

# AgLetter



## MEAT PRODUCTION HEADED TO NEW HIGH

The growth in U.S. meat production slowed considerably this summer. Nevertheless, production for all of this year will set another new high and some analysts are projecting further growth for next year. The latest U.S. Department of Agriculture forecast suggests that the combined production of red meats and poultry this year will reach 74.2 billion pounds, up 3.3 percent from last year and the 13th consecutive annual rise. Next year's increase is projected to be even larger. However, the strong upward pressures on feed prices that have accompanied the various setbacks to this year's crop harvest raise added uncertainties regarding the extended outlook for meat production.

The current USDA projections imply above-trend growth rates for meat production again this year and next. During the last twelve years of uninterrupted growth, U.S. meat production rose at a compound annual rate of 2.6 percent. Poultry dominated the overall up-trend, registering an annual growth rate of 5.6 percent. The pattern for red meat production has been variable, with several years of declines interspersed with years of gains. For the entire twelve year period, however, red meat production recorded a 1.1 percent compound annual rate of growth. Of the two major red meats, the annual growth rate for pork exceeded that for beef, 1.8 percent versus 0.7 percent, respectively.

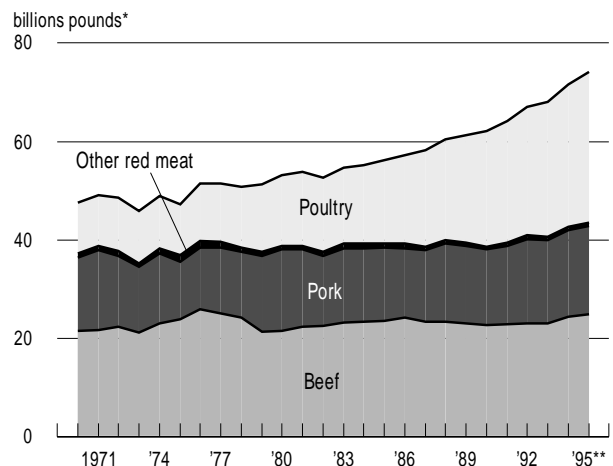
Despite having the most lackluster growth of the last twelve years, beef has contributed significantly to the rise in overall meat production in recent years. After posting a strong 5.8 percent increase last year, the year-over-year rise in beef production through the first nine months of this year continued above trend with a gain of 3.4 percent. Pork production rose 3.6 percent last year and then posted a year-over-year gain of 5.5 percent during the first half of this year. Since then, however, pork production has dropped below the year ago pace, a trend likely to continue well into next year. Poultry production rose 6.5 percent last year and posted even larger gains through the first half of this year. As was the case for pork, however, the pace in

poultry production slowed considerably this summer. Preliminary tallies show third-quarter poultry production barely exceeded the year-ago pace.

While some slowing in the rate of gain in pork and poultry production had been anticipated for the summer quarter, the cut-back that did occur was considerably more than had generally been expected. In retrospect, the unusually warm summer temperatures probably contributed to the slowing. In addition to higher death losses, the warm temperatures also resulted in slower weight gains. Consequently, the number of hogs, broilers, and turkeys that were shipped to processing plants fell short of expectations. Moreover, the weights of those that were processed dropped below year-ago levels, reversing the first half trend.

Despite the slower rise, third quarter production of all meats remained above the year-ago level. And through September, total meat production this year was up 3.8 percent. The increased output coincided with fairly strong consumption patterns, both domestically and especially in shipments abroad. Modest gains in employment, a somewhat lower unemployment rate,

