

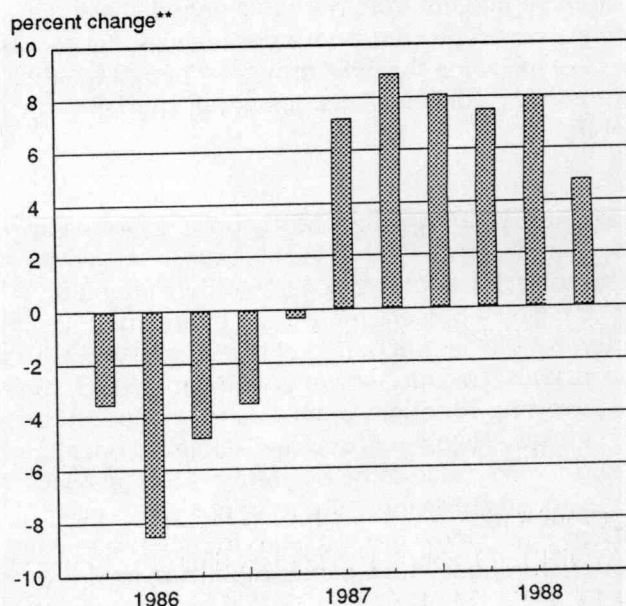
Meat production to reach another new high

Meat production in the U.S. is headed toward another new high this year. USDA analysts project that total meat production this year will be up 3.3 percent from last year, marking the sixth consecutive annual rise. But the uptrend appears to be stalling out. Projections for the fourth quarter of this year suggest that meat production will drop back to the year-ago level. And for next year, USDA analysts are projecting a decline of 1 percent.

Developments so far this year indicate that pork is pacing the uptrend in meat production. After declining from 1984 through 1986, pork production began a cyclical upswing last year, rising 2.2 percent. Through the third quarter of this year, pork production exceeded the year-ago pace by 10 percent. In comparison, beef production was up 1 percent while production of other red meats, (veal, plus lamb and mutton) was down 1 percent. Poultry production continues on a long term uptrend, but the rate of growth slowed dramatically this summer. Total poultry production through the third quarter was up about 5 percent from last year, encompassing gains of 4.5 percent for chicken and 9 percent for turkey. The bulk of the growth in poultry production so far this year occurred in the first half. In the third quarter, poultry production was up only 1 percent.

Despite a likely leveling-off in the current quarter, the growth through the third quarter suggests that annual U.S. meat production will record the sixth consecutive new high in 1988. Compared to the contrasting trends of the past several years, however, this year's growth in production will be more evenly balanced between poultry and red meats. Without exception, poultry production has expanded every year since the mid 1970s. During the 12 years ending with 1987, the annual rise in poultry production averaged 5.5 percent. With a projected rise of 4 percent, poultry production this year will be about 90 percent above the 1974-76 average. On a per capita basis, poultry production this year will likely be up 65 percent from the mid 1970s. In contrast, red meat production, despite cyclical fluctuations in beef and pork, has leveled off since the mid 1970s. Although expected to be up 3 percent this year, total red meat production in 1988 may still fall short of the 1976 record. On a per capita basis, red meat production this year will be down about 9 per-

The rise in hog numbers slowed this summer*



Source: USDA

*Hogs intended for market on farms in 10-major hog producing states.

**Change from previous year, as of Mar. 1, June 1, Sept. 1, and Dec. 1 for years shown.

cent from the mid 1970s and the second or third lowest for any year since the end of the 1950s.

Pork production will continue above year-earlier levels for several more months, but the rate of increase will be slowing. The USDA's September 1 survey of hogs on farms in the 10 major producing states found that hogs being finished for slaughter markets numbered 5 percent more than a year earlier while those held for breeding purposes numbered only 3 percent more than a year ago. Among the three Seventh Federal Reserve District states covered in the recent survey (Illinois, Indiana, and Iowa), market hogs numbered 4 percent more than a year ago while hogs held for breeding purposes were up 2 percent.

