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# CATTLE AND HOG PRICE RELATIONSHIPS

HOW HIGH CAN CATTLE PRICES GO IN RELATIONSHIP TO HOG PRICES? This is an intriguing question that will probably be answered in 1979.

The December, 1978 Hogs and Pigs report indicated a record increase in hog production for 1979. Farrowing intentions for the March-May quarter showed an increase of 16 percent over 1978. Pork producers appear to be confident that hog production will remain profitable. One reason is the abundant supply of corn. A second is the well-advertised decrease in the beef supply. To what extent will a reduced beef supply support hog prices?

While continuing a general pattern of increase, cattle prices fall back sharply from time to time, particularly futures prices for fall delivery. Consumer resistance to rising beef prices and the increasing pork supplies are frequently cited as reasons for the declines. To what extent will a larger pork supply hold down cattle prices?

For the year ahead, a record change in the relative supply of beef and pork appears likely. During the January-March quarter, beef supplies probably will be down 1.8 percent from the first quarter of 1978 while pork supplies will be up about 6.9 percent. By the last quarter of the year, the supply of beef will be down about 11.3 percent and the pork supply will be up approximately 18.2 percent. The changing supply situation will require consumers to move from the beef to the pork section of the meat counter.

By the second half of 1979, the total supplies of real meat will probably fall below year-ago levels so that some consumers will have to move on to the poultry and dairy sections. The moving force will be the relative prices at the meat counter, which will influence hog and cattle prices. Consumers have never before been confronted simultaneously with a major decrease in the beef supply and a major increase in the pork supply, which makes estimating cattle and hog price ratios difficult.

The ratios between cattle and hog prices are highly variable. From 1950 through 1978, the highest annual average cattle-to-hog price ratio was 1.84, in 1959. That year, the price for Choice steers at Omaha averaged $26.93. The average for barrows and gilts at seven markets was $14.64. The lowest ratio was .89 in 1976 when Choice steers were $39.11 and barrows and gilts were $43.82. The average ratio for the 29-year period was 1.33. Year-to-year changes were often large, such as the increase from 1.30 in 1970 to 1.75 in 1971. Such big swings indicate that consumers are reluctant to change their meat-buying habits.

A study based on quarterly supply and price data for 1969 through 1978 shows a fairly close relationship between the ratio of beef to pork supplies and cattle to hog prices. When the beef-to-pork supply ratio went up 1 percent, the cattle-to-hog price ratio went down 1.4 percent, and vice versa. Current indications are that the beef-to-pork supply ratio will be about 1.5, much below the 10-year average of 1.78. If the relationship established during the 10 years holds, the cattle-to-hog price ratio will be 1.45 for 1979. By the fourth quarter, the beef-to-pork supply ratio may be down to 1.3 and the cattle-to-hog price ratio could be up to 1.62.

History tells us that cattle can sell high in relation to hogs.

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