AgLetter

MEAT PRODUCTION FORECASTS LOWERED

Recent reports add to the growing evidence that the uptrend in meat production is slowing, especially for red meats. The number of hogs shipped to packers this spring fell well below earlier projections and updated forecasts point to continued year-over-year declines in pork production during the second half. Alternatively, beef and veal production this spring proved larger than expected as a variety of factors led to heavy culling of the beef cow herd and steppedup shipments of calves to packing plants. But these developments, along with a marked slowing in the movement of cattle into feedlots, foreshadow curtailed beef production the rest of this year and into next year.

The changing prospects for meat production are suggested by the pattern of forecast revisions made by the U.S. Department of Agriculture—and most other analysts since March. At that time, the USDA was forecasting that total meat production during the last three quarters of 1996 would be up 4 percent from the same period the year before. Since then, the projected gain has been cut to less than 1.5 percent. (The rise for the last half of this year is now pegged at 1 percent). Pork accounted for most of the revision. The USDA's latest projection shows pork production during the final three quarters will be down 4.5 percent from last year and more than 8.5 percent less than had been projected in March. In comparison, the projections for beef and poultry production for the final three quarters have been cut less than 1 percent. For beef, however, the revisions lumped much more production into the second quarter while scaling back the forecasts for summer and fall.

Several factors have contributed to the revised forecast. Earlier estimates of second-quarter pork production were tied to a USDA report last December that showed an increase in the number of pigs born and raised last fall. But the curtailed shipments of hogs to packing plants this spring confirmed that the expansion in the September-November 1995 pig crop never occurred. Subsequent revisions have cut the estimate of that pig crop by nearly 6 percent and trimmed the estimate of the December 1, 1995 inventory of hogs on farms by 2.5 percent.

Other factors altering the outlook for meat production are mostly tied to the high prices and limited availabilities

of feeds and forages. The price of corn—the most common grain fed to livestock and poultry—has trended sharply upward since hitting a cyclical low of about \$1.90 a bushel in November 1994. The steady uptrend reflected weatherrelated damage to the 1995 harvest, several months of exceptional strength in export sales and shipments, and evidence of expanding needs for use as feed, fuel, and sweeteners here at home. Prices accelerated into the \$4.50 to \$5.00 a bushel range this spring as the strength in exports and domestic usage threatened to deplete available stocks in some areas and as weather problems hindered plantings for the new crop. In addition, an extended drought severely depleted the grazing capacity of pasture and ranchland in the Southwest. These developments started altering the flow of livestock and poultry to processing plants this spring as producers belatedly adjusted their production and feeding practices to shelter against soaring feed costs.

In addition to lowering earlier estimates, the USDA's most recent *Hogs and Pigs* report foreshadows lagging pork production well into next year. It indicates that sow farrowings during the six months ending with May were down 5.5 percent from the year-earlier pace and well below the

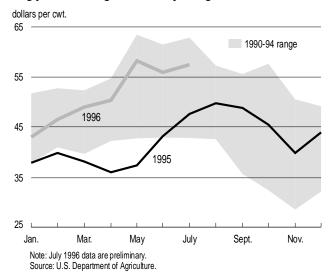
Cuts in hog production are especially large in District states

	Iowa		Distri	ct states¹	United States		
	Million head	Percent change ²	Million head	Percent change ²	Million head	Percent change ²	
Pig crop							
DecFeb.	4.64	-8.4	4.12	-8.8	23.5	-1.6	
MarMay	5.12	-16.6	4.62	-13.6	25.5	-6.0	
June 1 inventor	у						
Market hogs	12.0	-7.7	9.2	-12.0	51.1	-3.4	
Breeding	1.3_	-13.3	1.3_	-13.4	6.9	-4.8	
Total	13.3	-8.2	10.5	-12.2	58.0	-3.6	
Intended sow farrowings							
June-Aug.	.56	-13.8	.50	-11.9	2.87	-4.6	
SeptNov.	53	-7.0	47_	-7.5	2.78	-1.2	
Total	1.09	-10.7	.97	-9.8	5.65	-3.0	

¹Illinois, Indiana, Michigan, and Wisconsin. ²From same date or period a year ago.

²From same date or period a year ago. Source: U.S. Department of Agriculture

Hog prices holding well above year-ago levels



levels reported earlier as producers' farrowing intentions. However, the reduction in the December-May pig crop was held to less than 4 percent as the number of pigs saved per litter ratcheted upward again this year. The smaller pig crop is reflected in lower inventories. The number of hogs on farms nationwide as of June 1 was indicated to be 58.0 million head, down 3.6 percent from a year ago and the lowest for that date in five years. The decline was slightly smaller for hogs intended for market and considerably larger (4.8 percent) for the hogs being held for breeding purposes. In line with the smaller inventory of breeding stock, the latest reading on intended sow farrowings for the summer quarter points to a 5 percent cut, both from a year ago and from the initial summer intentions that were reported in March. Farrowing intentions for the fall (September-November) quarter point to a 1 percent decline from the downward-revised year earlier estimate. These measures of recent and prospective trends in hog production foreshadow lagging pork production well into next year.

