Federal Reserve Bank of Chicago - -

Agricultural Letter

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THE CORN CROP was officially estimated at 3.48 billion bushels as of August 1, practically the same as the July 1 estimate of 3.45 billion. The last two crop reports and the final 1954 production are shown below for selected crops.

Crop	August 1 estimate	July 1 estimate	1954 production
	---- (million bushels) ----		
Corn	3,478	3,450	2,964
Oats	1,625	1,513	1,500
Barley	391	384	370
Sorghums ...	266	--	204
Soybeans ...	420	--	343

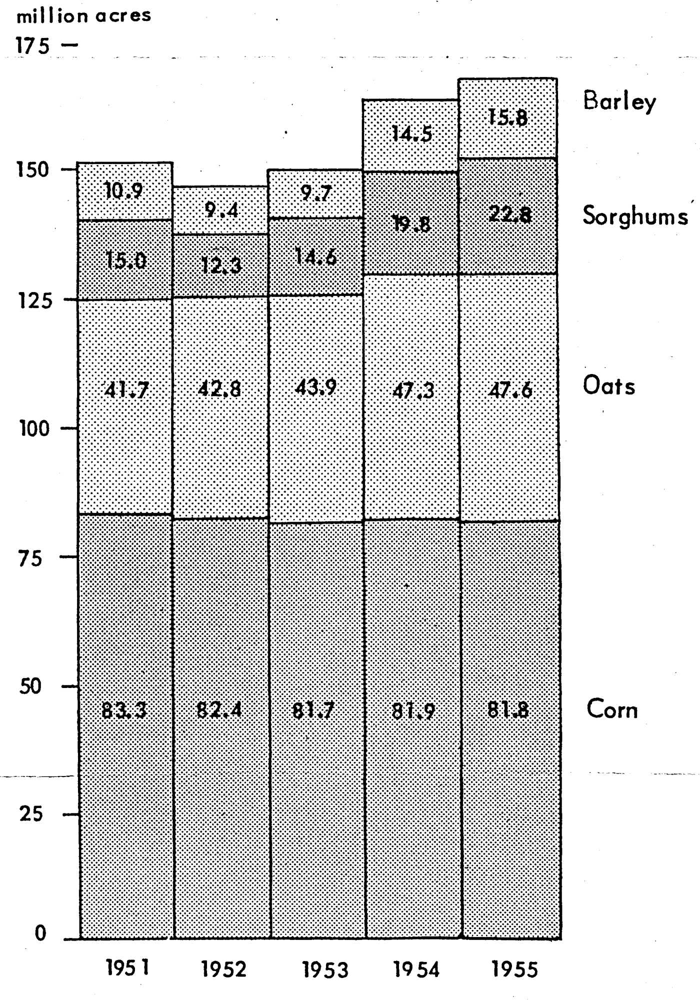
On July 1 corn stocks not under price support totaled 635 million bushels--100 million more than a year earlier. If the new crop turns out as large as the August 1 estimate, there will be an abundance of corn on the "free market" this fall because about half of the producers in the commercial area have not complied with acreage allotments and hence their corn will not be eligible for price support. Some market analysts have been thinking of on-the-farm corn prices in the $1.00 to to $1.10 range for the latter part of this year, and such thinking has been supported by December futures prices on the commodity exchanges in recent weeks.

This situation, if it develops, will have implications for the livestock market. The spring pig crop was up 9 per cent, and those hogs will be coming on the market this fall and winter. Furthermore, based on a USDA survey of breeding intentions, the fall pig crop is expected to be 10 per cent larger than a year earlier. Most forecasters are guessing that hog prices will run between $13 and $15 at Chicago through the winter. This is equivalent to something like a $12 price received by farmers in the principal hog-producing areas.

If these speculations prove to be correct, the hog-corn price ratio in principal producing areas will be between 11-1 and 12-1 this winter--the time when breeding decisions are made concerning the spring pig crop of 1956. The 640 million dollar question is this--will the hog-corn price ratio be low enough to discourage a further increase in the spring pig crop next year?

Some observers think that the ratio will not be low enough. They cite two basic reasons. First, they feel that recent advances in the technology of feeds and feeding--like the use of antibiotics--have reduced the break-even point in the hog-corn price ratio below the historical 12-1. Second, they feel that the expansion in the aggregate production of feed grains (see chart below) and the steadily sagging prices of that feed will result in a further increase in production of almost all types of meat animals with consequent pressure on their prices. Hence, the hog feeder (who typically also raises corn) will find practically all his alternatives relatively unfavorable unless he can seal his corn with the CCC. But less than half of the hog feeders will be eligible for price support on corn this winter.

ACREAGE PLANTED TO FEED GRAINS



PLANTINGS OF FEED GRAINS have expanded by 18 million acres--12 per cent--in the last two years because of allotments on wheat and cotton and the subsequent diversion of acreage. During that same period the number of grain-consuming animal units fed in the U.S. also increased, but by only 7 per cent. Consequently, grain stocks have risen sharply, and the stage appears to be set for a further increase in our livestock population.

Research Department