Federal Reserve Bank of Chicago . . .

Agricultural Letter

Number 1397

September 24, 1976

HOG PRODUCERS continue to expand output as the upward phase of the current hog cycle reaches what may prove to be a peak. However, the upsurge may be briefer than previously anticipated because producers are faced with lower hog prices and high feed costs. Nevertheless, the most recent pig crop—and the near-term outlook for future farrowings—suggests that downward pressures on hog prices will likely result in lower pork prices for consumers over the next six to nine months.

After producing the smallest pig crop in 40 years in the first half of 1975—and receiving the highest hog prices in modern times just a year ago this month—hog producers began building the foundation for the current expansion phase. According to the U.S. Department of Agriculture, the September 1 inventory of hogs in the 14 major hog-producing states was 48.7 million head, up 17 percent from a year ago and only 3 percent under the level of two years ago.

Market hog inventories stood 18 percent above one year ago on September 1 and were rather uniformly distributed throughout the various weight categories. The inventory kept for breeding purposes was 6.8 million head, up 13 percent from September 1975. Slightly over 18 million head of pigs were farrowed by producers in the June-August quarter, up 21 percent from the same year-earlier period. Most of the rise stemmed from an increase in the number of hogs farrowed, up 19 percent, with the remainder coming from a slight increase in the number of pigs per litter.

Hog slaughter will substantially exceed year-earlier levels through at least the first half of 1977. After falling below year-earlier levels throughout most of the first half of this year, July hog marketings rose 4 percent above the same year-earlier period. Weekly federally inspected slaughter figures suggest the rise was substantially higher in August and the first half of September. September 1 market hog inventories imply that marketings may increase 15 percent or more over year-earlier levels during the next six months. Furthermore, producers' farrowing intentions for the next quarter are up 16 percent—basically unchanged from the previous quarterly survey—suggesting a similar increase in marketings during the second quarter of 1977.

Hog prices have been on a downward trend since midyear, reflecting the recent increases in marketings of hogs and cattle. Prices this week fell to $36 per hundredweight, the lowest major market daily price in almost two years. Producer's margins for a corn belt feeder-finishing operation may have fallen $3 to $5 per hundredweight below the breakeven point during August, according to some budget projections. Moreover, current price levels suggest that even larger losses may be occurring this month. Farrow-finishing operations are still operating above the breakeven point, albeit at greatly reduced margins compared to earlier in the year.

The profit outlook for hog producers has been dimmed by recent downward revisions in corn production estimates and the prospect for higher-than-previously anticipated corn prices. (Hogs consume the highest percentage of the corn crop of any livestock and poultry category.) Furthermore, the farm-to-retail price spread for pork has increased appreciably in the last couple of months as retail price adjustments lagged price changes at the farm level. However, an increasing volume of slaughter should reduce unit cost and allow the margin between farm and retail to shrink, easing some of the downward pressure on hog prices.

Hog prices will most likely remain near the $40 level during the remainer of this year and could possibly slip to the mid- to upper-$30 range in early 1977. Recent apparent losses to some producers coupled with the prospect for relatively low future hog prices may cause producers to reevaluate their plans for increased output. However, any marked change in the current expansion phase probably will not occur until the start of 1977 since sows and gilts farrowing between now and year-end have already been bred. Although producers have the option of marketing the bred animals, there is little evidence to date of any increase in the slaughter of sows. If the $35-$40 price level prevails and should corn prices parallel the previous year's experience, as seems likely, the current expansion phase of the hog cycle may be sharply moderated in the second half of 1977.

Terry Francl
Agricultural Economist