WEEKLY OUTLOOK
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UPCOMING USDA REPORT ON HOGS AND PIGS, JUNE 20

DURING 1979, THE SWINE INDUSTRY EXPANDED RAPIDLY TO VERY UNPROFITABLE LEVELS. Now, the central question is whether and how much the industry will adjust production levels downward. The answer will be known on June 20 when the quarterly report on Hogs and Pigs is released. The report covers 14 states.

During 1979, the number of sows farrowed in the 14 principal states producing hogs increased 16.9 percent compared to 1978. The result was a rise in pork production of 19.8 percent during September-May, 1979-80. The market could only absorb such a huge increase at low prices. At the same time that hog prices started to decline last summer, feed costs rose because of the threatened drought in the United States and in Russia. By our standardized system of calculation, hog production became unprofitable last June and has remained so ever since.

In the past, the swine industry has been one of boom and bust, as producers overreacted to prices and to profitability. The large increase in production during 1979 followed high profit levels in 1978 and early 1979.

The June 20 report will indicate how many sows were farrowed during the March-May period, a second survey of farrowing intentions for June-August, and a first survey of intentions for September-November. The main focus is on March-May. These pigs will come to market during September-November. The first survey of March-May farrowings was made on December 1, indicating a decrease from 1979 of 1.3 percent. The second survey was made on March 1. It indicated no change from the very large farrowings of March-May, 1979. Producers indicated no correction of overproduction. However, there have been major changes in the past between the March 1 intentions and the actual farrowings for March-May. Over the past 11 years, the actual figure has been below March 1 intentions 9 times and above it twice.

Studies of the relationship between profitability and subsequent farrowings indicate a time lag of about 3 quarters. It seems to take about 3 months for producers to decide to change and about 6 months for the biological time lag. The relationship is pronounced. When profits are quite high, farrowings 9 months later show a major increase, and vice versa. To a considerable extent, profits and subsequent changes in farrowings are proportional. Thus, a formula for forecasting changes in farrowings can be developed. Using our formula, the losses experienced last summer indicate a decrease in March-May farrowings of 9.5 percent. While the relationship is pronounced, it is not precise because producers do not always respond in the same way. Sometimes they have responded quickly, sometimes slowly.

Analysts watch the slaughter rate for sows to get clues about subsequent farrowings. The March-May slaughter of sows was above year-ago levels during March-May of 1979, but not by enough to indicate major liquidation.

Another clue is slaughter in relation to previous pig crops. The slaughter for March-May, 1979 was about 6 percent greater than expected on the basis of the September-November pig crop. Either the pig crop was underestimated or that breeding stock was liquidated. If the latter, that should show up in smaller farrowings and intentions to farrow.

On balance, the indicators point to a reduction in the spring pig crop and to higher prices next fall. But market participants may have anticipated a decrease and may have bid it into current prices. It is entirely possible that the report will show a decrease and that hog prices will decline the next day. A price change depends on the actual report in relation to expectations about what it will show.

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