The Agricultural Newsletter
from the Federal Reserve Bank of Chicago
Number 1872 January 1996

AgLetter

HOG NUMBERS TURN UP AGAIN

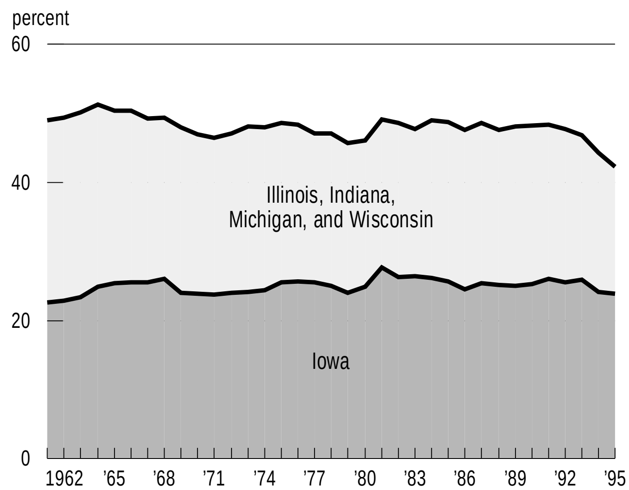
A December survey by the U.S. Department of Agriculture found that hog numbers have moved back up above the year-earlier level and that further expansion will likely occur in the months ahead. The indicated expansion that occurred last fall was a surprise to many observers who had assumed that breeding problems during last summer's heat wave would extend the downturn in hog numbers that started last spring. Even more surprising was the indication that the expansion will extend into the first half of this year, despite very high feed prices and the likelihood of sizable operating losses for many producers.

The USDA's most recent quarterly survey of hog farmers indicated that the number of hogs on farms nationwide reached 60.2 million head as of December 1. That marked a nominal year-over-year increase, reversing the 1 to 2 percent declines that had been indicated in the two previous surveys. It also marked the largest inventory for that date since 1980. The inventory of hogs being raised for market, at nearly 53.1 million head, was virtually unchanged from the year-ago level. The number of hogs held for breeding purposes was up 1 percent, perhaps foreshadowing further expansion. The rise in the inventory of hogs held for breeding purposes was especially large (15 percent) for the seven rapid-growth states identified below.

The expansion that pushed hog numbers above year-earlier levels this past fall was the result of another large rise in the number of pigs weaned per litter. Nationwide, some 8.34 pigs were weaned per litter during the September-November period, up 2 percent from the year before and an all-time high. The number of sows that farrowed during that period was down marginally, both from a year ago and from the level indicated last September as producers' farrowing intentions for the fall quarter. Ironically, however, the number of sow farrowings was unusually high relative to the inventory of hogs held for breeding purpose as of the first of September. Both the high weaning rate and the high ratio of farrowings to breeding stock ran counter to what many analysts had expected following reports of extensive breeding problems during last summer's heat wave. At the same time, however, the high weaning rate and the intense use of the breeding stock are a reflection of the production efficiencies that have accompanied what is now commonly referred to as the industrialization of hog production in recent years.

The shifting geographical mix in hog production that has occurred with the industrialization process continued last year, although it was much less apparent for Iowa than the year before. As of December 1, hog numbers in Iowa were down less than 1 percent from the year before and down 4 percent from two years ago. Hog numbers in each of the other four District states—Illinois, Indiana, Michigan, and Wisconsin—also declined last year. For the four states combined, the decline was 8 percent, both from a year ago and from two years ago. With the decline, the District states' share of all hogs nationwide has retreated to nearly 42 percent, down from

The District states' share of hogs on farms fell again last year



Source: U.S. Department of Agriculture.

47 percent two years ago and the more typical range of 48 to 50 percent that generally prevailed from the early 1960s through the early 1990s.

As the District states' share of hogs has edged lower, dramatic growth in a handful of other states has more than made up the difference. There have been only seven states with consistent growth over the last five years which culminated in a rise in hog numbers that significantly exceeded the 11 percent gain nationwide since 1990. Only two of the seven rapid-growth states—Missouri and North Carolina—are among the 16 states traditionally labeled as major hog producing states. Collectively, hog numbers in Missouri and North Carolina rose 13 percent last year and have more than doubled over the last five years. In comparison, hog numbers in the five District states, as well as in the other nine remaining "major" hog producing states, have declined 3 percent over the last five years.

Outside of the traditional hog-raising areas, the growth in hog production has been especially apparent in five states: Colorado, Mississippi, Oklahoma, Utah, and Wyoming. The five-year rise in hog numbers in those states ranged from 65 percent in Mississippi to 375 percent in Oklahoma and for the five states combined was 180 percent. The phenomenal growth of the past two years has already propelled Oklahoma's state ranking in hog numbers ahead of four traditional hog raising states (Georgia, Kentucky, Tennessee, and Wisconsin) and within near-term striking distance of four others (Michigan, Kansas, Pennsylvania, and South Dakota).