The rise in hog numbers indicated in the latest survey was the smallest since the current cyclical expansion began in early 1987. The indication of a slower expansion in hog production this summer partially stems from a 2 percent decline in the average litter size for sows that farrowed during the June-August period. The unusually hot summer was probably a major factor in cutting the average number of pigs saved per litter to 7.63 head.

The various measures included in the latest report on hog numbers suggest that hog slaughter in the fourth quarter of this year will be up 5 to 7 percent from the same period a year ago. For the first quarter of next year, the year-over-year gain will likely slow to a range of 2 to 4 percent. If high feed costs lead to a downturn in average dressed weights, the year-over-year rise in pork production this fall and winter may be a percentage point or so less than the rise in the number of hogs slaughtered. Through August of this year, the dressed weight for hogs averaged nearly 179 pounds, up about 1 percent from the same period a year ago and up about 5 percent from a decade ago. But as was the case following the 1983 drought, dressed weights for hogs may dip below year ago levels this fall and winter.

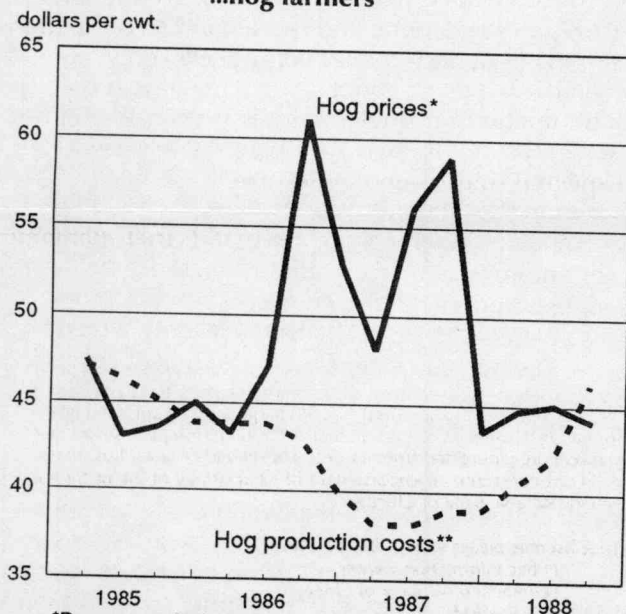
Hog slaughter trends in the spring and summer quarters of next year will hinge mostly on sow farrowings this fall and winter. In the recent survey, hog farmers in the 10-major states reported that they intend to farrow nearly 4 percent more sows during the September-November period of this year than was the case in 1987. For the December-February period, their sow farrowing intentions point to a more modest rise of 2 percent. High feed costs and squeezed operating margins could cause some hog farmers to scale back their planned farrowings. But as of now, their intentions foreshadow modest gains in pork production through the spring and summer months of next year.

Beef production, although up 1 percent through the third quarter, is expected to drop below year-earlier levels in the fourth quarter. This rise in beef production so far this year stems from heavier dressed weights which have more than offset a 1 percent decline in the number of cattle slaughtered. The heavier weights, in turn, reflect the larger proportion of cattle coming out of commercial feedlots. The number of cattle moving to slaughter from commercial feedlots during the first half was up about 3 percent from the year before, based on reports that cover marketings out of feedlots in the 13-major cattle feeding states. Figures from the monthly surveys covering 7-major states show fed cattle marketings in July and August up 2 percent. These gains have been countered by a decline in cow slaughter and, by residual implications, a sharp decline in slaughter of grass-fed steers and heifers. Cow slaughter through September of this year was down 6 percent from the year ago pace.

The movement of young cattle into feedlots, after registering marked gains for about 2 1/2 years, has slowed in recent months. Based on monthly surveys among feedlots in the 7-major states, placements of cattle in feedlots (net of death losses, inter-feedlot shipments, and the movement of cattle from feedlots to pasture) lagged the year-earlier pace by about 9.5 percent from June through August. With the decline in placements, the September 1 inventory of cattle in feedlots among the 7-major states dropped 2 percent

Rising production costs break string of favorable returns to...

