



Hog production expanding faster than expected

Hog farmers have been expanding production since December at a faster-than-expected rate. An updated USDA survey found that the nation's inventory of hogs intended for market as of June 1 numbered almost 4.5 percent more than a year earlier. The gain is likely to widen if producers carryout their current intentions of farrowing nearly 7 percent more sows during the six months ending with November. These measures foreshadow unexpectedly large increases in pork production through the middle of next year. Hog prices are likely to retreat sharply, perhaps falling below the cost of production for some producers.

In addition to updating the figures since the previous quarterly report, the latest *Hogs and Pigs* report also contained some significant upward revisions to previously published estimates. In particular, the estimate of the December-February pig crop and the estimate of the March 1 inventory of hogs held for breeding purposes were both revised upward about 1.5 percent. Two key states, Iowa and North Carolina, accounted for all of the revisions. In conjunction with the revised estimates, the updated report shows that the number of sows farrowed during the March-May quarter was 3.8 percent higher than had been suggested as producer intentions in March and 4.6 percent higher than in the same period the year before.

Further expansion appears likely the rest of this year. The June 1 inventory of hogs held for breeding purposes was estimated at 7.47 million head, up a little over 5.5 percent from last year. An updated reading of producer's intentions

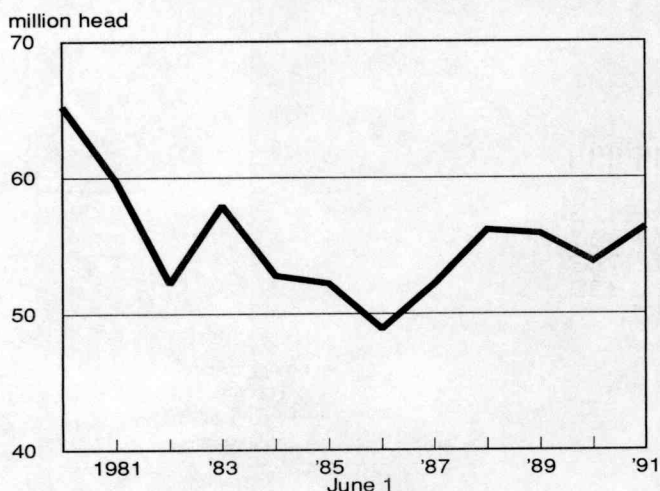
suggests that sow farrowings during the June-August period will be up 7 percent from the year before, well above the modest 2 percent gain indicated by the March survey. For the September-November quarter, producers intend to expand farrowings by nearly 6.5 percent.

Hog farmers in all District states except Michigan are expanding production. The biggest gains are in Iowa where the June 1 inventory of market hogs was up 7 percent from a year ago and the inventory of hogs held for breeding purposes was up 8 percent. Hog numbers were down 8 percent in Michigan but up 2 to 5 percent in the other three District states. District states account for nearly half of the nation's inventory of all hogs and pigs.

Hog slaughter and pork production during the second quarter, although down seasonally from the first quarter, moved above year-earlier levels. Reports from federally inspected plants show that hog slaughter and pork production were both up some 3 to 4 percent from the second quarter of last year. On a per capita basis, that marked the first year-over-year rise in pork production since the spring of 1989. The gains are likely to widen in the months ahead. Based on the December-May pig crop and the June 1 inventory of hogs intended for market, it appears that hog slaughter and pork production during the second half of this year will be up some 5 to 7 percent. And based on producer farrowing intentions for this summer and fall, the year-over-year gain during the first half of 1992 could reach 7 or 8 percent. From a longer-term perspective, per capita pork production in the first half of next year will likely reach an 11-year high.

The magnitude of the projected gains in pork production portend sharply lower hog prices in the months ahead. After averaging \$51.50 per hundredweight in the first quarter, hog prices rose seasonally this spring. But at just under \$55, hog prices in June were down more than a tenth from the year-ago level. Prices will trend lower during the second half and remain well below year-earlier levels for several more quarters. Most observers believe that hog prices will average around \$45 per hundredweight during the fourth quarter and fluctuate mostly in the low- to mid- \$40s during the first half of next year. Unless the current pace of expansion at the farm level begins to moderate considerably by early next year, prices during the second half of 1992 could register further sharp declines. Although production costs vary widely, it now appears the strong earnings that most hog farmers have enjoyed since the latter half of 1989 will end in 1992.

Hog numbers move up to an 8-year high



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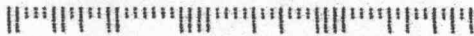
Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	February	11,704	-24.4	-4	-11
Livestock	February	4,611	-42.0	2	13
Government payments	February	6,597	-11.7	0	-2
	February	496	835.8	-53	-78
Real estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	17.2	-0.6**	3	11
Farm Credit System	December 31	29.4	-0.1**	-3	-9
Life insurance companies	December 31	10.8	1.4**	12	12
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	32.9	-0.9**	7	10
Farm Credit System	December 31	10.7	-2.8**	7	15
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	April 1	11.40	-3.6**	-4	-9
Real estate loans	April 1	10.56	-3.6**	-5	-10
Commodity Credit Corporation	July	6.25	2.0	-23	-28
Agricultural exports (\$ millions)					
Corn (mil. bu.)	April	3,146	-13.5	-4	-5
Soybeans (mil. bu.)	April	144	-23.7	-26	-19
Wheat (mil. bu.)	April	43	-35.2	-2	5
	April	92	-22.2	2	-25
Farm machinery sales^p (units)					
Tractors, over 40 HP	May	6,781	7.4	10	29
40 to 100 HP	May	4,172	20.2	4	24
100 HP or more	May	2,609	-8.3	22	37
Combines	May	1,308	103.1	61	197

*Includes net CCC loans.

**Prior period is three months earlier.

^pPreliminary



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