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AgLetter

HOG NUMBERS DOWN, BUT UPTURN NEAR

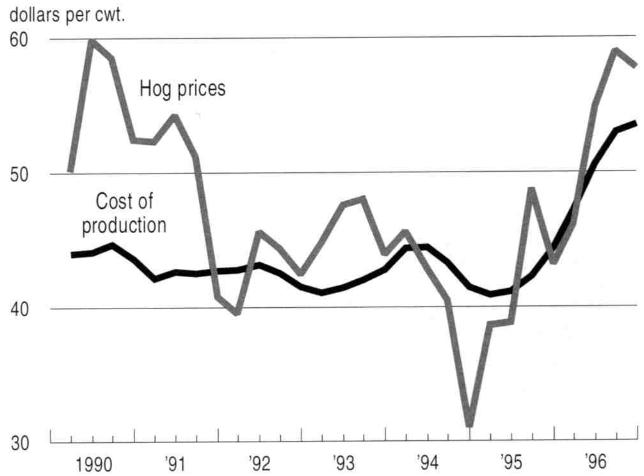
The U.S. Department of Agriculture's latest survey shows hog numbers still lag year-earlier levels. As such, pork production will likely remain below year-earlier levels through the coming winter months. But several factors, including sharp cuts in sow slaughter since May, the lengthening period of modest producer earnings since spring, and the rapidly growing prospects for stronger earnings in the months ahead suggest an upturn may be at hand. Indeed, the nominal decline in producers' farrowing intentions, if supplemented with continuing gains in productivity, would suggest that the number of pigs born and raised this fall and winter will exceed the year-earlier level.

The release of the September 1 hog inventory estimates coincided with another round of downward revisions to the quarterly estimates dating back to June 1995. The revisions in total were substantial, compounding the deterioration in recent years of the reliability of these estimates. Reflecting this, the 90 percent confidence interval for the estimate of all hogs and pigs has widened from plus or minus 1.6 percent four years ago to 4.0 percent now.[1] Similarly, that for the pig crop estimate has widened from 2.3 percent to 6.1 percent. The changing structure in hog production has probably added to the difficulties in compiling accurate estimates. The USDA has recently altered its estimating procedures. And the initial views of some analysts are that the September estimates seem to line up with other benchmarks better than earlier quarterly estimates. Nevertheless, the wider confidence intervals serve as a reminder that the forthcoming developments in the hog market may unfold in a different manner than the current estimates imply.

The latest estimates show the inventory of hogs intended for market was down over 4 percent from a year ago while the inventory of hogs held for breeding purposes was down nearly 2 percent as of September 1. Despite the smaller inventory of breeding stock, producers intentions' suggest sow farrowings will nearly match year-earlier levels this fall and winter. Sharp declines in grain prices (feed costs) since July, the improving prospects for the fall harvest, and the likelihood of stronger earnings for hog farmers would seemingly support—and could enlarge—the intended farrowings. If that is the case, and if the uptrend in pigs weaned per litter continues, the fall/winter pig crop may register a year-over-year gain of 1 or 2 percent or more.

The changing geographical balance in hog production was evident in both the new and the revised estimates. Only 5 of the 17-major hog states with individual estimates had larger inventories than a year ago. Those states and their reported gains were Oklahoma, 45 percent; Kansas, 21 percent; North Carolina, 15 percent; Arkansas, 6 percent; and Missouri, 1 percent. The remaining 12 major states posted a collective inventory decline of 10 percent while all minor states, as a group, posted a far more modest decline of 3 percent. Hog numbers in Iowa, the top-ranked state, were down 9 percent. The other four states comprising the Seventh Federal Reserve District posted declines ranging from 8 percent in Michigan to 13 percent in Indiana and Wisconsin. The inventory of hogs held for breeding purposes was down a fairly uniform 11 percent among District states. But the weakest farrowing intentions were reportedly in Iowa. In what may prove to be a bell-weather shift in hog production rankings, the intentions imply producers in North Carolina will farrow more sows this winter than those in Iowa.

Higher prices have offset sharply higher production costs for most hog farmers



Source: Iowa State University.

[1] A 90 percent confidence interval of plus or minus 4 percent implies the chances—based on past revisions—are 9 out of 10 that the final estimate will not deviate from the initial estimate by more than 4 percent.

The current downturn in pork production started in the summer of 1995 and will likely extend through the upcoming winter quarter. Production through the first three quarters of this year was down 4 percent. Pork production will reach a seasonal high this fall, but the year-over-year comparisons for both the fall and winter quarter are likely to register declines of 4 or 5 percent. The farrowing intentions for this fall, assuming trend increases in weaning rates and in dressing yields, imply pork production in the second quarter of next year would turn up 3 or 4 percent. Somewhat more modest gains are now indicted for next summer. But improving profit margins in the near term could significantly widen the second-half expansion in pork production next year.

