ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801 *May 26, 1976*

THE HOG CYCLE, DOES IT STILL WORK?

MONTHLY HOG SLAUGHTER dipped to a near-record low of 5 million head in June and July of 1975. After adjusting for seasonal variations in slaughter, pork output reached a seasonally adjusted low during the last quarter of 1975. Both the December and March Hogs and Pigs Reports indicated an upturn in farrowing intentions for 1976, which should result in an increased slaughter during the last half of 1976 and on into 1977. Two questions raised by hog producers and market analysists are: Does the hog cycle still operate? If so, where are we in the cycle?

Research at the University of Illinois for the 1950-1972 period suggests that the typical cycle is related to the change in profits and losses in hog production with a two-year lag from the beginning of a period of sustained profits to a peak in hog marketings. Also, the beginning of a loss phase is followed about two years later by a low point in the number of hogs marketed. The 1970-1973 period displayed these characteristics of the four-year hog cycle.

WHAT ABOUT 1974 AND 1975?

The normal four-year hog cycle would have extended from 1974 into 1977. Other economic phenomena in 1974 and 1975 overwhelmed the forces that have caused four-year cycles over the past 25 years: (1) the Russian wheat deal and a resulting sharp increase in corn prices in the last half of 1973 and early 1974; (2) the very short 1974 corn crop, which kept corn prices high; and (3) a buildup in cattle marketings, followed by a liquidation phase in the cattle cycle. The combination of these forces in 1974 resulted in the greatest income losses in hog production since the UI profit-and-loss series began in 1940. These economic forces caused an abrupt and early termination of the expansion phase and a sharp liquidation of breeding herds in 1974, followed by sharply reduced slaughter a year later. The greatly curtailed hog slaughter in 1975 resulted in record high hog prices. Even though corn prices remained between \$2.50 and \$3 a bushel in 1975, profits in pork production reached a record high of \$20 per 100 pounds in the third quarter of 1975. Thus, the 1974-1975 period appears to be an aborted, two-year cycle in hog production.

A LOOK AT 1976 AND BEYOND

The hog-cycle theory outlined earlier suggests that the last quarter of 1975 marked the beginning of an expansion phase in pork production. The increase in farrowing intentions for 1976 indicates that we are now 6 to 9 months into another two-year expansion phase that will continue through 1976 and into 1977. Since we are starting from a very low level of marketings, the expansion phase could increase from the seasonally adjusted, monthly slaughter rate of 5.8 million head currently to 6.5 million by early 1977, and possibly as high as 7 million in the last half of 1977 before pork supplies become excessive causing hog profits to turn into significant losses. With $2.50 for corn and current prices for protein and nonfeed items, pork prices must drop below $40 at country points and remain below $40 for 3 to 6 months before losses signal the start of the cut-back phase in the hog cycle. Current hog prices and resulting profits are high enough to bring about continued expansion in hog marketings for at least 18 months.

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