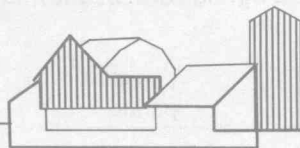


FRB CHICAGO



AGRICULTURAL LETTER

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Pork production turning upward

The USDA's latest quarterly survey of hog farmers reconfirms a forthcoming upturn in pork production. Sow farrowings turned up last fall and remained moderately higher during the three months ending in February. Moreover, a slight rise in both the inventory of hogs held for breeding purposes and the level of intended sow farrowings indicates that the uptrend in hog production will extend through August. These measures imply pork production will turn up this quarter and remain above year-earlier levels at least through next winter.

The number of sows on U.S. farms that farrowed during the three months ending with February was up 2.5 percent from the year before and nearly 1 percent above the farrowing intentions indicated for that period in the previous report. Coupled with a slight rise in the number of pigs saved per litter, the rise in farrowings led to a 3 percent increase in the December-February pig crop. This marked the second consecutive three-month period to register a year-over-year rise in the pig crop. The uptrend helped push the March 1 inventory of market hogs to nearly 45.5 million head, 2.6 percent more than a year ago but nearly 1 percent less than two years ago. The March 1 inventory of hogs intended for market on farms in District states was estimated to be 21.9 million head, up 3.4 percent from a year ago.

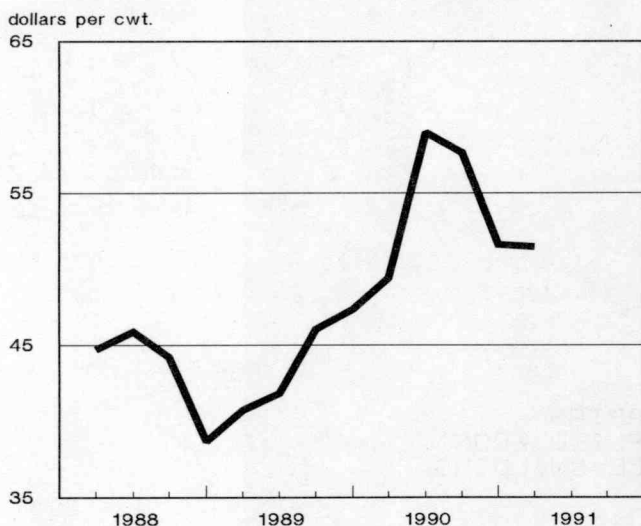
An increase in both the number of hogs held for breeding purposes and producer's farrowing intentions foreshadow a

continued, but modest uptrend in hog production. The March 1 inventory of hogs held for breeding, at 6.9 million head, numbered just over 1 percent more than a year ago. A slightly smaller rise was indicated for District states as declines in Iowa and Michigan offset gains reported for Illinois and Indiana. With the larger brood stock, producer intentions point to a 1 percent year-over-year gain in the number sows to be farrowed during the three months ending with May and a 2 percent rise during the June-August period. The latest intentions for the March-May period represent a sizable upward revision from the 2 percent decline reported three months ago.

Per capita pork production, on a quarterly basis, has lagged year-earlier levels since mid 1989. However, an upturn will start this spring. The latest numbers suggest that hog slaughter during both the second and third quarter will be up about 4 percent from year-ago levels. The rise in hog slaughter during the fall and winter quarters may narrow to the 2 to 3 percent range if producers stick to their current farrowing intentions. If feed costs remain low, the trend toward heavier slaughter weights could add an additional percentage point to the year-over-year gains in pork production.

Total meat production will remain at record levels in the months ahead as continued gains in poultry add to the rise in pork. USDA analysts forecast year-over-year gains of about 5.5 percent in poultry production during both the spring and the summer quarter. Beef production is projected to be unchanged from the year-ago level during the spring quarter and then register a rise of 3 percent during the third quarter. For all of this year, the USDA is expecting total meat production to be up more than 3 percent from last year and up more than 4.5 percent from two years ago.

Hog prices



Hog prices will likely track below year-earlier levels in the months ahead. Barrow and gilt prices at seven major markets during the first quarter averaged \$51.50 per hundredweight, up about \$2 from the same period a year ago. Prices weakened seasonally in April but are expected to trend higher the rest of this quarter. In general, analysts believe that hog prices will average around \$55 per hundredweight both this quarter and the next and then decline to around \$50 in the fourth quarter. For most producers, the forecasted prices would be above expected break-even costs of production. However, the extended period of favorable earnings for hog farmers adds to the risk that the upturn in pork production may eventually prove to be too burdensome to prices.

Gary L. Benjamin

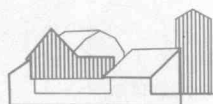
Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	December	16,658	-11.3	12	23
Livestock	December	7,233	-20.6	0	7
Government payments	December	7,608	-5.5	8	21
	December	1,817	11.8	180	288
Real estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	17.2	-0.6**	3	11
Farm Credit System	December 31	29.4	-0.1**	-3	-9
Life insurance companies	September 30	10.6	5.3**	11	14
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	32.9	-0.9**	7	10
Farm Credit System	December 31	10.7	-2.8**	7	15
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	January 1	11.82	-1.0**	-2	-1
Real estate loans	January 1	10.95	-1.2**	-2	-3
Commodity Credit Corporation	April	6.37	0.0	-23	-33
Agricultural exports (\$ millions)					
Corn (mil. bu.)	January	3,218	1.7	-14	-4
Soybeans (mil. bu.)	January	145	2.4	-39	-17
Wheat (mil. bu.)	January	59	5.6	-23	-11
	January	69	13.6	-17	-42
Farm machinery sales^p (units)					
Tractors, over 40 HP	March	6,704	86.2	1	21
40 to 100 HP	March	3,269	67.0	-6	0
100 HP or more	March	3,435	109.1	8	50
Combines	March	584	37.1	-6	84

*Includes net CCC loans.

**Prior period is three months earlier.

^pPreliminary



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