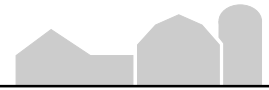


AgLetter



LIVESTOCK AND POULTRY PRODUCTION

A period of little or no growth in livestock and poultry production appears to be drawing to a close, with prospects for more typical growth rates the rest of this year and next year. Preliminary figures show U.S. meat production during the 12 months ending with June edged below the output of the same period the year before. The nominal downturn contrasts with the uninterrupted growth rate of 2.7 percent annually that occurred on a calendar year basis between 1982 and 1995. However, the momentum in meat production is rebuilding. The latest U.S. Department of Agriculture projections point to a 3 percent year-over-year rise during the second half of this year and a rise of nearly 4 percent for 1998.

All components of the meat complex contributed to the slower growth over the last four quarters. Red meat production during the 12 months ending with June was down more than 3 percent compared to the same period the year before. In percentage terms, the decline for both beef and pork contributed about equally to the overall cut in red meat production. Relative to their most recent cyclical highs, however, the downturn for pork has lasted longer and is much steeper than that for beef. Poultry production registered fairly strong gains during the latter half of 1996, holding close to its trend rate of growth for the five years ending with 1995 (5.3 percent). But largely because of a flat first-quarter performance, poultry production for the entire first half of this year was up less than 2.3 percent from a year ago. A cut in turkey production accounted for a proportionately large share of the slower growth in overall poultry production. However, the growth in broiler production also slowed, especially in the first quarter.

Prospects for faster growth in meat production in the months ahead largely reflect the lower grain prices, and thus the lower feed costs, that have prevailed since last fall. More recently, large plantings and generally favorable early-season crop prospects have added to the easing in grain prices and helped reaffirm the prospects for larger gains in meat production. All components of the meat complex are expected to register faster

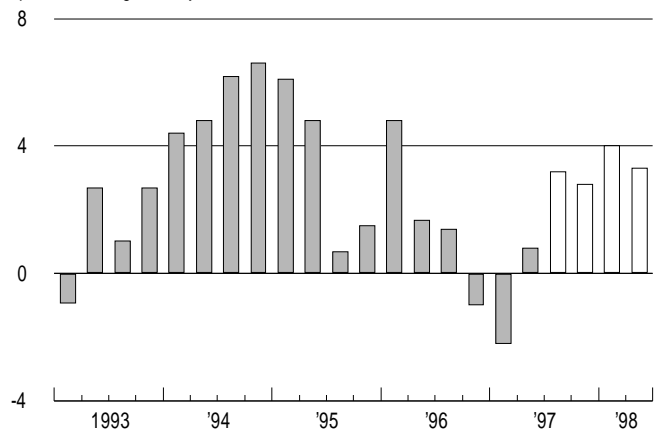
growth. However, pork production may rebound the most in the months ahead.

Analysts have been expecting signs of an expansion in pork production since late last year. However, the expansion has been slow to develop. And the degree to which it has developed remains somewhat of a mystery following the USDA's latest *Hogs and Pigs* report. That report showed the number of hogs on farms being fed out for market as of June 1 stood at 51.2 million head, up nearly 2 percent from a year ago but still 4 percent short of the 1994 high for that date. The modest upturn in market hog numbers and the likelihood that the dressed-weight of hogs shipped to packing plants will continue to trend higher suggests that second-half pork production will move ahead of the year-ago pace by about 3 percent.

Prospects for the amount of increase in pork production for 1998 remain more ambiguous than usual. The latest report shows the number of hogs held for breeding purposes is up only 1 percent from a year ago. However, the report also noted that producers intend to increase the number of sows that will farrow (give birth) during the six months ending with November by 6 percent from the year before. Normally, the year-over-year comparisons

Bigger gains in meat production expected the next four quarters

percent change from year earlier



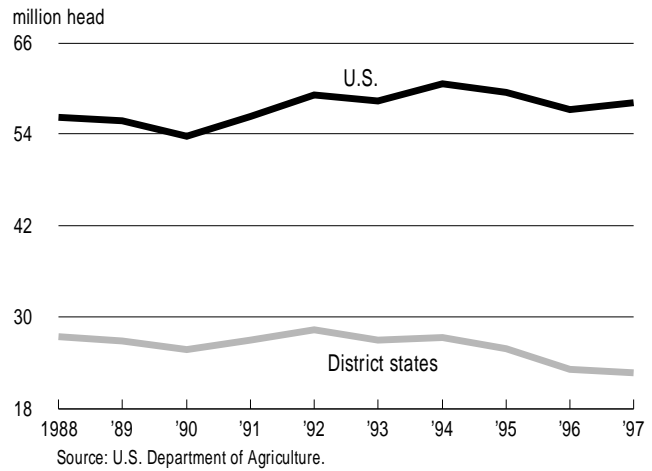
Source: U.S. Department of Agriculture.