The prospects for competing supplies of meat are mixed. After a sizable first half increase, beef production turned lower this summer. USDA analysts now project that beef production will remain at or below year-earlier levels through the first half of next year. For the second half, however, gains of 4 to 6 percent are projected. Poultry production continues on the upswing, with year-to-date gains of nearly 6 percent. Although the rise may be trimmed slightly this fall and winter, USDA analysts are expecting the gains to return to around 6 percent during the spring and summer quarters of next year.

Demand conditions will also influence hog prices in the months ahead. Domestic demand this year has been buoyed considerably by the expanding use of pork in fast food restaurants and the continued growth in employment and earnings that has supported consumer food expenditures. Moreover, foreign demand was especially strong in the first half before Japan imposed special temporary tariffs on pork imports. Domestic demand is likely to hold up well in the months ahead although additional gains from new menu selections may not be as apparent as this year. Foreign demand for all meats is projected to strengthen again next year. This is reflected in the latest USDA projections which point to a 37 percent rise in net pork exports and a rise of 18 percent in net exports of all meats next year. Net export gains of this magnitude imply the rise in domestic meat supplies next year will be less than indicated by the current production estimates.

These prospects foreshadow a fairly strong hog market in the months ahead, with quarterly average hog prices through most of next year likely fluctuating between the low \$50's to the high \$50's per hundredweight. Moreover, based on current harvest prospects, producer earnings will be further enhanced by lower average grain prices and feed costs. As indicated by Iowa State University, the cost to produce hogs marketed by a typical farrow-to-finish producer was up 20 to 25 percent this spring and summer. During the third quarter, the higher costs pushed the break-even price up to about \$54 per hundredweight. Although protein prices remain high, corn prices have retreated to the lowest level in a year. This should translate into sharply lower break-even costs of production in the months ahead.

Gary L. Benjamin

OUTLOOK IMPROVES FOR THE FALL HARVEST

The U.S. Department of Agriculture (USDA) released two reports on October 11 that shed considerable light on the prospects for the fall harvest. Reflecting favorable weather this fall, the *Crop Production* report indicated an improved production outlook for corn and soybeans relative to a month earlier. Furthermore, the production estimates point to solid gains from last year. However, the *World Agricultural Supply and Demand Estimates* imply utilization of these crops will be little changed from last year, suggesting that ending stocks will rise to more comfortable levels. And though corn and soybean prices recently moved lower, the average prices received by farmers in the 1996/97 marketing year are expected to be relatively strong.

The October projection for soybean production came as a surprise to many observers. One survey of analysts conducted prior to the report's release suggested that—on average—little change was expected from the prior month's forecast. However, the USDA raised its production forecast for soybeans by 3.4 percent (about 76 million bushels) from the September prediction. About two thirds of the increase was accounted for by four Midwest states—Illinois, Indiana, Ohio, and Minnesota. In comparison, the forecast for the corn harvest was increased by 2.4 percent from the prior month, slightly more than expected. Again, the bulk of the improvement came from the Midwest. However, Wisconsin was the only state to have its production prospects for both corn and soybeans downgraded from the prior month.

The fall harvest is shaping up better than many would have believed earlier this summer, reflecting concerns over maturity and frost that stemmed from the late planting season. But warm, dry weather allowed an increasing share of the corn crop to reach maturity in recent weeks, and production is now expected to rise by over a fifth from a year ago. Though well below the record high of two years ago, the current projection of 9.0 billion bushels would still be the third largest corn harvest ever. Similarly, soybean production has benefited from good weather this fall. An increase in the number of acres harvested and higher yields relative to last year is expected to expand production by about 8 percent to 2.3 billion bushels, a level of output exceeded only by the 1994 harvest. Furthermore, if the weather continues to be favorable, the actual harvest for both corn and soybeans may well eclipse current projections.

U.S. corn and soybean balance sheets

	1990/91-1994/95 average	1995/96	1996/97*
	(----------------million bushels)---------------)		
Corn			
Beginning stocks	1,386	1,558	426
Imports	12	17	10
Production	8,265	7,374	9,012
Total supply	9,663	8,949	9,448
Feed & residual	5,017	4,725	4,925
Food, seed, & industrial	1,522	1,583	1,670
Exports	1,695	2,215	1,950
Total use	8,234	8,522	8,545
Ending stocks	1,429	426	903
Average farm price	$2.30	$3.24	$2.80-3.20
Soybeans			
Beginning stocks	269	335	183
Imports	4	5	5
Production	2,098	2,177	2,346
Total supply	2,371	2,517	2,535
Crush	1,280	1,370	1,375
Exports	688	845	850
Seed & residual	115	118	115
Total use	2,083	2,333	2,340
Ending stocks	288	183	195
Average farm price	$5.75	$6.77	$6.50-7.40

*USDA projection.
Source: U.S. Department of Agriculture.

