

### Hog production exceeding expectations

U.S. pork production so far this year has marginally exceeded the year-earlier pace, a development that is in sharp contrast to the decline that analysts had expected. Moreover, the USDA's latest tabulations on the output of hog farmers suggest that the gain in pork production will widen considerably in the second half of this year and again in the first half of next year. Those tabulations show that the inventory of hogs on farms nationwide was up 3 percent as of June 1 and that the number of sows to farrow during the six months ending in November will register a year-over-year gain of 5 percent. These prospects have pulled hog prices lower and will weigh heavily on the operating margins of most hog farms in the months ahead.

The USDA conducts quarterly surveys to track hog numbers and the production plans of hog farmers. The most recent survey provided updated inventory estimates as of June 1. In line with the larger-than-expected pork production of recent months, it also provided sizable upward revisions (2 to 3 percent) to the inventory estimates made three and six months earlier. The report showed that hog numbers nationwide have reached a 14-year high of 60.1 million head. Both the inventory of hogs that are being raised for market and the number of hogs held as foundation stock were reported to be up 3 percent from a year ago. The gains for the four weight categories reported for market hogs—under 60 pounds, 60 to 119 pounds, 120 to 179 pounds, and 180 pounds or more—were clustered in a narrow range of 2 to 4 percent. In conjunction with the larger foundation stock, farmers intend to boost the year-over-year gain in sow farrowings by 5 percent during both the June-August and the September-November quarter. The implied level of sow farrowings combined with the trend rate of increase in the number of pigs saved per litter could translate into a 6 percent boost in the number of pigs born and raised during the second-half of this year.

District states accounted for a proportionately large share of the upward revisions to earlier (December and March) estimates of hog inventories. Nevertheless, and despite mixed trends, the latest estimates show hog farmers in District states are not contributing to the expansion. Hog numbers in Iowa on June 1 were down 1 percent from a year ago, largely because of a sizable

decline in the number of pigs born and raised through May. Moreover, Iowa farmers intend to hold sow farrowings during the June-November period below last year's level. The trend in other District states is mixed, with hog farmers in Illinois and Michigan in the midst of expansion efforts while those in Wisconsin are cutting production. The output of hog farmers in Indiana has retreated so far this year but a nominal second-half upturn is currently indicated by the farrowing intentions of producers in that state. Beyond the borders of District states, the spectacular growth of recent years continues in Missouri and North Carolina. The bulk of the growth in these two states—and presumably two or three other states for which quarterly estimates are not published—continues to be dominated by large operations. The December-May pig crop for those two states combined was up 29 percent from the year before. A comparable gain is likely during the six months ending with November, based on the expanded inventory of brood sows and the large gains in sow farrowing intentions reported for those two states.

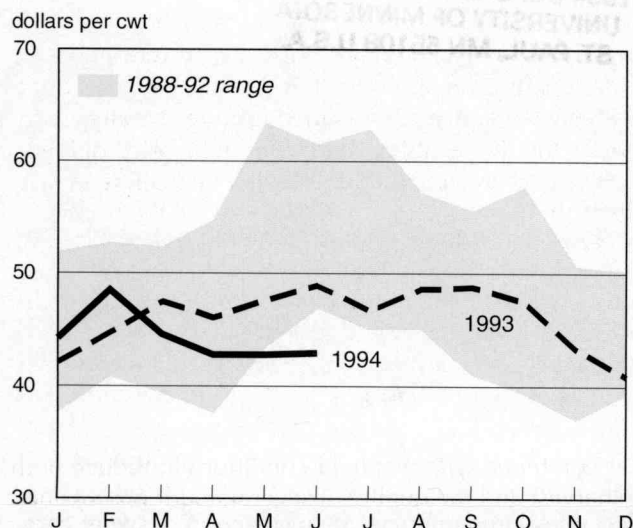
After retreating 1 percent last year, pork production was widely expected to decline again this year. Initial projections by the USDA foreshadowed a 2 percent decline. But those projections were undermined significantly as pork production this spring moved unexpectedly ahead of last year's pace. For the entire first half of 1994, pork production was up nearly 1 percent. In conjunction with the latest inventory estimates, it

### Recent and prospective trends in hog production

	Dec.-May pig crop		June 1 inventory		Intended sow farrowings June-November	
	Million head	Percent change	Million head	Percent change	Million head	Percent change
Illinois	4.7	4	5.7	8	.62	3
Indiana	3.7	-3	4.4	-2	.44	1
Iowa	11.4	-4	14.7	-1	1.43	-1
Michigan	1.0	5	1.2	4	.13	5
Wisconsin	1.0	-4	1.1	-7	.12	-9
District states	21.9	-2	27.1	0	2.74	0
Missouri	3.1	21	3.5	6	.42	2
N. Carolina	5.6	34	6.4	33	.73	32
Other states	19.8	0	23.1	0	2.37	2
U.S.	50.4	3	60.1	3	6.25	5

Source: U.S. Department of Agriculture.

