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HOG FARMERS continued to scale back production this summer. According to the USDA's latest *Hogs and Pigs* report, the summer pig crop (June-August) was down 11 percent from the year before. Moreover, the report shows that the inventory of hogs held for breeding purposes was trimmed further, portending year-to-year declines in farrowings this fall and winter. As a result, pork supplies may continue to lag year-earlier levels through next summer. Smaller supplies, in turn, will hold hog prices at profitable levels for most producers for several months ahead.

The September *Hogs and Pigs* report summarizes recent and prospective trends in production in the 10 major hog-producing states. The 10 states—Georgia, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Carolina, and Ohio—account for about 80 percent of U.S. production. For a number of years the USDA had surveyed 14 states as the basis for the report.

The smaller summer pig crop reflected a reduction in the number of sows farrowed. Farrowings were down 11 percent from the year before, a slightly larger decline than had been indicated by producers' intentions in June. The average number of 7.4 pigs per litter was unchanged from a year ago, but still above the historical average of 7.2 per litter. Compared to the spring, however, the June-August seasonal decline in farrowings was the smallest in four years.

The inventory of all hogs and pigs on farms in the 10 major states on September 1, at 41.6 million, was down 12 percent from last year and 18 percent below the peak of three years ago. Hogs held for breeding purposes numbered 13 percent fewer than a year ago and 24 percent fewer than the September 1 peak of 1979. Hogs intended for market were 12 percent below a year ago. The number of heavier market hogs (180 pounds and over) was a tenth below the year-earlier level, whereas the number of pigs under 60 pounds was down 12 percent. Hogs weighing 60 to 179 pounds were also down 12 percent.

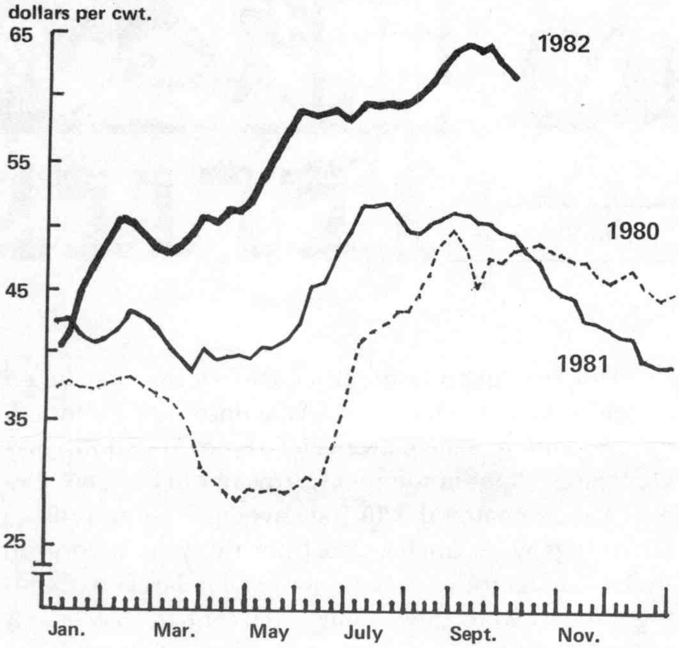
Hog producers in the three District states included in the survey (Michigan and Wisconsin are excluded) followed the 10-state pattern with some exceptions. Percentage declines in summer farrowings in Iowa and Illinois approximated the 10-state average, but in Indiana farrowings were unchanged from the year before. In Indiana, inventories of both market animals and breeding animals were down only 3 percent from the year before. In Illinois and Iowa, inventories of all hogs and pigs were down 16 percent and 11 percent, respectively.

In line with the reduced number of hogs held for breeding purposes, the downturn in farrowings is expected to continue in the months ahead. Producers' intentions for this fall (September-November) point to 10 percent fewer sow farrowings than the year before. For the December-February period, producers intend to reduce farrowings by 4 percent from the low year-earlier level. If these intentions are carried out and if litter sizes are comparable to the average for the past five years, then the fall pig crop would be down 12 percent from last year and the winter pig crop would be down 5 percent. Both would be the lowest in seven years.

Hog slaughter has held well below year-earlier levels so far this year. The January-June slaughter was down 8 percent from a year ago. Third-quarter slaughter declined seasonally from the second quarter and, based on preliminary estimates, was down about 11 percent from the year before. Some analysts expected a somewhat sharper decline in hog slaughter during the summer

ERRATA: In *Agricultural Letter* No. 1585, dated September 3, 1982, it was indicated that the 1983 feed grain program would likely combine a 10 percent acreage reduction and a 5 percent paid acreage diversion. However, the Secretary of Agriculture subsequently announced that the paid acreage diversion would be 10 percent rather than 5 percent.