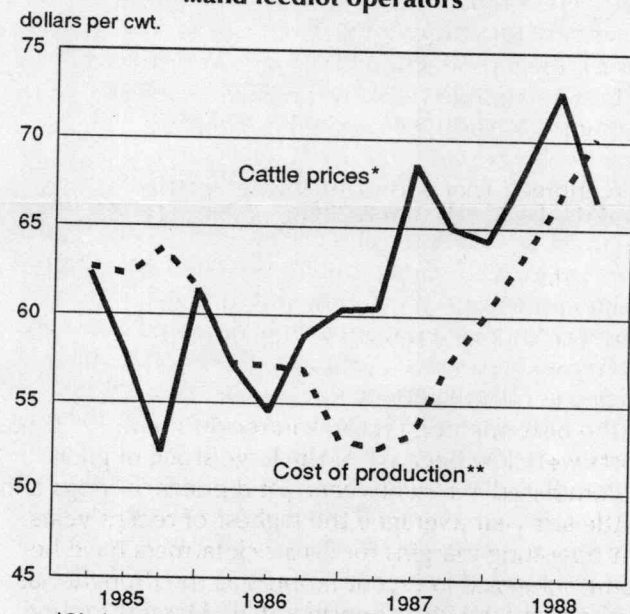
...hog farmers



*Barrows and gilts at 7-major markets.

**For typical farrow-to-finish hog farmer in Iowa, as reported by Iowa State University.

...and feedlot operators



*Choice, 900 to 1100 pound steers at Omaha.

**For typical Iowa feedlot operator to purchase and feed out choice yearling steers, as reported by Iowa University.

to pasture) lagged the year-earlier pace by about 9.5 percent from June through August. With the decline in placements, the September 1 inventory of cattle in feedlots among the 7-major states dropped 2 percent below the year-earlier level, reversing a string of 16 consecutive months of year-over-year gains in feedlot inventories. In Iowa, the only District state covered in the 7-state survey, the inventory of cattle on feed was down 3 percent as of September 1.

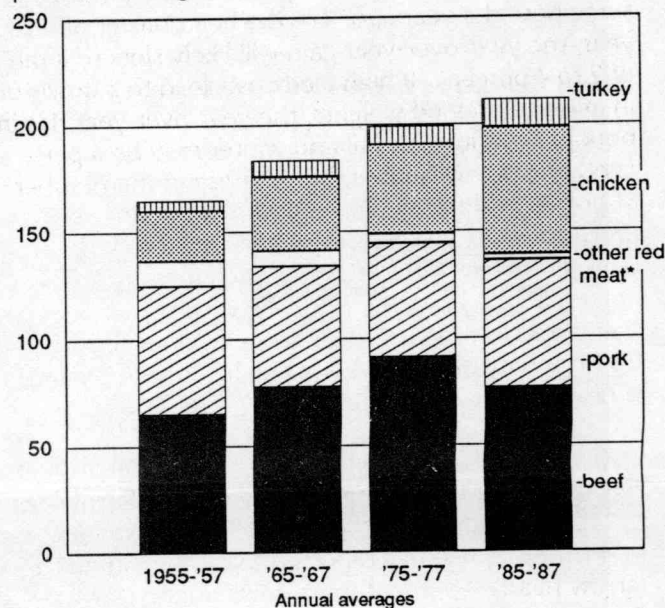
The recent trends in feedlot placements suggest that the gains in fed cattle marketings may end this fall. That coupled with the likelihood of continuing declines in slaughter of cows and grass fed steers and heifers could end the recent string of modest gains in beef production. Reflecting this, USDA analysts project that fourth quarter beef production may be down 5 percent from a year earlier, followed by a decline of 3 percent in the first quarter of next year.

