FEDERAL RESERVE BANK OF CHICAGO

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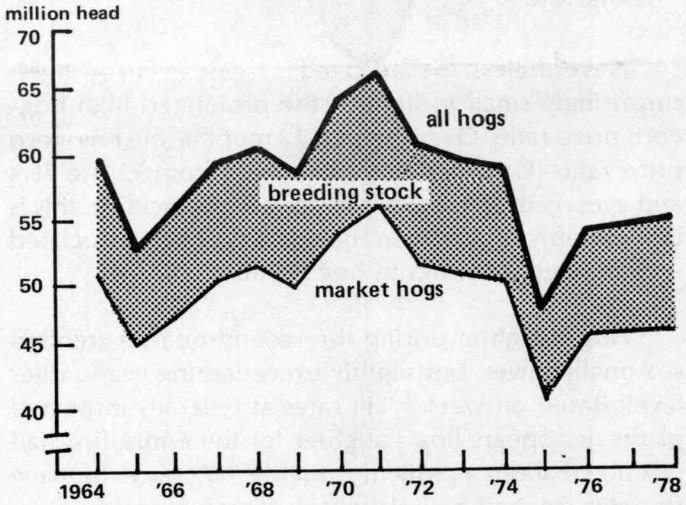
HOG PRODUCTION dipped slightly in recent months, and indications are that it will increase only slightly during the rest of the year. According to the USDA, the combined winter and spring pig crop—pigs born from December 1977 to May 1978—was 1 percent short of the crop a year earlier. Moreover, producers' intentions point to only a 4 percent increase in June to November farrowings. That is considerably less than many analysts had projected. These measures suggest pork production during the second half of 1978 will closely approximate year-ago levels and may be up only marginally during the first half of 1979.

The slight decline in the December-May pig crop was in sharp contrast to expectations in late 1977, marking the second consecutive pig crop to fall short of expectations. Estimates last December suggested the June-November 1977 pig crop was up 7 percent and that producers intended to farrow 9 percent more sows during the December-May period. Most analysts accepted these estimates because of the strong profit incentives reflected in the high hog-corn price ratio during the latter half of 1977.

In retrospect, a number of factors emerged to trim the expansion. Estimates of the June-November 1977 pig crop and the December 1, 1977 breeding stock were overstated. (Recent revisions lowered the June-November 1977 pig crop estimate more than 4 percent and trimmed the December 1 breeding stock inventory estimate nearly 2 percent.) Moreover, disease and weather problems resulted in low conception rates and fewer pigs per litter. The estimate of pigs saved per litter for the December-May 1978 period, for example, is the lowest since 1960.

Hog inventories nominally exceed year-ago levels, despite the slight decline in the winter and spring pig crops. The June 1 inventory of hogs held for breeding purposes numbered 1 percent more than a year ago, as did the inventory of market hogs. Market hogs weighing less than 60 pounds numbered 4 percent fewer than a year ago. The number weighing 60 to 180 pounds was up 4 percent. The inventory of market hogs weighing 180 pounds or more was up 8 percent.

June 1 hog inventories are still low compared to past years



In district states, hog inventories vary widely compared with a year ago. Wisconsin producers have expanded considerably in recent months, boosting their June 1 hog inventory by 10 percent. Hog numbers in Illinois and Indiana are up 6 percent and 1 percent, respectively. By contrast, inventories in Iowa—the leading hog producing state—are down 3 percent. Those in Michigan are down 6 percent. District states account for nearly half of U.S. hog numbers, Iowa alone accounting for more than a fourth.

Farrowing intentions suggest the upturn in hog production might resume this summer and fall, but only modestly. Producers in the 14 major hog states intend to increase both June-August and September-November farrowings by 3 percent. Nationwide, producers intend to farrow 6.2 million sows during the six months ending in November, up 4 percent from the revised figure for a year ago. While such a level of farrowings is possible, it would be equivalent to an unusually high 71 percent of the June 1 inventory of breeding hogs. By comparison, the ratio of farrowings to the inventory of breeding stock has averaged about 69 percent for the past three years and 65 percent for the first half of the 1970s.