### Hog prices



now appears that the number of hogs moving to packing plants will rise seasonally this summer and peak in the fall quarter. On a year-over-year basis, pork production in the second-half of 1994 is likely to be up 3 to 4 percent. Pork production may retreat seasonally in the first half of 1995 but the year-over-year gain will probably widen. Based on the current farrowing intentions of hog farmers and assuming litter sizes continue to expand, pork production in the first half of 1995 could be up 5 to 7 percent from this year's level.

The indicated gains in pork will probably coincide with growing beef and poultry production, adding further to the downward pressure on hog prices and producers' operating returns. The latest USDA projections indicate the year-over-year gains in beef production will hold in the neighborhood of 2 percent during the latter half of this year and the first half of next year. For poultry, the projected gains are forecast to be about 5 percent in the second half, narrowing to around 4 percent in the first half of next year. Even though the modest share of U.S. meats which are exported may continue to register strong growth, it now appears that domestic per capita supplies of meats—which are already at record levels—will register two consecutive years of unusually strong gains. The resulting pressures will likely weigh heavily on hog prices.

Larger-than-expected pork production has held hog prices consistently below year-ago levels since February. For the entire second quarter, hog prices at major markets averaged less than \$43 per hundredweight. That compares to an average of \$47.60 during the same months a year ago and is about the lowest second-quarter average of the last 14 years. Moreover, Iowa State University reports suggest that recent hog prices fell well below the break-even cost of production for a

typical farrow-to-finish hog farmer in that state. (About 70 percent of the hogs in Iowa are located in farrow-to-finish operations. The share in other District states ranges from a low of 66 percent in Wisconsin to a high of 84 percent in Indiana.) Hog prices are holding fairly steady so far this summer but will likely weaken considerably this fall. Prices during the fall and winter months are likely to range mostly in the upper half of the \$30s and the low \$40s per hundredweight. If the current prospects for a bumper harvest hold up, production costs will ease. Yet many hog producers may experience an extended period of negative returns. While other factors influence the size of hog producers, the declining operating margins may hasten the exodus of high-cost producers and add to the growing share of production held by large operations.

Gary L. Benjamin

### Food prices continue to post modest gains

Food prices have posted only modest gains over the past 12 months, despite the concern that resulted from flooding and crop damage last summer. Furthermore, the gain in retail food prices continues to lag that of nonfood items, a pattern that has existed for nearly 4 years. According to data compiled by the Bureau of Labor Statistics, the Consumer Price Index (CPI) for food averaged 2 percent above year-earlier levels during the first 6 months of 1994, matching the average rise recorded last year. The recent gains in the CPI for food were tempered by flat beef prices and declines in the retail prices of eggs and fresh vegetables. With rising meat supplies, an increase in processing vegetable acreage, and a likely rebound in grain production, the upward pressures on food prices are expected to remain moderate during the next several months.

The expansion of beef production helped curb prices at the retail level in the first half. The price index for beef posted year-over-year declines in each of the last three months and the average level for the first half was nearly identical to that of a year earlier. In comparison, retail prices for both pork and poultry averaged about 4 percent higher during the first half. Commercial pork production was up less than one percent, while poultry production posted a gain of 5 percent. Remarkably, USDA data indicate that last year marked the 18th consecutive year of annual gains in poultry consumption on a per-capita basis.

Retail egg and dairy product prices followed divergent paths during the first half of 1994. On average, the retail price index for eggs declined 2 percent from the same period last year. In contrast, the retail prices paid

## Year-over-year gains in retail food prices remain modest

	1990-92	1993	Jan.-June 1994
Food	3.3	2.2	2.2
Food away from home	3.4	1.8	1.7
Food at home	3.3	2.4	2.4
Beef & veal	3.5	3.6	0.3
Pork	4.1	3.1	3.9
Poultry	-0.3	4.2	4.4
Fish & seafood	1.8	3.2	3.4
Eggs	-3.0	8.1	-2.8
Dairy products	3.6	0.7	2.4
Fats & oils	2.3	0.2	1.9
Fresh fruits	6.5	2.5	7.7
Fresh vegetables	3.3	6.6	-3.9
Processed fruits	3.0	-3.9	1.0
Processed vegetables	1.2	1.6	4.9
Sugar & sweets	3.7	0.2	1.7
Cereal & bakery products	4.6	3.4	4.2
Nonalcoholic beverages	0.9	0.3	1.1
Other prepared foods	3.7	2.6	2.7

Source: Bureau of Labor Statistics and U.S. Department of Agriculture

by consumers for dairy products averaged 2 percent higher during the first half. In general, retail prices for fresh milk and cream rose faster than those for cheese, ice cream, and other dairy products. But further gains may be dampened by rising milk production the rest of this year. While first-half production was about the same as a year earlier, milk output during the second half is expected to increase 2 percent. Reflecting this, milk prices received by farmers posted a sharp decline recently and are expected to average below year-earlier levels during the second half.