The share of U.S. hog production coming from District states continues to decline as the on-going structural shift toward mega producers proves more attractive elsewhere. The June 1 inventory of hogs on farms in the five states of the Seventh Federal Reserve District was down 10 percent and accounted for only 41 percent of all hogs on farms nationwide. As recently as four years ago, the District states' share was over 48 percent. Iowa retains the number 1 ranking in hog production although its wide margin over North Carolina continues to erode. The rankings of most other District states fell over the past year. Minnesota moved up a notch, dropping Illinois to number 4. Indiana retained the number 5 ranking while Michigan and Wisconsin each dropped a notch or two—to

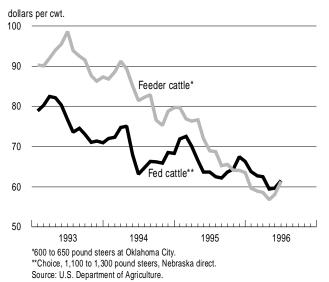
12 and 15, respectively. Elsewhere, only three states registered gains. Hog numbers in Kansas were up 7 percent from a year ago, while those for North Carolina and Oklahoma were up 17 and 46 percent, respectively. The opening of some very large operations in Oklahoma over the past year has moved that state's ranking in hog production up five notches to 11th place.

The geographical shifts in hog production are also becoming more evident in packing plants. It appears Illinois will lose its second-place ranking in hog slaughter to North Carolina. As recently as 1990, the number of hogs processed at packing plants in Illinois was over three times that for North Carolina, which ranked tenth at the time. Last year, the margin for Illinois narrowed to less than 8 percent. And recently released figures for the month of May show for the first time that packing plants in North Carolina handled more hogs than those in Illinois.

The flow of cattle and calves to market is also being adjusted, with differing temporal implications for beef production. Cattle producers have been hit hard this year. In addition to rising cost pressures from limited supplies of feed and forages, their earnings have been squeezed by the low cattle prices that have coincided with the cyclical upturn in beef production since 1993. Those who maintain the beef cow herd and sell calves have been hit the hardest. This reflects both the steeper decline in prices for calves and feeder cattle and the tendency of these producers to be located where grazing conditions are under the most stress from drought. Because of the stressed earnings, the movement of both calves and beef cows to packing plants picked up significantly this year. Following a 13 percent rise in 1995, the year-over-year gain in commercial calf slaughter through May of this year moved up to 24 percent. In addition, reports from federally-inspected plants suggest the year-over-year rise in beef cow slaughter has gone from 11 percent in calendar 1995, to 16 percent in the first quarter of this year, and to 34 percent in the second quarter.

The number of all cows—including dairy cows—shipped to packing plants in the first half was the highest in a decade. Similarly, the ratio of first-half cow slaughter to the January 1 inventory of cows was also at a ten-year high. This heavy culling of the cow herd has tended to push recent beef supplies well above expectations. Reflecting this, second quarter beef production was about 3.5 percent above what USDA—and many other—analysts had projected back in March. Over the longer horizon, however, both the heavy culling (liquidation) of the cow herd and the shrinking supply of feeder cattle will dampen the flow of beef that otherwise would reach consumers. The extent of the dampening will hinge on how pronounced the liquidation of the cow herd ultimately proves to be.

Feeder cattle prices have declined more than fed cattle prices



For operators who finish out cattle in commercial feedlots, the steeper decline in feeder cattle prices (versus fed cattle prices) has helped to offset the squeeze on earnings from high feed costs. Nevertheless, most feedlot operators have experienced substantial losses in recent months. Iowa State University studies show those losses averaged \$91.50 per head on cattle marketed in the second quarter. In line with the emerging losses, USDA reports that track the flow of cattle through large feedlots in major states show the uptrend in the number of cattle placed in feedlots ended in December. Placements in the first quarter of this year were down considerably from the high year-ago level but were still well above the levels that prevailed from 1992-94. In April and May, however, placements were off sharply and by far the lowest for that period in at least five years.