between these two gauges of future production tend to align more closely. The latest readings, if accurate, imply the farrowings-to-beginning breeding stock ratio for this six-month period would have to rebound from a 7-year low in 1996 to an 11-year high in 1997. The historical record implies such a rebound is possible. Achieving it, however, will require that the various problems that lowered the farrowing efficiency of the breeding herd in recent quarters must be avoided. If the June-November farrowing intentions prove accurate, and assuming the trend rate of increase in the number of pigs weaned per litter, pork production in the first half of next year would likely be up 8 percent or more from this year's level. Alternatively, if the latest breeding stock estimate proves to be a more reliable gauge of future production, the first-half gain in pork production may be closer to 3 or 4 percent.

Hog farmers in the five states comprising the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin) remain less inclined to expand than those elsewhere. Reflecting this, the number of market hogs on farms in District states as of June 1 was down 2.5 percent from a year ago while the inventory of hogs held for breeding purposes was up only nominally. Iowa and Michigan accounted for all the indicated rise in breeding stock. Like hog farmers elsewhere, however, the farrowing intentions of those in District states point to more efficient use of the breeding stock. During the six months ending with November, hog producers in District states intend to boost sow farrowings 4.3 percent relative to a year ago.

Beef production is also expected to turn up this summer. Unlike for pork, however, the upturn for beef may be modest in magnitude and brief in duration. Recent trends in beef production have reflected an increased number of cattle moving to packing plants from feedlots, while much improved earnings prospects have slowed the rate of culling (liquidation) of the beef cow herd. Culling of the beef cow herd turned up in late 1994 and accelerated sharply in 1996 as high grain prices, drought-withered pastures, and low feeder cattle prices culminated in heavy financial losses among beef cow owners. But conditions improved considerably in recent months as feeder cattle prices firmed, pasture conditions improved, and lower feed costs strengthened the demand to place cattle in feedlots. The culling of the beef cow herd, although still high, slowed appreciably during the first half. Reflecting this, weekly reports show the number of beef cows processed at federally-inspected plants during the second quarter was down a fifth from the high year-ago level.

Hog numbers turn up nationwide but decline further in District states



While the culling of the beef cow herd slowed, the marketing of cattle out of feedlots started edging up. At the beginning of the year, the inventory of cattle in feedlots was estimated to be up 2 percent from the year before, both among large (1,000+ head capacity) feedlots and among feedlots of all sizes. Since then, the number of cattle shipped from large lots to packing plants has held marginally above the year-earlier pace. Simultaneously, the movement of lighter-weight cattle into large feedlots for finishing continued strong; up more than a tenth through May. Accordingly, the June 1 inventory of cattle in large feedlots was up 12 percent from last year and—at least for the major cattle feeding states—high by historical standards. USDA analysts believe these developments will lead to a modest year-over-year gain in beef production during the second half of this year. Their projections for the first half, and for all of next year, however, signal a return to marginal declines in beef production.

Except for Iowa, evidence on the current underlying trends in cattle and beef production for District states is fairly limited. At the beginning of this year, the District states' inventory of cattle in all feedlots (large lots plus those with less than a thousand head capacity) was estimated to be up 5 percent from the year before and the highest in six years. More current information for District states is only available for Iowa. For that state, the number of cattle marketed out of large (1,000+) lots through May was down considerably (13 percent) from last year. Placements of lighter-weight cattle in Iowa feedlots lagged during the winter months, but then moved ahead of the year-earlier pace in April and May. As of June 1, the inventory of cattle in large Iowa feedlots was unchanged from a year earlier.

The year-over-year gains in poultry production are also expected to widen, perhaps to 5 percent during the second half of this year and possibly stretching to 6 percent in the first half of next year. Weekly reports show both the number of eggs set in incubators at commercial broiler hatcheries and the number of broiler chicks placed with growers have recorded larger gains since late winter. The increased placements, lower feed costs, and the continuing modest gains in the weight of the finished broilers support prospects for a 6 percent rise in production during the second half of this year. USDA analysts also project comparable gains in broiler production for 1998. Turkey production during the second half of this year may only match last year's higher level. Depressed turkey prices earlier this year temporarily halted the expansion in production. But USDA analysts are expecting a rebound in turkey production, with projected year-over-year gains of more than 5 percent throughout next year.

Eggs represent another component of the poultry complex where faster growth is expected in the months ahead. From 1990 to 1995, U.S. egg production registered a compound growth rate of 1.8 percent annually. Last year's rise edged up to 2.1 percent, a rate of gain that continued (on a daily average basis) through the first half of this year. But egg producers have added to their flocks and the gains in egg production are expected to widen further. USDA analysts now believe the year-over-year rise in egg production will reach 3.2 percent during the second half of this year and hold in the 2.5 to 3 percent range through much of next year.

