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HOG PRODUCTION will continue on the upswing into the early part of next year, according to the USDA's latest *Hogs and Pigs* report. The report, covering the 14 major hog raising states, which account for 85 percent of all hogs, indicates hog numbers on September 1 were up 16 percent from a year earlier. Moreover, producers intend to boost September-November sow farrowings by 13 percent and December-February farrowings by 10 percent. These measures, if reasonally accurate, portend continued large increases in pork production through next summer and attendant pressures to hold down hog prices.

The current upswing in production started slowly a little over a year ago, gained momentum rapidly during the fall and winter, and hit a peak rate of increase this spring. The increase slowed somewhat this summer and will no doubt narrow further in the months ahead. Nevertheless, the expansion has already accommodated very high slaughter rates in recent months and a nine-year high in inventory of hogs waiting to be marketed. The inventory of market hogs on September 1 numbered almost 17 percent more than a year earlier. Among hogs still to be marketed, the increase in inventories ranged from 16 percent for hogs weighing less than 60 pounds to 20 percent for hogs weighing 120 to 179 pounds. The inventory of hogs held for breeding purposes was reported up a tenth, despite evidence of a one-third year-to-year gain in federally inspected sow slaughter this summer.

Contrary to expectations, the report did not indicate that hog producers have significantly altered their expansion plans. For instance, sow farrowings this summer (June-September) were 17 percent higher than a year earlier and virtually identical to the farrowing intentions expressed by producers last June. The second reading on producers' farrowing intentions for September-November now points to a 13 percent gain, down only 1 percentage point from the gain indicated in June. And the first evidence of farrowing intentions for December-February portends a gain of 10 percent. That is considerably more than what some analysts had expected, based on the increased volume of sow slaughter and the losses that some producers have experienced from recent marketings.

Whether producers follow through with their expansion plans will not be known until more concrete evidence is available this winter. However, the farrowing intentions for September-November appear a little high relative to the inventory of breeding stock. Moreover, hog prices are expected to be below many producers' costs of production. This may encourage some producers to scale down their expansion plans. At the same time, however, the more capital-intensive nature of hog facilities built in recent years and the abnormally wide margins between corn prices in the western Corn Belt and terminal markets suggest the scaling down may take longer than expected.

Hog slaughter in the first-half was up nearly 9 percent from the same period a year earlier. The gain widened considerably this summer, reaching an estimated 19 percent. Based on implications of the latest *Hogs and Pigs* report, hog slaughter this fall is expected to rise seasonally and continue about a fifth higher than a year earlier. If the estimate of sow farrowings this summer is fairly accurate and producers in other states followed suit, first-quarter 1980 hog slaughter may decline seasonally but will probably remain more than a sixth higher than a year earlier. The increase could be slightly larger if producers liquidate part of the breeding stock.

The expansion in hog production in district states lags that in other major states

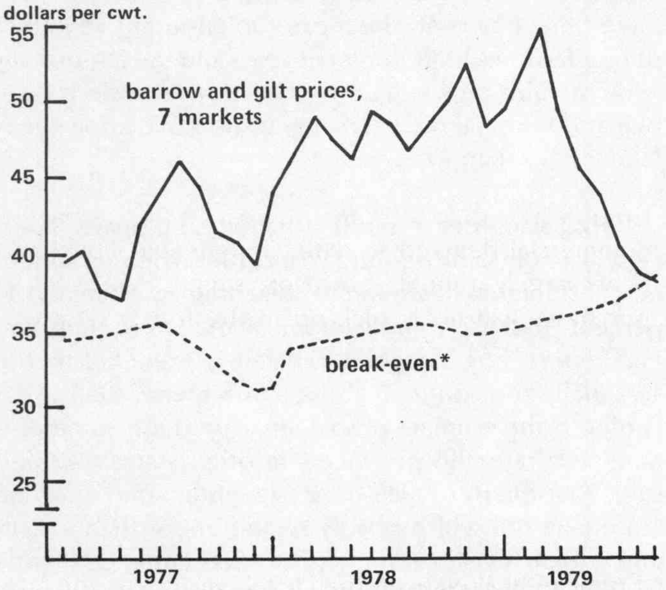
	September 1 inventory		Percent increase in planned farrowings	
	Million head	Percent change	September-November	December-February
District states*				
Illinois	7.0	13	4	9
Indiana	5.2	14	14	8
Iowa	15.9	7	5	9
Wisconsin	1.7	4	0	- 5
Other selected states				
Minnesota	4.6	26	18	16
Missouri	4.8	20	20	16
Nebraska	4.1	16	21	10
North Carolina	2.7	26	24	19
14 major states	57.0	16	13	10

*Michigan is not included among the 14 major states.