Retail prices paid for cereal and bakery products rose 4 percent during the first half of this year, up from the 3 percent gain posted last year. Part of the increase stemmed from higher prices for durum wheat, which is used in manufacturing pasta. Through the first half of this year, durum wheat prices received by farmers averaged over two-thirds higher than a year earlier, though the gain was mitigated by an increase in the level of wheat imports from Canada. In addition, rice production—both domestically and world wide—registered a decline last year while domestic use and exports rose. The average price received by farmers for rice during the first half was up 75 percent from a year earlier, adding significantly to the upward pressures on rice-based food products at the retail level.

The CPI for fats and oils showed little change in 1993 but averaged 2 percent higher during the first half of this year. The retail price index for sugar and sweets posted similar gains. Soybean oil accounts for the bulk of fats and oils used in edible products. With last year's flood-related cuts in soybean production, soy-

bean oil prices at Decatur, Illinois averaged over a third higher in the first half as compared to the previous year. Furthermore, domestic sugar prices received some support from a production decline last year, but a relatively larger impact stemmed from the smaller corn harvest and the resulting sharp rise in the price of high-fructose corn syrup (HFCS). Despite the decline in last fall's corn harvest, HFCS production is on the rise as demand continues to grow. The increase in HFCS consumption has outpaced that of sugar and low-calorie sweeteners in recent years. Moreover, HFCS currently accounts for about half of the domestic consumption of sweeteners.

A planned cutback in processing vegetable acreage last year combined with wet field conditions to reduce both the harvest and the quality of several major processing vegetables. In particular, the production of sweet corn and green peas for processing declined 16 percent and 38 percent, respectively, from the prior year. Overall, the retail price index for processing vegetables rose during the second half and these gains carried over into the current year, with the index averaging about 5 percent higher during the first half. In comparison, retail prices for processed fruit exhibited modest gains during the first half, averaging only a percent higher than the year-earlier level.

Fresh vegetable supplies also experienced weather-related disruptions last year and the prices paid by consumers averaged 7 percent higher. In addition, fresh fruit prices were up 4 percent last year. So far in 1994, fresh vegetable prices have retreated from year-earlier levels—dropping about 4 percent—while fruit prices continued to register year-over-year gains. Part of the increase stemmed from the smaller navel orange harvest in California and Arizona. In addition, apple prices were higher due to regional production declines in eastern and central states.

The price index for nonalcoholic beverages began to edge up during the first half of this year, following no change in the 1993 annual average. In particular, coffee prices posted sharp gains even before the recent frosts hit Brazil, the world's major coffee producer. Prices for green coffee beans in New York averaged 25 percent higher during the first quarter when compared to a year earlier, and as of July 13, daily cash prices in New York for Columbian and Brazilian coffee were over three times higher than a year ago. Brazil normally accounts for over a quarter of world coffee production and was responsible for a fifth of U.S. coffee imports last year.

Mike A. Singer

# Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers</b> (index, 1977=100)	June	139	-2.1	-1	-1
<b>Crops</b> (index, 1977=100)	June	129	-1.5	14	7
Corn (\$ per bu.)	June	2.67	2.7	28	8
Hay (\$ per ton)	June	88.70	-11.3	11	19
Soybeans (\$ per bu.)	June	6.79	0.3	15	14
Wheat (\$ per bu.)	June	3.25	-4.7	14	-5
<b>Livestock and products</b> (index, 1977=100)	June	149	-3.2	-10	-6
Barrows and gilts (\$ per cwt.)	June	43.10	0.0	-12	-10
Steers and heifers (\$ per cwt.)	June	65.90	-5.5	-15	-10
Milk (\$ per cwt.)	June	12.80	-0.8	-2	-3
Eggs (¢ per doz.)	June	58.2	0.0	-12	10
<b>Consumer prices</b> (index, 1982-84=100)	June	148	0.3	2	6
Food	June	144	0.0	2	4
<b>Production or stocks</b>					
Corn stocks (mil. bu.)	June 1	2,358	N.A.	-36	-14
Soybean stocks (mil. bu.)	June 1	555	N.A.	-19	-20
Wheat stocks (mil. bu.)	June 1	571	N.A.	8	21
Beef production (bil. lb.)	May	1.99	4.4	7	4
Pork production (bil. lb.)	May	1.40	-2.4	7	9
Milk production* (bil. lb.)	June	11.0	-3.9	1	1
<b>Receipts from farm marketings</b> (mil. dol.)	March	14,722	8.2	-13	7
Crops**	March	5,621	9.7	4	7
Livestock	March	7,781	6.6	3	12
Government payments	March	1,320	11.3	-67	-17
<b>Agricultural exports</b> (mil. dol.)	April	3,449	-11.9	-5	-7
Corn (mil. bu.)	April	86	-22.3	-44	-39
Soybeans (mil. bu.)	April	35	-35.1	-29	-39
Wheat (mil. bu.)	April	76	-26.3	-43	-37
<b>Farm machinery sales</b> (units)					
Tractors, over 40 HP	June	6,225	21.9	-1	25
40 to 100 HP	June	4,381	23.1	-2	16
100 HP or more	June	1,844	19.1	2	55
Combines	June	840	57.6	42	65

N.A. Not applicable

\*21 selected states.

\*\*Includes net CCC loans.

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