As the number of cattle placed in feedlots slowed this year, the movement of finished cattle out of lots held at a high level. With those divergent trends, the inventory of cattle in large feedlots in major states fell from an unusually high level in January to a four-year low on June 1. Among all 7 states surveyed, the year-over-year decline was 11 percent. In Iowa, the June 1 inventory of cattle in large feedlots was down 16 percent. The smaller inventories suggest the large first-half gain in beef production (6 percent) will end quickly, especially if the liquidation of the cow herd slows. USDA analysts project that second-half beef production will be down nearly 1.5 percent from last year, followed by a decline of over 2.5 percent in the first half of next year.

In contrast to red meats, poultry production remains well above year-ago levels. Preliminary indications show first-half poultry production was up nearly 6 percent from the year ago pace, reflecting an increase in the number of broilers and turkeys processed and—despite very high feed costs—an increase in the weight of the birds moving through processing plants. Moreover, USDA analysts project another 6 percent gain in poultry production for the second half of this year, followed by a narrowing to 4 percent in the first half of next year.

Forecasts of meat production should be viewed with healthy skepticism until there is more evidence on the likely balance between grain (feed) supplies and demands in the months ahead. With carryover stocks depleted, this year's grain harvest—here and worldwide—will be the critical factor in determining whether the feed shortages of recent months are eased, exacerbated, or extended. In the interim, grain prices are likely to remain high, and highly volatile, while livestock prices strengthen due to prospects for smaller growth in meat production.

The balance between prospective feed costs and prospective livestock/poultry prices will be the key factor guiding future trends in livestock and poultry production. That balance could shift quickly in either direction. As things now stand, however, the growth in total meat production will fall below trend over the near term as declines for red meats counter most of the gains still projected for poultry. In addition, growing exports will further trim the meat supplies available for domestic consumers. Historically, the U.S. was a net importer of red meats. But with exports growing and imports lagging, the U.S. became a net exporter of pork last year and is expected to become a net exporter of beef this year. Poultry exports continue to grow also, with this year's shipments likely to absorb 15 percent of production. On a per capita basis, U.S. meat production—adjusted for net trade flows registered a 1 percent trend rate of increase annually from 1984 to 1994. A modest decline broke the uptrend last year. Slower growth in second-half production and continued strength in exports imply the trade-adjusted production of all meats available to domestic consumers this year will retreat to a three year low.

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

SELECTED AGRICULTURAL ECUNUMIC INDICAT	UKS		Percent change from		
	Latest period	Value	Prior period	Year ago	Two years ago
Prices received by farmers (index, 1990–92=100)	June	119	7.2	19	19
Crops (index, 1990–92=100)	June	141	7.6	25	31
Corn (\$ per bu.)	June	4.19	1.2	67	61
Hay (\$ per ton)	June	92.30	-4.9	7	4
Soybeans (\$ per bu.)	June	7.43	-3.4	31	11
Wheat (\$ per bu.)	June	5.31	-7.3	38	65
Livestock and products (index, 1990–92=100)	June	100	4.2	11	6
Barrows and gilts (\$ per cwt.)	June	56.80	-1.6	31	31
Steers and heifers (\$ per cwt.)	June	61.30	6.4	-3	-5
Milk (\$ per cwt.)	June	14.50	1.4	20	15
Eggs (¢ per doz.)	June	71.5	2.6	22	24
Consumer prices (index, 1982–84=100)	June	157	0.1	3	6
Food	June	153	0.4	3	6
Production or stocks					
Corn stocks <i>(mil. bu.)</i>	June 1	1,718	N.A.	-50	-27
Soybean stocks (mil. bu.)	June 1	623	N.A.	-21	12
Wheat stocks (mil. bu.)	June 1	375	N.A.	-26	-34
Beef production (bil. lb.)	May	2.30	7.0	5	16
Pork production (bil. lb.)	May	1.41	-4.8	- 7	1
Milk production* (bil. lb.)	June	11.2	-4.8	-3	-1
Receipts from farm marketings (mil. dol.)	March	13,977	6.5	-12	-7
Crops**	March	6,977	11.1	12	26
Livestock	March	6,961	4.6	-8	-14
Government payments	March	40	- 78.1	N.A.	N.A.
Agricultural exports (mil. dol.)	April	5,107	-6.6	13	48
Corn (mil. bu.)	April	198	-7.3	20	130
Soybeans <i>(mil. bu.)</i>	April	53	-43.4	-34	52
Wheat (mil. bu.)	April	93	-15.7	1	22
Farm machinery sales (units)		5 000	2.2		
Tractors, over 40 HP	June	5,803	-2.2	4	-6
40 to 100 HP	June	4,199	8.1	2	-4
100 HP or more	June	1,604	-21.7	10	-12
Combines	June	761	55.0	-1	-9



AgLetter is printed on recycled paper using soy-based inks

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



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