ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801 *December 15, 1976*

HOG PRICE RISE TEMPORARY

THE REAPPEARANCE OF $40 in hog market quotations was a pleasant early Christmas present for hog producers. The current strength in the market is likely to be short-lived. Ham is usually in strong demand for the Christmas season. Even with the high slaughter early in the fall, little pork was put in storage this year. In fact, the pork storage on November 1 was about 5 percent less than a year ago. Also, with the much larger slaughter than was generally expected, pork prices dropped rapidly. Pork was promoted extensively by retailers. Retail movement developed a strong momentum.

It now seems that the heaviest slaughter is over. With the modest reduction in supply and the increased demand coming from the requirements for Christmas hams, the market reacted with a sharp increase in prices. When the requirements for the Christmas trade are passed, prices will probably weaken. Yet, it is encouraging to pork producers to see prices at this level when supplies are still more than 20 percent above last year.

The "Hogs and Pigs" report as of December 1 which is to be released on December 22 will be viewed with great interest as an indication of future slaughter. Farrowing intention will be studied carefully.

Hog slaughter has been considerably higher than expected. Commercial slaughter of hogs was up 4 percent in July, 27 percent in August, 21 percent in September, and 28 percent in October. The rates have now dropped slightly, but are still more than 20 percent above last year at this time.

Inventory numbers are likely to indicate farrowings at least as large as the 16 percent intended on September 1. The more interesting question will be about future farrowing intentions. On September 1, producers expected to expand farrowing by 9 percent in the December-February period. This has possibly been reduced some, but the coming report is likely to indicate a small increase in spring farrowings.

Early in the fall when hog prices dropped sharply, there was talk about a quick adjustment in hog numbers. Then corn prices moved down. Now with the higher market prices, hog production is about at a break point with total costs. During November, the hog/corn ratio, basis Omaha, averaged slightly over 14. Last year at this time, the ratio was at 19. In 1974 when hog numbers were sharply reduced, the ratio averaged about 11.3 for the year and dropped as low as 10. Probably, very little adjustment has occurred.

Hog prices are likely to work down gradually. The spring low in April may drop below the level of this fall. It is unlikely that prices will drop much under $30. After the spring low, prices will rise to a summer peak in the upper $30's. If the spring pig crop is up much, prices in the fall and winter would drop under the prices of this year and assure some downturn in numbers for 1978.

Retail pork prices have adjusted downward, in keeping with the lower hog prices. November retail prices of pork are estimated at about $1.16 per pound for all cuts. A year ago, the figure was $1.54 per pound. Marketing margins have been reduced with the increased volume of pork. Even if pork supplies are increased next year, it is unlikely that retail prices will average much lower than this.

The total supply of pork this year will average about 58 pounds per person, compared to less than 55 pounds per person last year. Per capita pork supplies in 1977 are likely to be about 64 pounds. While this appears to be a sizeable increase, it is still less than the "normal" 65 pounds per person.

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No Outlook letter will be issued for the last week in December or the first week in January.

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