Trends in hog production in district states

	Dec.-May 1978 pig crop		June 1 inventory of all hogs		Intended sow farrowings, June-Nov. 1978	
	Million head	Percent change*	Million head	Percent change*	Million head	Percent change*
Illinois	4.8	4	6.1	6	.7	6
Indiana	2.8	2	3.8	1	.4	2
Iowa	10.2	- 7	14.2	- 3	1.4	- 3
Michigan	.5	1	.6	- 6	.1	8
Wisconsin	1.4	12	1.5	10	.2	8
District states	19.7	- 2	26.2	0	2.8	1
United States	42.3	- 1	54.9	1	6.2	4

*From year earlier.

Nevertheless, the indicated increase in farrowings is surprisingly small in light of the prolonged high hog-corn price ratio. Over the past 12 months, the hog-corn price ratio (Omaha basis) has ranged from 19.2 to 26.4 and averaged 22.4. From a historical perspective, this is considerably higher than the ratios normally associated with marked upswings in hog production.

Hog slaughter during the second quarter trended seasonally lower, but slightly exceeded the year-earlier level. Based on weekly kill rates at federally inspected plants, it appears hog slaughter for the entire first half was down about 1 percent from the 1977 pace. In many respects, second-half slaughter prospects mirror first-half trends. For the third quarter, hog slaughter will likely edge slightly lower on a seasonal basis, but remain somewhat above the year-earlier level. Slaughter will rise seasonally in the fourth quarter but will probably fall short of year-ago levels, reflecting the reduced inventory of lightweight hogs. Overall, it appears second-half hog slaughter will closely approximate the year-ago level.

Based on the nominal buildup to date in the inventory of breeding hogs and the modest increase in farrowing intentions for the June-November period, it would appear that hog slaughter during the first half of next year may increase only slightly over the level for the first half of this year. Barring an unexpected shortfall in the 1978 corn crop, this will likely prolong the favorable profits to hog producers well into next year.

Hog prices were buoyed in recent months by exceptionally strong markets throughout the meat complex. Barrow and gilt prices at major markets averaged about $47.50 per hundredweight during the first half, nearly one-fifth higher than a year earlier, despite the nominal decline in pork and total red meat production. Since mid-May, hog prices have ranged from $48 to $50 per hundredweight, although trending lower with the sharp downturn in cattle prices.

Projections of second-half hog prices vary widely, depending largely on whether the recent softening in livestock markets is interpreted as a short-term aberration from the unusually strong first-half performance or as a more concrete fundamental realignment of prices with supplies. On the one hand, the latest *Hogs and Pigs* report has again allayed any fears of a sharp upswing in pork production for the near term. Moreover, the fundamentals suggest the cattle market will remain much stronger than in recent years. But at the same time, prospects for continued large fed cattle marketings and poultry production suggest total meat supplies during the next few months will hold fairly close to year-ago levels.

THE GRAIN STOCKS REPORT issued by the USDA late last week indicated substantially larger stocks of grains and soybeans and provided another benchmark for measuring utilization. As expected, the report confirmed record wheat, corn, and soybean utilization in April and May. Rapid utilization—together with the late planting season, the buildup in the grain reserve program, and initial reports of better-than-expected participation in acreage set-aside programs—has added considerable strength to crop prices in recent months.

Corn stocks on June 1 approximated 2.8 million bushels, 18 percent more than a year ago. Total feed grain stocks were up 25 percent. The corn stock estimate implied utilization in April and May exceeded the year-earlier pace by 12 percent, up substantially from the 1 percent rate of gain during the first six months of the corn marketing year.

Most of the pickup in corn utilization reflects the rapid increase in exports this spring. Corn export inspections from the end of March through the third full week of June rose 37 above the same period in 1977. The surge boosted inspections so far in the 1977/78 corn marketing year 40 million bushels above the corresponding period a year ago, more than offsetting the 100 million bushel lag apparent at the end of March. Moreover, the increase virtually eliminated earlier concerns that corn exports for 1977/78 might not reach the USDA's projection of a record 1.75 billion bushels.

