WEEKLY OUTLOOK

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March 12, 1980

HAVE HOG NUMBERS PEAKED?

HOG PRODUCTION HAS BEEN UNPROFITABLE for the past 9 months. The 1979 pig crop was the biggest since World War II. At the current prices for soybean meal and hogs plus overhead costs, a bushel of corn is worth $1.60. Such circumstances are conducive to a cutback in hog production and to an increase in the corn carryover. The question is when and whether hog numbers will turn down. The question will be partially answered on March 20 when the results from the March 1 survey of hog producers will be released.

The 1979 pig crop totaled 102.8 million, 16.2 percent over 1978 and up 19.3 percent from 1977. The previous modern record was 101.7 million in 1970. As the large spring pig crop came to market last fall, the pressure on prices was severe. The average price of barrows and gilts at the seven principal markets decreased from $54.42 per hundredweight in February of 1979 to $34.70 in October, and was still quite low at $37.60 last month. The first half of the large fall pig crop has gone through the market, but the second half is yet to come and will continue to keep pressure on prices. The pig crop from June-August of 1979 was up 18 percent from the year before. The December-February slaughter was up 19 percent. The pig crop from September-November of 1979 was up 9 percent from the year before. We should expect a comparable increase in slaughter during March-May.

Each pig-crop report includes figures for the preceeding quarters as well as intentions to farrow during each of the next 2 quarters. Thus, we get 3 reports about each quarter--first intentions, second intentions, and the actual figures. Last September 1, hog producers said they intended to increase December-February farrowings by 10.3 percent. When asked again on December 1, they said those farrowings would be unchanged from the year before. We will find out on March 20 what they actually did. The hogs from those farrowings will come to market during June-August.

When asked about March-May farrowing intentions on December 1, producers said they were going to cut back by 1.3 percent, but that those farrowings would be the second largest for the period since 1971. It was a small decrease from a very large crop. We will find out on March 20 what their intentions were as of March 1.

The profitability of hog operations varies greatly from producer to producer, but we can make a stylized calculation based on feed and overhead costs and hog prices that enables us to compare relative profitability between times. There is a definite relationship between profitability in a given quarter and the number of sows farrowed 6 months later. For example, profitability was quite high during September-November of 1978; and in March-May of 1979, farrowings increased by 21.7 percent. There is also a lag in the response. Sometimes 2 or 3 successive quarters of profits or losses are required to produce a change in the farrowings.

Hog production turned unprofitable last June as feed costs went up and hog prices went down. Every month since then, hog production has been unprofitable by our stylized method of calculation. Producers had experienced 6 unprofitable months when asked about their March-May intentions on December 1. The odds favor a bigger reduction than the 1.3 percent they indicated last December.

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