large forward sales for delivery in early 1981 will likely provide adequate cash market supplies for the near term. Although the December decline in prices may have triggered increased foreign purchases, the pace in corn and soybean exports this winter may encounter problems in exceeding the record levels of a year ago. On a more positive note, the recent slide in prices may also have strengthened domestic demand for livestock feeding. The larger-than-expected inventory of hogs also supports prospects for domestic utilization. Any efforts by the new Administration to relax or terminate the embargo on Soviet shipments might add further strength to grain and oilseed prices.

Gary L. Benjamin

HOG PRODUCTION remained below year-earlier levels this fall, but did not decline as much as expected. According to the USDA's latest *Hogs and Pigs* report, the September-November pig crop was down only 1 percent from a year ago. The cutback was considerably less than anticipated by industry analysts and held the reduction in hog inventories to only 4 percent below a year ago. Moreover, the inventory of hogs held for breeding was somewhat larger than expected, but still down 5 percent from a year ago. The smaller June-November pig crop and indications that the December-May farrowings will be below last year's level portend a decline of around 5 percent in pork production for the year. Hog prices, in turn, will likely average considerably higher this year, particularly in the first half.

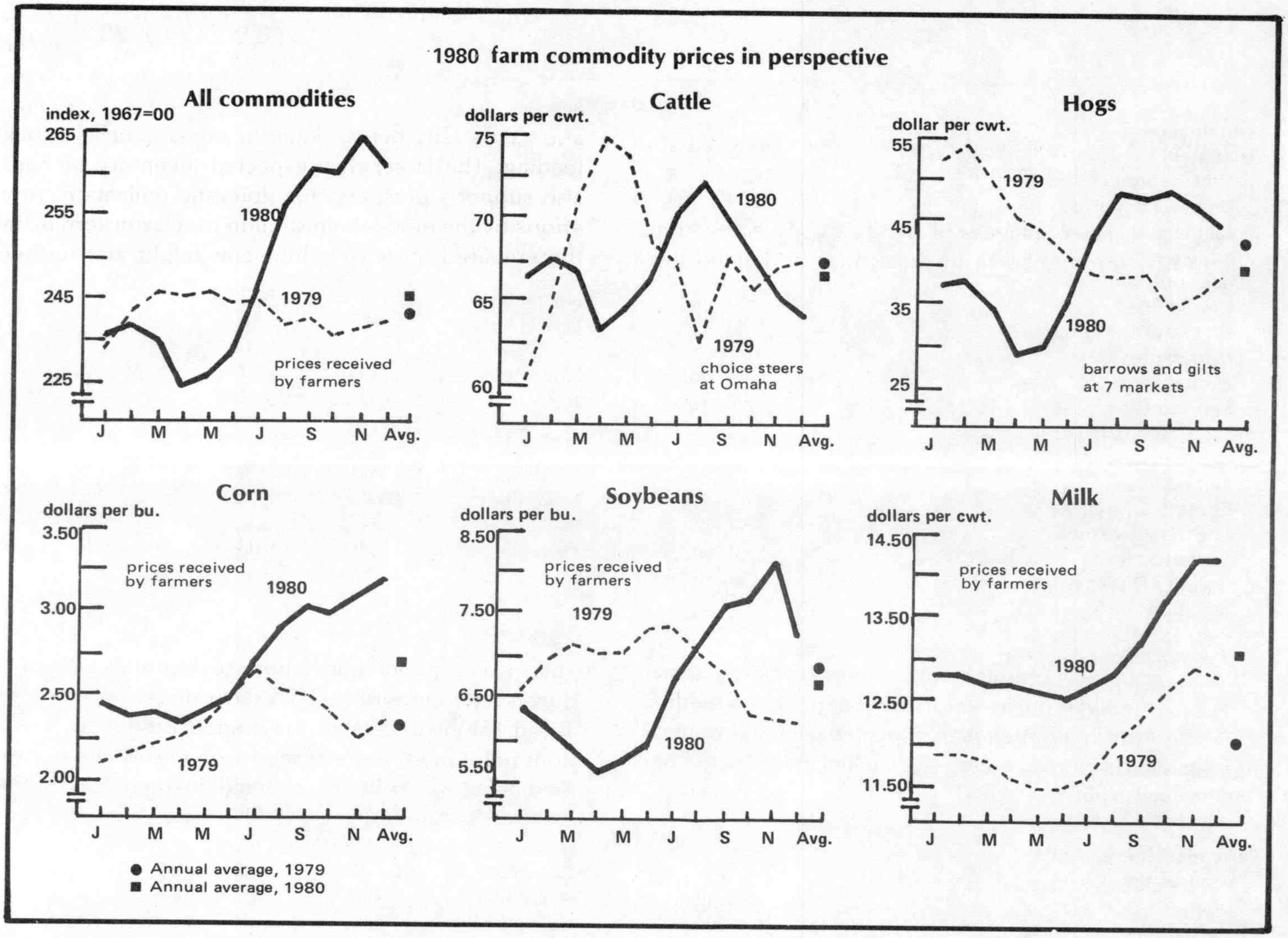
The less-than-expected cutback in the September-November pig crop reflected more pigs per litter and more farrowings than were indicated by producers' intentions last September. The average number of pigs per litter was 7.3, up from 7.1 the same period a year ago. Farrowings during September-November were only 3 percent below a year ago instead of the 10 percent indicated by producers in September. Nevertheless, it marked the third consecutive quarter of a cutback in farrowings, a trend that is expected to continue through spring.