Soybean stocks on June 1 totaled 500 million bushels, nearly 50 percent more than the relatively tight level a year ago but a tenth less than the record set two years ago. Utilization in April and May increased to 340 million bushels, up a fifth from the same period a year earlier. The USDA, expecting the acceleration in soybean disappearance to continue this summer, has again raised its estimates of crushings and exports, trimming another 40 million bushels off the ending stocks es-

timate. Both crushings and exports for the 1977/78 marketing year are now expected to be up about a fifth. Ending stocks are pegged at 130 million bushels, up from 103 million last year but down sharply from the 270 million bushel projection made in January.

Soybean utilization estimates have been boosted sharply since January, portending a much smaller buildup in ending stocks.

	Marketing year			
			1977/78 estimates	
	1975/76	1976/77	Jan. 26	June 23
	(million bushels)			
Beginning stocks	188	245	103	103
Production	1,547	1,288	1,716	1,716
Total supply	1,735	1,533	1,819	1,819
Crushings	865	790	860	935
Exports	555	564	610	680
Seed and residual	70	76	79	74
Total use	1,490	1,430	1,549	1,689
Ending stocks	245	103	270	130

Wheat stocks on June 1 were estimated at 1.17 billion bushels, up nearly 6 percent from last year's ending carryover. This figure caps the 1977/78 wheat marketing year that included a record supply of 3.1 billion bushels and a near-record utilization of about 2.0 billion bushels. Exports during 1977/78 are estimated at 1.1 billion bushels, up from 950 million bushels in 1976/77 but down from the 1973/74 peak of 1.2 billion. Domestic utilization totaled an estimated 836 million bushels, nearly 100 million bushels more than a year ago.

Crop prices this spring were strongly supported by the record pace in utilization and the late planting season. Corn prices received by farmers during April and May averaged $2.25 per bushel, 20 cents above the first-quarter average. Soybean prices at the farm averaged around $6.65 per bushel, compared with $5.83 from January to March. Although utilization will likely remain high this summer, grain and soybean markets will probably be influenced more by new crop developments both here and in other major grain producing countries of the world. Consequently, crop price prospects for this summer are highly uncertain.

A significant portion of this year's corn and soybean acreage was planted later than normal. Late plantings increase chances that adverse weather during the growing and maturing stages of crop development could reduce per acre yields. There have been years such as 1973, however, when yields reached bumper proportions despite late plantings.

There is also concern that the late season caused some abandonment of intended plantings and contributed to the higher-than-expected enrollment in various government farm programs. It was recently announced that farmers enrolled in farm programs intend to remove 24 million acres from production this year as a result of set-aside and other requirements and options included in the 1978 programs. However, many analysts are now suggesting that this year's drop-out rate may substantially exceed the more typical 10 percent or less. Today's release of the USDA's planted acreage estimates should provide some insight into both the potential drop-out rate and the possible extent of abandonment in intended plantings. However, because considerable acreage had not been planted when the USDA survey was completed around June 1, uncertainty regarding the amount of plantings will be more than usual until final estimates are prepared late this summer.

Past history would suggest that crop prices will likely fluctuate widely this summer. Despite the buildup in grain and soybean carryover stocks this year, substantial upswings in prices are possible if weather developments significantly reduce domestic crop prospects or materially strengthen potential export demand. But at the same time, this year's harvest could still be of bumper proportions, which, combined with similar developments worldwide, could erode much of the recent support in grain prices. In contrast to last year, however, the downside potential for grain prices will be restricted by the existence of the grain reserve program. If storage facilities are not unduly short, famers still holding 1977 crop corn late this summer will have the option of placing the grain in reserve. Such actions would reduce the late-season selling pressures that contributed to the sharp decline in corn prices last summer.

The grain reserve operates as an extended loan program. It is designed to isolate wheat and feed grains from free market supplies for up to three years, or until prices received by farmers reach the specified minimum "release" level. Based on this week's announced boost in the wheat loan rate from $2.25 to $2.35 per bushel, the release price for wheat will be $3.29 per bushel. For corn, the release price is $2.50 per bushel. According to the USDA, there were nearly 520 million bushels of wheat and feed grains in the reserve program on June 23. Of the total, wheat accounted for 350 million bushels, and corn 100 million bushels. The nearly 700 million bushels of corn still under loan—but outside the reserve—suggests the corn reserve could escalate if prices were to fall sharply this summer.