Slaughter next spring and summer will hinge largely on farrowings the rest of this year and early next year. If producers carry out their current farrowing intentions, slaughter next spring and summer will likely average more than a tenth higher than this year and considerably higher than the second and third-quarter records set in 1971.

Barrow and gilt prices at seven markets averaged about $38.50 per hundredweight this summer. That is well below the first-quarter average of $52 per hundredweight and $10 less than a year earlier. It was also the lowest for any quarter since late 1976. The downturn, plus higher feed costs, has trimmed the profits of all hog producers and generated losses for many. Prices are expected to remain under downward pressures in the months ahead as the rapid expansion earlier this year is manifest in record or near-record marketings.

Lower prices and higher production costs have trimmed hog producers' profits



*Based on Iowa State University cost budgets for a typical farrow-to-finish hog producer in Iowa.

Other factors impacting on hog prices will include consumer demand and supplies of competing meats. Retail pork prices in August were the lowest since January 1978, imparting some strength to consumer demand. But the likelihood of a downturn in the general economy, along with prospects for rising unemployment and continued high rates of inflation, suggest consumer demand may be lackluster in the months ahead. Moreover, per capita supplies of all meats for the rest of this year and the early part of next year are expected to remain slightly higher than a year earlier. Through August of this year, poultry production was up 12 percent from the same months a year before. And although the year-to-year gains are likely to narrow, near-term prospects portend roughly a tenth more poultry production. That, plus the large increases expected in pork production, will probably more than offset the continuing declines in beef production. Through August, beef production was down 11 percent. Current forecasts point to a roughly comparable decline in the fourth quarter and—based on the slow movement of cattle into feedlots—in the early part of next year.

Although many analysts expect hog prices will average lower the rest of this year and the first-half of next year, the extent of the decline could well be limited if cattle prices maintain their recent strength. The hog-to-cattle price ratio during cyclical lows has averaged about .50. From this perspective, it is doubtful that quarterly average hog prices will fall below the mid-$30s if cattle prices hold in the high $60s to low $70s per hundredweight, as many expect.

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HIGHER DAIRY SUPPORT PRICES became effective this week. The increase boosts the support price for manufacturing milk to $11.49 per hundredweight, up from the $10.76 level that prevailed since April. The increase stemmed from the mid-September announcement by the Secretary of Agriculture that the required semi-annual adjustment in support prices on October 1 would reflect a support level corresponding to 80 percent of parity. (Prior to the announcement there had been some concern that, because new legislation had not yet been enacted, the support level would be set at the legal minimum of 75 percent of parity as provided for in the 1977 farm act.) The likelihood of higher farm milk prices as a result of the boost in the support level, coupled with prospects of a continued favorable milk-feed price ratio and increased milk production, points to a further improvement in this year's incomes of dairy farmers.

Milk production in the first eight months of 1979 totaled 83.8 billion pounds, 0.8 percent above the year-earlier level and nearly equal the 1977 pace. Most of the increase came during the summer months. Favorable weather in many parts of the country this summer contributed to generally excellent stands of forages. The improved grazing conditions together with plentiful supplies of reasonably priced grains and continued, selective culling of the milking herd contributed to a boost in milk output per cow. In the January-August period, milk output per cow averaged 1.5 percent above a year earlier, more than counterbalancing the effects of the continuing downtrend in the number of milk cows, which averaged 0.8 percent fewer. If milk production in the final four months of this year exceeds year-ago levels by as much as 0.4 percent, the total output for the year will top the 1977 total, which was the highest since 1965.

District states have been major contributors to the expansion in milk production this year. Dairy farmers in district states produced 24.2 billion pounds of milk in the January-August period, 29 percent of the nation's total, and 1.6 percent more than a year earlier. The bulk of the increase for district states stemmed from production gains in Wisconsin, which accounts for more than three-fifths of the district total. Milk production in Wisconsin through August was nearly 3 percent greater than last year. Iowa was the only district state to show a decrease in milk production through August.

Milk prices received by farmers in the first nine months of 1979 averaged 15 percent above year-earlier levels even though government removals (1.3 billion pounds milk equivalent) have been less than half the amount purchased last year. In the first half, milk prices held fairly stable, but have since risen seasonally, reaching $12.30 per hundredweight in September. The reduced purchases of dairy products by the Commodity Credit Corporation (CCC) this year reflects the strong commercial demand to date. Commercial stocks have been largely rebuilt, however, suggesting that CCC purchases will likely pick up in the fourth quarter in order to maintain farm milk prices near the new support level.

Higher milk prices this year have mostly offset the impact of increased feed costs. June marked the seventh consecutive month of record milk-feed price ratios. Although the ratio has since fallen below year-ago levels, it remains at a relatively high level. Moreover, the rate is expected to rise in the fourth quarter. The October 1 boost in the support price will contribute to a large seasonal rise in milk prices and the prospects for a record crop harvest will likely hold the line on feed costs. The increased milk output this year, together with the higher farm milk prices and favorable feeding ratio, suggest net earnings of dairy farmers for all of 1979 could be record high.