Hog inventories are still at high levels, despite the downturn in production. While the September-November pig crop showed only a slight decline, the June-August pig crop was down 10 percent, contributing heavily toward the reduction in current inventory numbers. The December 1 inventory of market hogs—at 55.4 million head—was 4 percent smaller than last year but 9 percent higher than in 1978. Market hogs weighing 180 pounds or more numbered 2 percent above a year ago. Hogs weighing 60 to 119 pounds were 10 percent fewer in number than last year. The inventory of market pigs weighing less than 60 pounds was down 3 percent as was the inventory of 120-179 pound hogs.

The inventory of hogs held for breeding purposes was down 5 percent from the record level of a year ago. The smaller breeding inventory corresponds with producers' intentions to cut back farrowings in the months ahead. For the December-May period, producers' intentions point to a 6 percent reduction in sow farrowings. This includes a slight improvement in intentions for the December-February quarter over that given in September. Farrowings during the December-February period are expected to be 6 percent below last year.

In District states trends in hog production are mixed. The June-November pig crop was up 1 percent in Iowa—which accounts for about a fifth of hog production nationwide—but down in the other four District states. The biggest cutback was in Michigan where the June-November pig crop was 19 percent lower than a year ago. The December 1 inventories and producers' farrowing intentions correspond with these production patterns. Iowa's inventory of both market and breeding hogs remains near year-ago levels, whereas inventories in Michigan are down one-fourth or more. Only two of the District states—Illinois and Indiana—were similar in farrowing intentions to the U.S. estimate. Iowa producers suggested that a 2 percent decline in farrowings is likely for December-May, but Michigan producers anticipate a one-fourth decline.

Hog slaughter was down during the second half of 1980 after setting a record in the first half. Preliminary estimates place second-half slaughter about 1 percent below last year with all of the decline coming in the last quarter. Despite the decline pork supplies have been high with respect to most earlier years.



In 1981 hog slaughter will be down but not as much as earlier anticipated. Based on the June-November pig crop, hog slaughter in the first half may be down about 6 percent from a year ago. Most earlier projections had indicated a decline of a tenth. For the second half, indications of the number of sows kept for breeding and the farrowing intentions for the December-May period point to a 4 percent to 6 percent decline in hog slaughter, assuming the pigs saved per litter is unchanged. However, second-half estimates are somewhat tentative in light of the profit picture facing pork producers. Further cutbacks in 1981 could occur as producers respond to lagging prices and increasing production costs—especially feed costs.

Hog prices have dipped in recent weeks and now average $43 to $45 per hundredweight. A year ago prices were a fourth lower. At current prices farrow-to-finish producers are selling below breakeven, according to Iowa State University budgets. However, some improvement in prices early this year is likely as the year-to-year lag in slaughter widens. Prices in the first half of the year may average in the upper $40s.

Total meat supplies may be down due to the decline in pork production. Beef supplies are expected to hold near year-ago levels, and poultry production may increase slightly. Total red meat and poultry supplies may be nominally below the 1980 estimate of 51.7 million pounds.

Consumer demand for meats could be tempered by continued sluggishness in the economy. Also, higher consumption of pork may be discouraged by the increase in pork prices relative to beef prices. Preliminary estimates for December indicate that retail pork prices are up 15 percent from a year ago, sharply above the 4 percent rise in beef prices. The pork/beef retail price ratio is around .65, compared to .58 a year ago and .53 in late spring of 1980.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	December	223	– 0.5	+11
Time deposits	1972-73=100	December	277	+ 0.2	+14
Demand deposits	1972-73=100	December	134	– 3.3	+ 1
Total loans at agricultural banks†	1972-73=100	December	255	+ 0.4	– 1
Production credit associations					
Loans outstanding					
United States	mil. dol.	November	19,119	– 1.5	+ 9
Seventh District states	mil. dol.	November	4,007	– 0.2	+10
Loans made					
United States	mil. dol.	November	2,333	– 2.6	– 7
Seventh District states	mil. dol.	November	455	– 2.0	– 4
Federal land banks					
Loans outstanding					
United States	mil. dol.	November	35,554	+ 0.9	+22
Seventh District states	mil. dol.	November	8,346	+ 0.9	+26
New money loaned					
United States	mil. dol.	November	435	–13.3	–18
Seventh Distict states	mil. dol.	November	95	–16.5	–18
Interest rates					
Feeder cattle loans††	percent	3rd Quarter	14.12	– 9.2	+26
Farm real estate loans††	percent	3rd Quarter	13.59	– 8.3	+22
Three-month Treasury bills	percent	12/25-12/31	14.26	– 2.8	+19
Federal funds rate	percent	12/25-12/31	18.45	+ 4.1	+31
Government bonds *(long-term)*	percent	12/25-12/31	11.91	– 4.3	+17
Agricultural trade					
Agricultural exports	mil. dol.	November	3,796	+ 3.4	0
Agricultural imports	mil. dol.	November	1,537	+ 8.0	+ 1
Farm machinery sales[p]					
Farm tractors	units	November	8,720	–43.6	+57
Combines	units	November	2,472	–57.8	+48
Balers	units	November	526	–53.8	+96

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[p]Preliminary.

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