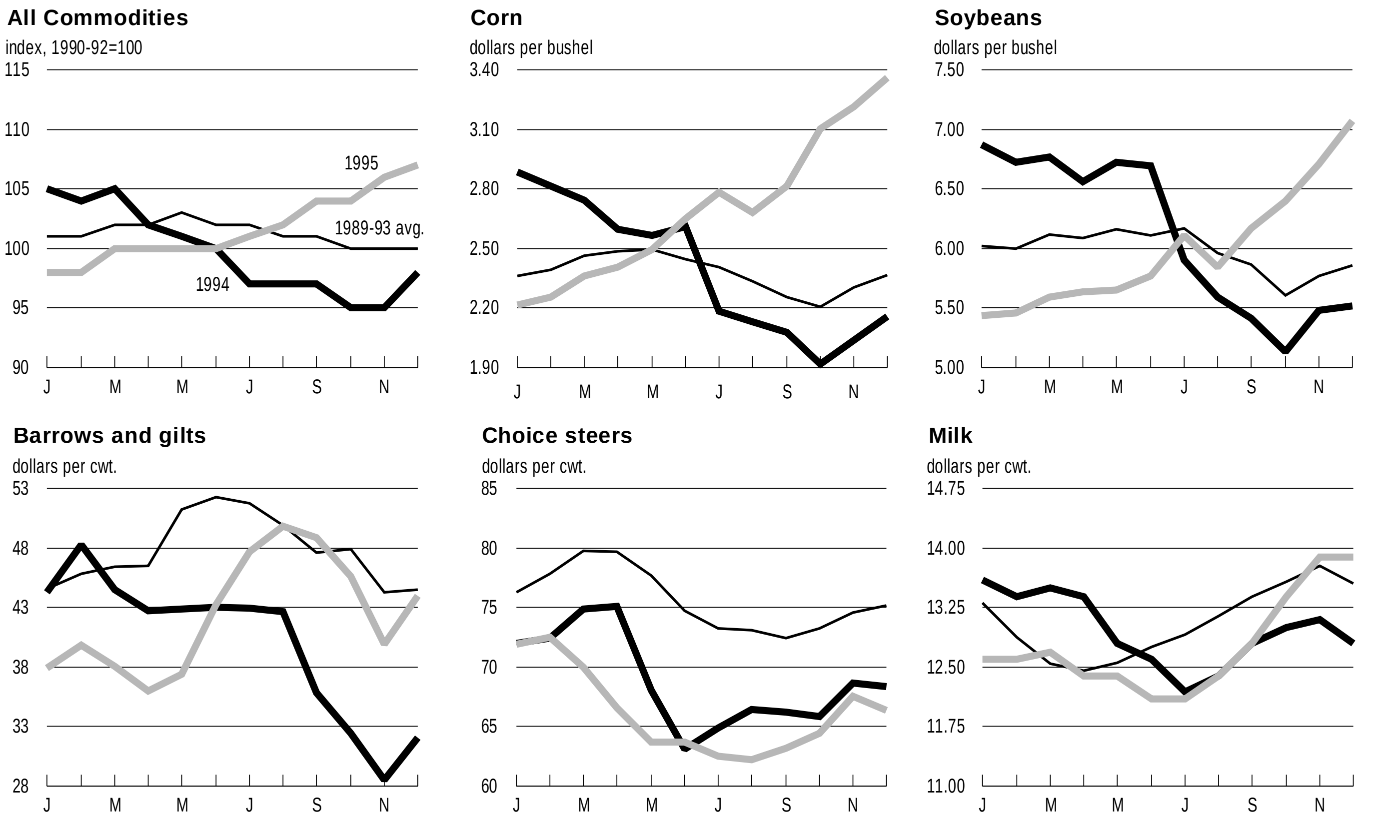
Together, the seven rapid-growth states now account for 23 percent of all hogs on farms nationwide, double their share of five years ago. For the most part, the rapid-growth states have been affiliated with the proliferation of the so-called mega hog farms. These large hog farms remain highly controversial, largely because of environmental concerns related to the handling of animal wastes. In addition, these large farms entail substantial differences in operational practices and marketing arrangements as compared with the more traditional "family farm" system of raising hogs. Nevertheless, it is increasingly clear that large farms enjoy greater production efficiencies. Numerous studies, for example, have noted the more intense use of breeding herds and the higher weaning rates on large farms which translate into more pork per sow. Reflecting the latter, the number of pigs saved per litter among producers in the seven rapid-growth states last year averaged 8.6, about 5 percent better than the average of 8.2 pigs per litter for all other states. Oklahoma, where hog numbers have more than tripled the last two years, had the highest weaning rate, 9.3 pigs per litter. In comparison, hog farmers in Iowa weaned an average of 8.3 pigs per litter last year while the weaning rate for the other four District states ranged from 7.9 in Wisconsin to 8.2 in Indiana.