From a longer term perspective, beef production next year is likely to be held in check by the cyclical low in the nation's inventory of all cattle. As of the beginning of this year, the inventory of all cattle numbered 99.0 million head, down 3 percent from the year before and the lowest since 1961. The beef cow herd numbered 33.0 million head, down 2 percent from the year before and the lowest since records began in the mid 1960s. The liquidation of the beef cow herd has slowed further this year and may have ended. But there is no evidence yet of rebuilding. Despite high feeder cattle prices, the drought-related problems of tight hay supplies and high feed costs make it unclear as to whether a major rebuilding of the beef cow herd will begin next year. But a rebuilding seems to be indicated in the current USDA forecast that points to a 7 percent decline in beef production for all of next year. A decline of that magnitude would be unusual. Since at least the beginning of the 1960s, there has been only one other year in which beef production declined by a larger percentage. That was in 1979 when cattlemen initiated the last cyclical rebuilding of cattle herds.

The curtailed movement of cattle into feedlots and the moderating expansion in hog production reflect, in part, the shrinking returns to hog farmers and feedlot operators in recent months. During the two years ending in mid 1988, livestock farmers enjoyed some of the best operating returns in recent memory. Feed costs were low because of the large stock of grains accumulated in recent years. And prices for hogs and cattle last year averaged the highest of recent years. But operating margins for livestock farmers have become squeezed in recent months as the drought has pushed up feed costs considerably. Margins for hog farmers have been further stressed by this year's decline in hog prices while the margins for feedlot oper-

Trends in per capita meat consumption

pounds, retail weight



SOURCE: USDA

*Veal, lamb, and mutton.

ators have been further trimmed by the high cost of feeder stock placed in feedlots some months ago. For many livestock producers, these conditions led to operating losses on animals marketed during the latter part of the summer.

Poultry production is expected to register further growth in the months ahead, but at a much slower rate. Strength in broiler and turkey prices in recent months has helped to offset the rising production costs of poultry producers. Current USDA projections suggest that poultry production will exceed year-earlier levels by only about 1.5 to 2 percent in both the fourth quarter of this year and the first quarter of next year. For all of next year, however, poultry production is expected to rise about 4 percent.

Gary L. Benjamin

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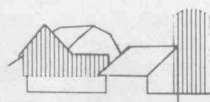
Selected Agricultural Economic Indicators

			Percent change from		
	Latest period	Value	Prior period	Year ago	Two years ago
Prices received by farmers (1977=100)					
Crops (1977=100)	September	145	0.7	12	19
Corn (\$per bu.)	September	139	3.0	32	40
Oats (\$per bu.)	September	2.71	2.3	82	87
Soybeans (\$per bu.)	September	2.51	1.2	68	-97
Wheat (\$per bu.)	September	8.42	1.1	68	74
	September	3.82	5.8	50	68
Livestock and products (1977=100)					
Barrows and gilts (\$per cwt.)	September	151	-0.7	-1	3
Steers and heifers (\$per cwt.)	September	41.30	-10.6	-25	-30
Milk (\$per cwt.)	September	70.30	0.7	4	20
Eggs (¢per doz.)	September	12.20	3.4	-4	-5
	September	63.8	9.8	10	1
Prices paid by farmers (1977=100)					
Production items	July	172	2.4 [†]	5	8
Feed	July	160	3.2 [†]	8	11
Feeder livestock	July	147	31.3 [†]	40	37
Fuels and energy	July	180	-8.6 [†]	-1	17
	July	166	1.8 [†]	1	9
Producer Prices (1982=100)					
Agricultural machinery and equipment	August	109	0.3	3	6
Fertilizer materials	August	112	0.3	2	2
Agricultural chemicals	August	97	-0.4	7	15
	August	107	-0.3	4	4
Consumer prices (1982-84=100)					
Food	August	119	0.4	4	8
	August	119	0.5	5	9
Production or stocks					
Corn stocks (mil. bu.)	September 1	4,260	N.A.	-13	5
Soybean stocks (mil. bu.)	September 1	303	N.A.	-31	-43
Beef production (bil. lbs.)	August	2.16	9.1	8	4
Pork production (bil. lbs.)	August	1.28	13.1	19	24
Milk production (bil. lbs.)††	August	10.3	-2.2	1	2

N.A. Not applicable

† Prior period is three months earlier.

†† 21 selected states.



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