Sharply expanding production in Iowa has added considerably to the share of U.S. egg production that comes from farms in District states. Indiana has long held a dominant role in egg production, ranking second only to California during the late 1980s and early 1990s before dropping to a third- or fourth-place ranking (behind Ohio and, in some years, Pennsylvania) more recently. Now Iowa appears likely to move ahead of Indiana in annual egg production. Since the turn of the current decade, Iowa has dominated the expansion in egg production with a compound growth rate of over 15 percent annually. Monthly data through May shows the strong gains in Iowa are continuing this year. And interestingly enough, the figures for April and May were the first to show that egg production in Iowa exceeds that for Indiana. With the growth that has occurred in Iowa in recent years, the five states of the Seventh Federal Reserve District now account for nearly 19 percent of U.S. egg production, up from 15 to 16 percent in the late 1980s.

The implications of faster growth in meat and poultry production in the months ahead are mixed, and will hinge in part on how the growth is distributed between domestic and foreign markets. Traditionally, domestic markets absorbed the bulk of the output from U.S. livestock and poultry producers. With respect to meat, net imports marginally supplemented domestic production until the early 1990s. Since then, the U.S. has become a net exporter of meats. Rapid growth in meat exports since the early 1990s has diverted over half of the growth in U.S. meat production away from domestic supplies and into foreign markets. Surging exports and steady population gains together have balanced out most of the growth in U.S. meat production in recent years, cushioning the impact on livestock and poultry prices and the earnings of producers.

Export trends are often in a state of flux and projections need to be viewed tentatively. But the growth in meat exports may be slowing. Net pork exports are expected to increase substantially again this year and next, largely because disease problems elsewhere have curtailed pork shipments from other foreign sources. Alternatively, the growth in beef exports appears to be slowing this year while beef imports are registering much faster growth. The latest USDA projections show that net beef imports, both this year and in 1998, will be larger than was the case last year. And poultry exports so far this year have fallen short of the double-digit growth rates forecasted earlier by the USDA. These developments suggest most of the projected growth in livestock and poultry production may be channeled into domestic markets. As such, the increased domestic supplies could begin to weigh on commodity prices and lead to lower returns for many livestock and poultry producers in the months ahead. For domestic consumers, however, the increased supplies should help to hold the line on retail prices for meats and eggs.

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
Fax no. 312-322-5515*

Ag Letter is also available on the World Wide Web at <http://www.frbchi.org>.

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)	June	107	-0.9	-9	7
Crops (index, 1990-92=100)	June	118	0.9	-16	4
Corn (\$ per bu.)	June	2.56	-4.8	-39	2
Hay (\$ per ton)	June	108.00	-8.5	17	25
Soybeans (\$ per bu.)	June	8.22	-2.1	11	45
Wheat (\$ per bu.)	June	3.66	-10.5	-30	-5
Livestock and products (index, 1990-92=100)	June	98	-2.0	-2	9
Barrows and gilts (\$ per cwt.)	June	57.90	-1.5	1	34
Steers and heifers (\$ per cwt.)	June	64.90	-5.0	9	3
Milk (\$ per cwt.)	June	12.60	-3.1	-15	4
Eggs (¢ per doz.)	June	59.7	-7.2	-16	5
Consumer prices (index, 1982-84=100)	June	160	0.1	2	5
Food	June	157	0.0	3	6
Production or stocks					
Corn stocks (mil. bu.)	June 1	2,495	N.A.	45	-27
Soybean stocks (mil. bu.)	June 1	499	N.A.	-20	-37
Wheat stocks (mil. bu.)	June 1	444	N.A.	18	-12
Beef production (bil. lb.)	May	2.19	4.5	-5	0
Pork production (bil. lb.)	May	1.33	-7.8	-6	-13
Milk production* (bil. lb.)	June	11.4	-4.1	4	1
Receipts from farm marketings (mil. dol.)	March	15,046	13.1	6	-2
Crops**	March	6,875	11.6	-1	10
Livestock	March	8,138	15.2	13	16
Government payments	March	33	-58.8	-33	-98
Agricultural exports (mil. dol.)	April	4,663	-6.4	-9	3
Corn (mil. bu.)	April	143	-13.6	-28	-14
Soybeans (mil. bu.)	April	58	-12.9	10	-28
Wheat (mil. bu.)	April	71	21.6	-23	-23
Farm machinery sales (units)					
Tractors, over 40 HP	June	6,720	-6.3	17	21
40 to 100 HP	June	4,945	7.4	19	20
100 HP or more	June	1,775	-30.8	13	22
Combines	June	688	18.2	-9	-10

N.A. Not applicable

*20 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

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