## U.S. meat production

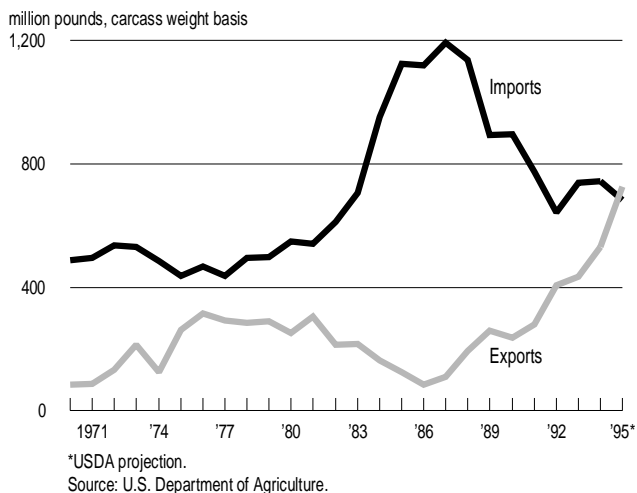


\*Carcass weight for red meats and ready-to-cook weight for poultry.

\*\*Projected.

Source: U.S. Department of Agriculture.

## U.S. may become net exporter of pork in 1995



and an increase in disposable income have helped to sustain commercial food expenditures this year while offsetting a leveling-off in food assistance programs. Lower retail meat prices have also helped to encourage domestic consumption patterns. The strength in demand is even more evident in export markets. During the first seven months of this year, broiler exports were up more than 40 percent from last year's strong pace while turkey exports were up more than 20 percent. Pork exports were up 70 percent while beef and veal exports were up more than a tenth. The gains in meat exports may moderate in the second half. Nevertheless, 1995 could mark a watershed year in several respects for U.S. trade in meats. For instance, on a carcass weight basis, the U.S. may become a net exporter of pork this year. And broiler exports in 1995 may absorb 15 percent of production, up from 12 percent last year and less than 5 percent as recently as 1989.

Meat supplies in the months ahead will reflect the inventory of animals already in the production pipeline and the responses of producers to actual and anticipated profit margins. Price relationships have translated into positive returns for most hogs marketed since mid-year. Alternatively, feedlot operators have suffered losses on most cattle marketed since early spring. The pattern last fall and winter was reversed, with large losses hitting most hog farmers while returns to feedlot operators were generally positive, according to Iowa State University analysts. Recent sharp increases in feed costs, due largely to the weather-related problems afflicting the 1995 crop harvest, are starting to exert considerable influence on future prospective returns to livestock producers. This may damp some of the gains analysts were projecting for meat production next year. Corn prices have recently moved above \$3 per bushel and are projected to average some-

where between \$2.75 and \$3.15 during the year that started in September. The low end of the projected range would imply the highest corn prices since 1983/84 and the midpoint of the range would imply a 30 percent increase from the average of the past year.

The latest evidence of pipeline inventories of cattle and hogs imply that pork production will continue to lag year-ago levels during the fall and winter months while beef production will continue to register gains. The scaling-back in hog production that began earlier this year (mostly as a result of depressed prices last fall) continued through the summer months. As a result, the number of hogs on U.S. farms remains below the year-ago level. The number of hogs held for breeding purposes is down the most, in excess of 4.5 percent. The September 1 inventory of hogs intended for market is down a little over 1.5 percent from a year ago but up 4 percent from two years ago.

The trend in hog numbers in each of the five states of the Seventh Federal Reserve District parallel those nationwide. In Iowa, by far the largest hog producing state, the number of hogs held for breeding purposes is down 9 percent from a year ago while the number of hogs intended for market is down 5 percent. Among the other four District states, hogs held for breeding purposes numbered 8 percent less than a year ago while market hogs numbered 9 percent fewer. The largest declines for both classifications of hogs were in Wisconsin. Michigan recorded the smallest cuts.

As an aside, the September 1 inventory of all hogs in District states was down nearly 7 percent and the lowest for that date in at least eight years. Reflecting rapid growth in a handful of other states, hog numbers elsewhere were up 2 percent and the largest in at least eight years. With the accelerated restructuring in hog production that has occurred in recent years, the District states' share of all hogs on U.S. farms has retreated from 49 percent in the early 1990s to just over 43.5 percent in the most recent survey.