Don A. Langford
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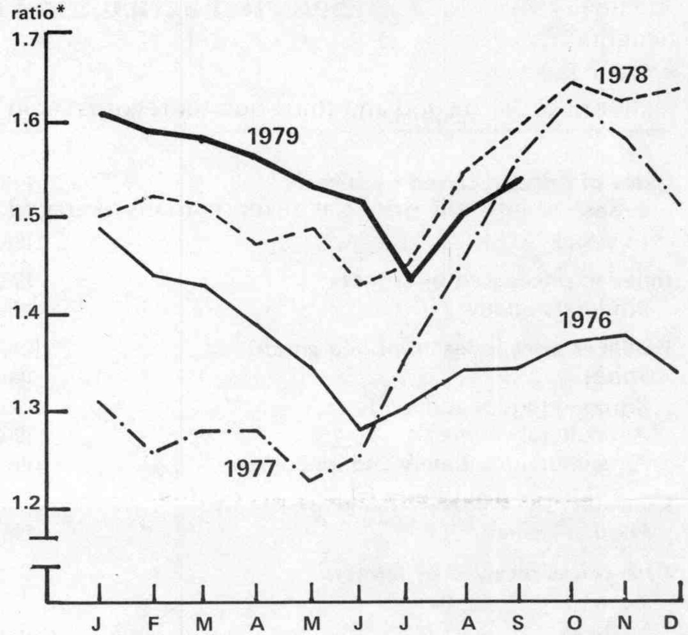
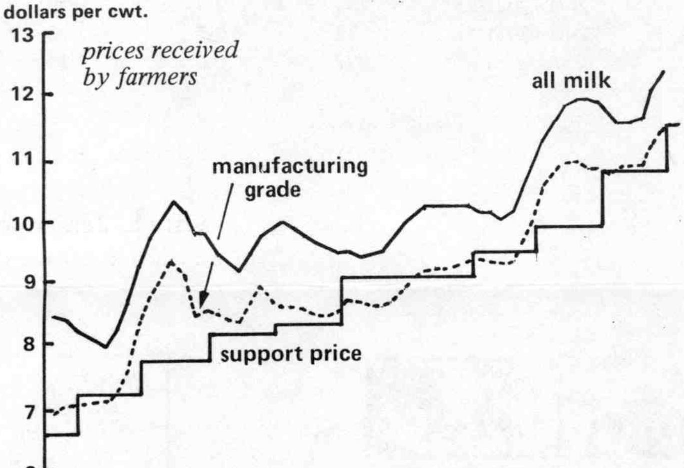
Milk-feed price ratio still favorable but below year-ago level



*Pounds of 16 percent protein ration equal in value to one pound of milk.

Higher support prices portend rising milk prices



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	1967=100	September	240	+ 1.3	+11
Crops	1967=100	September	224	– 4.7	+ 9
Livestock	1967=100	September	255	+ 6.7	+12
Index of prices paid by farmers	1967=100	September	254	+ 1.2	+14
Production items	1967=100	September	253	+ 1.6	+15
Producer price index* *(finished goods)*	1967=100	September	220	+ 1.4	+12
Foods	1967=100	September	228	+ 2.1	+ 9
Processed foods and feeds	1967=100	September	226	+ 2.5	+10
Agricultural chemicals	1967=100	September	218	+ 2.1	+ 7
Agricultural machinery and equipment	1967=100	September	237	+ 1.8	+ 9
Consumer price index** *(all items)*	1967=100	August	221	+ 1.0	+12
Food at home	1967=100	August	234	– 0.7	+ 9
Cash prices received by farmers					
Corn	dol. per bu.	September	2.50	– 1.6	+26
Soybeans	dol. per bu.	September	6.87	– 2.8	+11
Wheat	dol. per bu.	September	3.84	+ 2.7	+32
Sorghum	dol. per cwt.	September	4.02	– 5.9	+25
Oats	dol. per bu.	September	1.28	+ 3.2	+21
Steers and heifers	dol. per cwt.	September	70.70	+10.0	+28
Hogs	dol. per cwt.	September	37.50	+ 5.6	–22
Milk, all sold to plants	dol. per cwt.	September	12.30	+ 2.5	+13
Broilers	cents per lb.	September	23.4	+ 1.7	–11
Eggs	cents per doz.	September	54.8	+ 4.8	+ 1
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	130	+ 2.4	+18
Net realized farm income	bil. dol.	2nd Quarter	33	– 0.6	+20
Nonagricultural personal income	bil. dol.	August	1,892	+ 0.6	+11

*Formerly called wholesale price index.

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