Analysts who focus on near-term trends in the livestock and poultry complex are perplexed, on the one hand, by the evidence of extraordinarily tight grain supplies and, on the other hand, by the evidence of an upturn in hog numbers and a continuing expansion throughout the livestock and poultry complex. Conventional wisdom suggests that the decline in available feed supplies this year will necessitate slower growth and perhaps outright declines in at least some component of the livestock and poultry complex. However, the latest USDA survey of hog farmers points to further slight expansion overall. In conjunction with the slightly larger inventory of hogs held for breeding purposes, producers intentions' reportedly are to increase sow farrowings for the December-May period by 1 percent. If producers follow through with those intentions and if the uptrend in pigs per litter continues unabated, the number of pigs born and raised from December through May could be 3 percent more than in the same period a year ago.

The implications of the latest survey are that pork production will register another increase in 1996. Preliminary tallies show pork production in the year just ended was up nearly 1 percent as first-half gains offset declines during the second half of the year. Because of a strong rise in exports, however, per capita supplies of pork available to domestic consumers declined about 1.5 percent in 1995. The number of hogs shipped to packing plants will likely remain below the year-earlier levels this winter. By the second quarter, however, hog marketings and pork production will likely move above year-earlier levels. The gains will likely widen to around 4 percent in the second half if producers are expanding as indicated in the latest quarterly report.

In addition to rising pork production, all other components of the livestock, dairy, and poultry complex appear to be expanding. Reflecting this, the latest USDA projections for 1996 point to increases of 2.8 percent for all red meats, 5.7 percent for poultry meats, 2.7 percent for milk, and 2.8 percent for eggs. For each case component, the projected increase for this year exceeds the rise

1995 Farm Prices in Perspective



recorded in the year just completed. The expansion in all areas of livestock and poultry production seems to be inconsistent with the evidence of sharply lower feed supplies and the apparent need to lower feeding rates. Simultaneously, the widespread expansion indicated for the entire livestock and poultry complex suggests ample domestic supplies, even with further strong growth in exports. Hence livestock prices may remain under downward pressure this year. In the year just completed, barrow and gilt prices averaged about $42.35 per hundredweight. This year's average will likely be somewhat lower given current prospects for rising production of pork and all meats.

Iowa State University reports the break-even cost of production for hogs marketed in December exceeded $45 per hundredweight. The break-even on hogs now being raised for market will be even higher as the feeding costs incorporate more of the recent highs in for corn prices and the possibility that still higher corn prices may be needed to ration the lower feed supplies. Production costs vary widely among hog producers. But even the most efficient will experience very narrow margins, while the average-cost producers will experience sizable losses. More producers will exit the industry this year than in recent years. The very large, low cost producers are not likely to scale back production much and some of the newer operations will likely bring more capacity on stream this year. Whether these dynamics translate into as much pork production for 1996 as now indicated remains to be seen.

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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.

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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)*	December	107	0.9	9	4
Crops *(index, 1990–92=100)*	December	117	0.9	10	8
Corn *($ per bu.)*	December	3.08	7.3	45	15
Hay *($ per ton)*	December	80.30	–0.9	–6	–6
Soybeans *($ per bu.)*	December	6.71	5.0	24	1
Wheat *($ per bu.)*	December	4.92	2.1	32	36
Livestock and products *(index, 1990–92=100)*	December	96	2.1	7	–1
Barrows and gilts *($ per cwt.)*	December	45.10	11.6	43	10
Steers and heifers *($ per cwt.)*	December	64.80	–0.6	–5	–10
Milk *($ per cwt.)*	December	13.90	0.0	9	3
Eggs *(¢ per doz.)*	December	81.0	6.0	29	27
Consumer prices *(index, 1982–84=100)*	November	154	–0.1	3	5
Food	November	149	0.0	3	5
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	6,101	N.A.	–24	3
Soybean stocks *(mil. bu.)*	December 1	1,833	N.A.	–13	18
Wheat stocks *(mil. bu.)*	December 1	1,338	N.A.	–10	–16
Beef production *(bil. lb.)*	November	2.09	–3.8	6	10
Pork production *(bil. lb.)*	November	1.61	2.2	–2	7
Milk production* *(bil. lb.)*	December	11.1	4.3	0	N.A.
Receipts from farm marketings *(mil. dol.)*	August	15,076	6.2	8	8
Crops**	August	7,169	–3.5	17	20
Livestock	August	7,884	17.5	1	1
Government payments	August	23	–64.1	–69	–74
Agricultural exports *(mil. dol.)*	October	5,137	8.7	18	33
Corn *(mil. bu.)*	September	250	19.3	117	80
Soybeans *(mil. bu.)*	October	77	0.2	–23	5
Wheat *(mil. bu.)*	September	134	5.0	11	23
Farm machinery sales *(units)*					
Tractors, over 40 HP	December	5,875	8.3	5	19
40 to 100 HP	December	2,923	–5.5	9	21
100 HP or more	December	2,952	26.4	1	17
Combines	December	1,035	–9.9	5	14

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

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