Despite the reduction in the number of hogs held for breeding purposes, producers reportedly intend to farrow just as many sows during the fall and winter months as was the case last year. The trend toward more intensive use of the breeding stock has been a characteristic of the restructuring in hog production in recent years. However, many analysts are skeptical that the smaller inventory of breeding stock will sustain sow farrowings at last year's levels. This skepticism is supported by reports of low conception rates during the hot summer months and by the recent surge in feed costs.

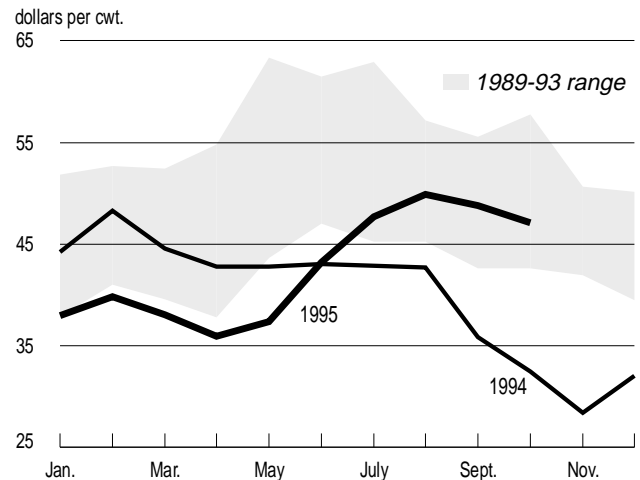
The latest inventory estimates for cattle show some signs of moderating gains. A mid-year survey found that the number of beef cows was up a relatively large 3.3 percent from last year, strengthening the likelihood that this year's calf crop will register another sizable increase. Alternatively, the number of heifers being held for replacements to the beef cow herd was estimated to be down 3.4 percent. This could be an early sign that the cyclical upswing in the beef cow herd that began in late 1990 could end next year. Further signs of moderating gains are also evident in the latest estimates of the number of cattle in feedlots. As of mid-year, feedlots held nearly 5 percent more cattle than was the case a year ago. Since then the movement of young cattle into feedlots has turned down from last year's pace while the marketings of fat cattle out of feedlots has registered sustained increases. Accordingly, the year-over-year gain in the inventory of cattle in feedlots in the 13 major cattle feeding states on October 1 had narrowed to just over 1.5 percent. Feedlot inventories in the two District states included in that 13 state total—Illinois and Iowa—were unchanged from a year ago.

Based on the current inventory estimates, it would appear that pork production will be up seasonally this fall but down perhaps 3 to 4 percent from a year ago. The early months of 1996 will bring seasonally smaller pork supplies but the year-over-year decline may narrow slightly. Based on producers' farrowing intentions, pork production could return to the year-ago level by next spring and move well above this year's level by next summer.

USDA analysts expect continued growth in beef and poultry production will lead to record meat supplies this fall and throughout next year. Year-over-year gains in quarterly beef production through next summer are forecast to range from 2 to 4 percent. Poultry production through mid 1996 is projected to range 5 to 6 percent above year-ago levels and be followed by an even larger gain next summer. However, unexpectedly high feed prices may trim these projected gains.

The recent trend in livestock prices has varied widely, with cattle prices generally quite weak and hog prices registering a surprisingly strong recovery from abnormally low year-ago levels. During the fourth quarter of last year, hog prices averaged only \$31 per hundredweight, the lowest for any quarter since the spring of 1980. Prices recovered to the mid-to upper-\$30s range during most of the first half of this year and then soared to a third quarter average of \$48.75. The recent strength in hog prices is somewhat surprising given the rather

## Hog prices



Note: October 1995 figure is preliminary.  
Source: U.S. Department of Agriculture.

modest decline in pork production this summer and the continuing pattern of record production of all meats. The increase may partially stem from the strong performance in pork exports and a sizable expansion in pork processing capacity this year which may have contributed to more aggressive packer bids. Even so, the current structure in futures prices imply strong hog markets through next year. Recent transactions in hog futures contracts for all delivery months have ranged from the mid \$40s to the low \$50s per hundredweight. These price projections would seem to be high relative to the meat production forecasts of USDA analysts. Alternatively, the futures prices may reflect a view that pork and total meat production will fall short of the USDA forecasts.