Barrow and gilt prices at seven major markets



quarter, anticipating some retention of gilts for expansion of the breeding herd. However, there was little evidence of any build-up in the breeding herd through August.

Pork production will likely remain below year-earlier levels at least through the first half of 1983. The low inventory of heavyweight market hogs suggests that fourth-quarter slaughter may decline a sixth from the year-ago level, although the decline could be larger if expansion of the breeding herd begins. The size of this summer's pig crop and the market inventory of light-weight hogs suggest that hog slaughter in the first quarter may be down about a tenth. Based on the latest farrowing intentions of producers, pork production in the second quarter may be down about 6 to 8 percent from year-earlier levels, while third-quarter slaughter may be down about 4 to 6 percent from year-earlier levels. However, projections for the second and third quarters are tenuous because farrowing intentions may change as producers respond to market conditions in the near term. There is some doubt as to whether the cutback in farrowings, particularly this winter, will be as extensive as indicated. Low feed prices and high hog prices may encourage hog farmers to make more moderate cuts in farrowings and, in turn, second- and third-quarter pork supplies.

Hog prices are up substantially in light of recent and prospective cuts in production. Barrow and gilt prices recently ranged from $62 to $64 per hundredweight, up from $40 per hundredweight at the beginning of the year and up from $51 a year ago. The prospective decline in pork production at least through mid-year 1983 is likely to hold hog prices at relatively high levels. However, production of other meats may be somewhat detrimental to pork prices. Beef and poultry production is expected to exceed the year-earlier level in the fourth quarter and to hold above year-ago levels next year. The larger supplies of these competing meats may put some downward pressure on pork prices, particularly in light of recent increases in retail pork prices. Also, pessimistic prospects for employment and income growth raise doubts about any near-term improvement in consumer demand. Nevertheless, fourth-quarter prices may average $60 per hundredweight. Next year hog prices may average in the upper $50s until summer, then begin to decline into the lower $50s.

Advancing prices and lower input costs—especially feed costs—have restored the profitability of hog production. According to Iowa State University budgets, returns to a typical Iowa farrow-to-finish hog operation were negative in 15 of the 24 months ending with December 1981.Returns on hogs turned positive this year, improving from an average of $10 per head in the first quarter to an estimated average of $45 per head in the third quarter. Conditions are likely to remain quite profitable for the next two or three quarters, eventually triggering an upturn in hog production.

FARM TRACTOR AND EQUIPMENT SALES continued very sluggish through the summer months. Preliminary estimates from the Farm and Industrial Equipment Institute (FIEI) indicate that unit retail sales of farm tractors with 40 or more horsepower through August of this year were down nearly a fourth from the same period in 1981 and down 45 percent from the strong pace of three years ago. Combine sales through August were down 44 percent from last year and down 49 percent from 1979's level.

Relative to a year ago, the downturn in farm equipment sales steepened in recent months. Sales of tractors with 40 or more horsepower in July and August were down 37 percent from the year before, exceeding a year-to-year decline in the second quarter of 28 percent and a first-quarter decline of 9 percent. Combine sales in July and August were down 49 percent from the same period a year ago. This compares with a 42 percent year-to-year decline in the second quarter and a 38 percent decline in the first quarter.

The decline in sales is evident not only for farm tractors and combines, but also for most other types of equipment. Through August, unit sales of 4-wheel drive tractors were down 29 percent from the same period a year ago. Sales of 2-wheel drive tractors were off 24 percent. Unit retail sales of balers producing bales of less than 200 pounds were down a third from the same period a year ago and down a half from 1979. Mower conditioner sales declined over a fifth, while forage harvester sales were down about 30 percent from the year-earlier level.

Sales in Seventh District states, an important market for farm equipment manufacturers, were nearly as depressed as for the country as a whole. Tractor sales were down 23 percent for January-July from the same period a year ago and unit sales of combines were off 39 percent. (Figures on August sales for individual states are not yet available). In contrast, year-to-year comparisons indicate that unit retail sales of forage harvesters were more dismal in the District than in the nation, while unit retail sales of mower conditioners and balers were somewhat better in the District than nationwide. Sales lagged year-earlier levels in most District states, but the rate of decline varied. Tractor sales were down the most in Michigan and Wisconsin, while combine sales were off the most in Indiana and Wisconsin.