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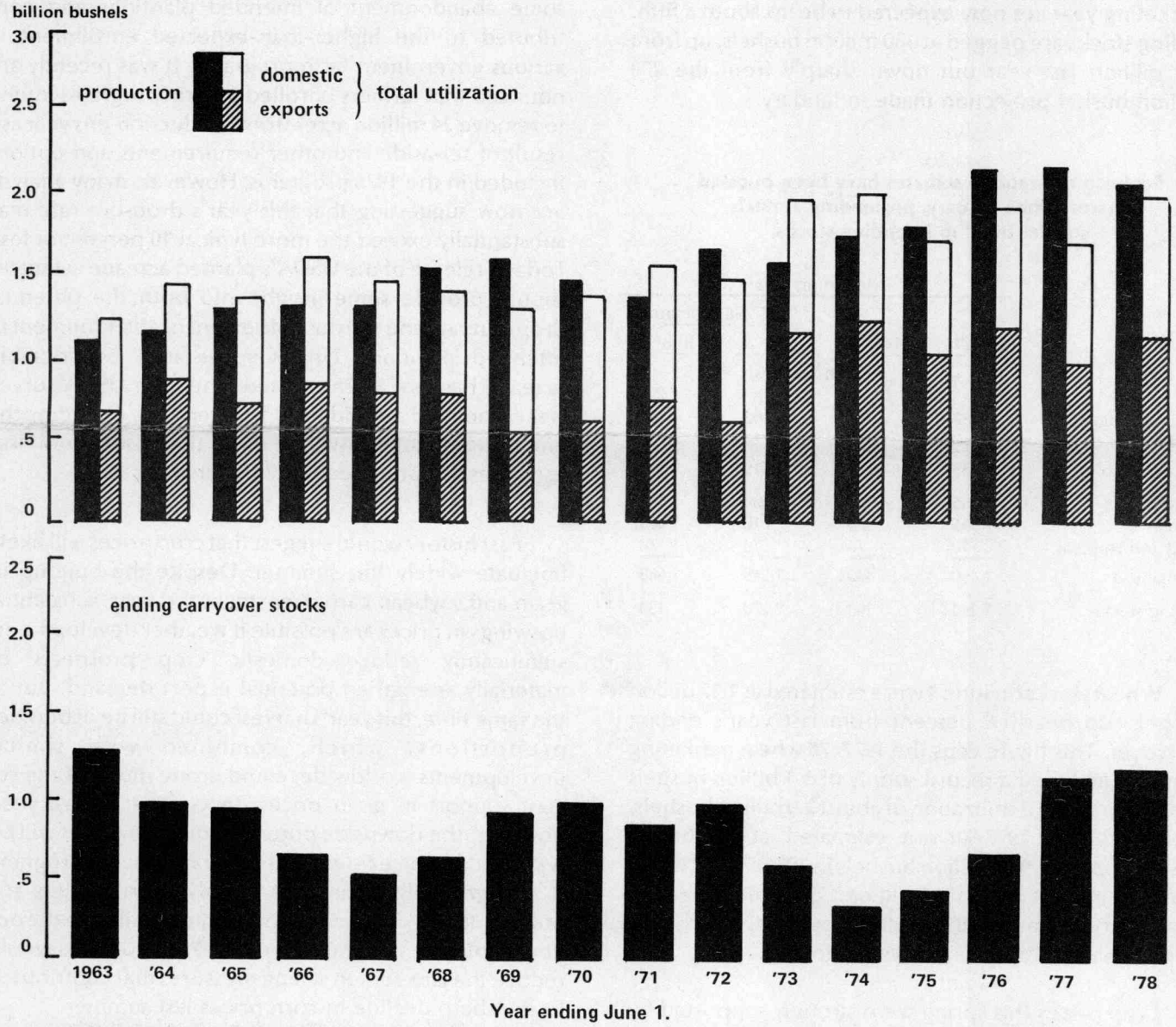
The 1977/78 wheat marketing year ended on June 1 with a further accumulation in carryover stocks



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