Gary L. Benjamin

**AgLetter** (ISSN 1080-8639) is published monthly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice president, Mike A. Singer, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

To subscribe, please write or telephone:

Public Information Center  
Federal Reserve Bank of Chicago  
P.O. Box 834  
Chicago, IL 60690-0834  
Tel. no. 312-322-5111

## SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers</b> ( <i>index, 1990-92=100</i> )	September	105	2.9	8	3
<b>Crops</b> ( <i>index, 1990-92=100</i> )	September	116	2.7	14	10
Corn (\$ per bu.)	September	2.73	3.8	25	24
Hay (\$ per ton)	September	80.30	-1.0	-2	-2
Soybeans (\$ per bu.)	September	5.92	1.5	8	-5
Wheat (\$ per bu.)	September	4.42	4.0	24	43
<b>Livestock and products</b> ( <i>index, 1990-92=100</i> )	September	93	1.1	2	-7
Barrows and gilts (\$ per cwt.)	September	49.10	-1.0	36	1
Steers and heifers (\$ per cwt.)	September	61.30	-0.6	-7	-18
Milk (\$ per cwt.)	September	12.70	2.4	-1	-1
Eggs (¢ per doz.)	September	66.6	4.7	10	20
<b>Consumer prices</b> ( <i>index, 1982-84=100</i> )	September	153	0.2	3	6
Food	September	149	0.3	3	6
<b>Production or stocks</b>					
Corn stocks ( <i>mil. bu.</i> )	September 1	1,558	N.A.	83	-26
Soybean stocks ( <i>mil. bu.</i> )	September 1	335	N.A.	60	15
Wheat stocks ( <i>mil. bu.</i> )	September 1	1,881	N.A.	-9	-12
Beef production ( <i>bil. lb.</i> )	September	2.21	-4.2	4	9
Pork production ( <i>bil. lb.</i> )	September	1.44	-4.3	-7	0
Milk production* ( <i>bil. lb.</i> )	September	10.8	-3.0	1	N.A.
<b>Receipts from farm marketings</b> ( <i>mil. dol.</i> )	June	13,162	-5.0	5	5
Crops**	June	6,313	5.7	15	23
Livestock	June	6,685	-8.5	-2	-5
Government payments	June	164	-71.1	-33	-55
<b>Agricultural exports</b> ( <i>mil. dol.</i> )	July	3,966	0.0	26	29
Corn ( <i>mil. bu.</i> )	July	192	14.5	106	110
Soybeans ( <i>mil. bu.</i> )	July	41	16.1	142	-3
Wheat ( <i>mil. bu.</i> )	July	94	15.4	28	-13
<b>Farm machinery sales</b> ( <i>units</i> )					
Tractors, over 40 HP	September	4,577	7.2	-9	15
40 to 100 HP	September	3,230	2.7	6	17
100 HP or more	September	1,347	19.7	-31	10
Combines	September	879	17.8	13	16

N.A. Not applicable

\*22 selected states.

\*\*Includes net CCC loans.



AgLetter is printed on recycled paper  
using soy-based inks

Federal Reserve Bank of Chicago  
Public Information Center  
P.O. Box 834  
Chicago, Illinois 60690-0834  
312-322-5111

AgLetter

PERMITTED NO. 1942  
CHICAGO, ILLINOIS  
U.S. POSTAGE PAID  
ZIP + 4 BARCODED  
FIRST-CLASS MAIL  
PRESORTED