Dealers' and manufacturers' inventories, though burdensome with respect to the weak sales, are down slightly from a year ago. Retail inventories of farm tractors at the end of July were down 4 percent from the year-earlier level, but still equivalent to 86 percent of tractor sales over the previous 12 months. This means that enough units were on hand to cover over 10 months of sales at the depressed rate of the past 12 months. Inventories of combines, though down nominally from a year ago, were also equivalent to 10 months of sales. Inventories of balers, mower conditioners, and forage harvesters in July were 10 to 20 percent below the year-earlier levels. To hold inventories down, some manufacturers have repeatedly resorted to plant closings or sales campaigns which include discounts, rebates, lower interest rates on financing, or waivers of a portion of interest charges. In recent months, manufacturers have intensified these campaigns in an effort to minimize inventory carrying costs and to bolster sales.

The factors primarily responsible for the decline in farm equipment sales, a barometer of trends in the agricultural sector, have been high interest rates and low farm earnings. Although interest rates have declined in recent months, they remain at relatively high levels. At the end of June, interest rates charged by rural banks were only 1½ percentage points below the peak of fall 1981. Preliminary estimates indicate that cash receipts to crop farmers are down from the year-earlier level. The deterioration in crop prices this year has more than offset larger marketings of crops. Prices received by farmers for corn and soybeans, for example, are down a fifth from a year ago. For most corn and soybean farmers, prices average well below the cost of production, intensifying the cash-flow squeeze. As a consequence, many crop farmers, who tend to be the big buyers of farm equipment, have backed away from capital purchases.

For the rest of the year, there are several factors that could contribute to an improvement in farm equipment sales from the sluggish performance evident through August. However, unit sales for the year will still remain at historically low levels. Because of higher hog prices, receipts to livestock farmers are expected to hold up fairly well. Direct government payments to crop farmers will rise sharply in the fourth quarter reflecting advances on 1982 deficiency payments and advances on 1983 deficieny and acreage diversion payments to those farmers who sign up for programs. The advance payments will ease the cash-flow squeeze facing some crop farmers. However, participation by many farmers in efforts to reduce feedgrains and wheat acreage may temper any improvement in sales of some farm equipment. Also, any further decline in interest rates could stimulate farmers' demand for credit to purchase farm equipment and make other capital expenditures. Still, until there is an upturn in crop commodity prices and crop earnings, any significant improvement in farm equipment sales is unlikely.

Interestingly, about a third of the farm tractors and half of the combines are sold during the September-December period. If the pace of farm equipment sales in the remaining months of the year does not improve, then unit retail sales of tractors with 40 or more horsepower could be as low as 79,400 units in 1982, trailing last year's level by over a fifth. Combine sales could amount to only 15,600 units, down four-tenths from last year. If so, 1982 would be a very poor year for unit sales of tractors and combines.

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	September	136	+ 2.3	+ 2
Crops	1977=100	September	125	+ 5.0	+ 4
Livestock	1977=100	September	147	0	+ 1
Index of prices paid by farmers	1977=100	September	156	0	+ 3
Production items	1977=100	September	150	− 0.7	+ 1
Producer price index* *(finished goods)*	1967=100	August	282	+ 0.2	+ 4
Foods	1967=100	August	260	− 0.3	+ 1
Processed foods and feeds	1967=100	August	254	− 0.5	+ 1
Agricultural chemicals	1967=100	August	291	− 0.3	− 1
Agricultural machinery and equipment	1967=100	August	311	+ 0.4	+ 7
Consumer price index** *(all items)*	1967=100	August	293	+ 0.2	+ 6
Food at home	1967=100	August	281	− 0.7	+ 3
Cash prices received by farmers					
Corn	dol. per bu.	September	2.17	− 5.7	−15
Soybeans	dol. per bu.	September	5.28	− 5.5	−15
Wheat	dol. per bu.	September	3.38	+ 1.2	− 7
Sorghum	dol. per cwt.	September	3.85	− 2.5	− 5
Oats	dol. per bu.	September	1.37	− 1.4	−21
Steers and heifers	dol. per cwt.	September	60.00	− 4.0	− 5
Hogs	dol. per cwt.	September	61.80	+ 0.8	+27
Milk, all sold to plants	dol. per cwt.	September	13.50	+ 2.3	− 1
Broilers	cents per lb.	September	27.1	+ 3.0	+ 3
Eggs	cents per doz.	September	56.8	+12.0	−12
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	144	+ 0.8	+ 1
Net farm income	bil. dol.	2nd Quarter	18	− 4.3	−24
Nonagricultural personal income	bil. dol.	August	2,550	+ 0.3	+ 6

*Formerly called wholesale price index.

**For all urban consumers.

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