The USDA data also indicated that corn production in Seventh District states is expected to be up sharply this fall when compared to a year earlier, fueled by increases in acreage and yields. However, the outlook is far from uniform across the individual District states. The number of corn acres harvested is expected to rise from a year ago in each District state, while higher per-acre yields and production are expected in Illinois, Indiana, and Iowa. Alternatively, corn production is forecast to decline in Michigan and Wisconsin due to lower yields. In comparison, a record high number of soybean acres harvested in each District state is expected to offset flat or declining yields and raise combined production by a modest 1 percent from last year. The pattern of soybean production across District states is identical to that for corn, with year-over-year gains projected for Illinois, Indiana, and Iowa and a decline anticipated for the other two states.

Despite the large gain in corn production, the increase in total supplies is limited to a considerably more modest 6 percent because of the historically low level of initial stocks. However, total utilization of corn in the 1996/97 marketing year is not expected to change much from the prior year as gains in domestic use are offset by a decline in exports. Coarse grain production is expected to rise in the rest of the world and dampen opportunities for U.S. exports in the coming year. Indeed, corn exports are off to a slow start in the current marketing year (beginning September 1) when compared to a year ago. Export commitments (shipments plus outstanding sales) were down a fifth from the high level of last year as of early October. In contrast, corn for food, seed, and industrial use is projected to benefit from a rebound in ethanol production and rise 6 percent from the prior year. Furthermore, the amount of corn fed to livestock will be augmented by gains in red meat and poultry production. On balance, ending stocks are expected to more than double to about 903 million bushels, yet remain low by historical standards.

Aggregate levels of supply and use for soybeans in the upcoming marketing year are not expected to change much from the past year. Low initial stocks will hold the gain in total supplies to less than one percent. Furthermore, domestic use and exports are each projected to rise less than one percent from last year. While foreign sales will likely benefit from lower oilseed production outside the U.S. and larger Chinese purchases, Brazil is expected to provide additional competition by expanding the number of acres planted to soybeans this fall by 6 percent. In sum, ending stocks are currently projected to register a moderate gain of about 7 percent to 195 million bushels.

Corn and soybean futures prices moved decidedly lower in the weeks leading up to mid October as the harvest progressed. From late August though October 15, December corn futures dropped over 60 cents per bushel. November soybeans lost about $1.20 per bushel over the thirty day period ending October 15. In line with this weakening, the USDA revised downward the corn and soybean price projections for the 1996/97 marketing year in its October report. The midpoint of the corn projection was $3.00 per bushel, about 7 percent below the past marketing year's average. The midpoint for soybeans was $6.95 per bushel, slightly higher than last year's average. Although low relative to the prices experienced this summer, these projections are well above the average prices received by farmers over the five year period ending with the 1994/95 marketing year.

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SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1990–92=100)*	September	115	–0.9	10	19
Crops *(index, 1990–92=100)*	September	124	–4.6	8	22
Corn *($ per bu.)*	September	3.58	–16.7	33	63
Hay *($ per ton)*	September	90.10	–3.0	9	10
Soybeans *($ per bu.)*	September	7.85	0.4	31	44
Wheat *($ per bu.)*	September	4.19	–8.5	–8	17
Livestock and products *(index, 1990–92=100)*	September	105	1.9	12	15
Barrows and gilts *($ per cwt.)*	September	54.80	–9.1	11	52
Steers and heifers *($ per cwt.)*	September	67.80	6.3	9	3
Milk *($ per cwt.)*	September	16.20	2.5	27	27
Eggs *(¢ per doz.)*	September	76.8	3.2	13	26
Consumer prices *(index, 1982–84=100)*	September	158	0.3	3	6
Food	September	155	0.6	4	7
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	426	N.A.	–73	–50
Soybean stocks *(mil. bu.)*	September 1	183	N.A.	–45	–12
Wheat stocks *(mil. bu.)*	September 1	1,724	N.A.	–8	–17
Beef production *(bil. lb.)*	August	2.26	3.0	–2	2
Pork production *(bil. lb.)*	August	1.39	4.1	–7	–7
Milk production* *(bil. lb.)*	September	10.7	–2.7	–1	0
Receipts from farm marketings *(mil. dol.)*	June	15,589	7.4	16	24
Crops**	June	7,445	10.1	16	36
Livestock	June	7,327	–4.3	6	7
Government payments	June	818	808.9	390	234
Agricultural exports *(mil. dol.)*	July	4,456	1.9	12	42
Corn *(mil. bu.)*	July	148	8.0	–23	59
Soybeans *(mil. bu.)*	July	46	–11.1	12	170
Wheat *(mil. bu.)*	July	111	45.8	18	51
Farm machinery sales *(units)*					
Tractors, over 40 HP	September	4,783	5.4	5	–4
40 to 100 HP	September	3,263	–2.1	1	7
100 HP or more	September	1,520	26.0	14	–22
Combines	September	899	40.5	3	16

N.A. Not applicable
*22 selected states.
**Includes net CCC loans.

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