



WEEKLY OUTLOOK

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WILL HOG PRICES GO DOWN?

MORE OFTEN THAN NOT THERE IS A SEASONAL DECLINE IN HOG PRICES from August into the October-November period. Will that happen this year? Prices remained strong during September, dropping slightly less than \$1 per hundredweight from August, and held steady during the first week of October. At \$48, the current price of hogs is \$13 (36 percent) above early October a year ago. Based on the USDA's September report on Hogs and Pigs, we calculated an average hog price for the September-November quarter of about \$41.50. For that average price to occur would require a very low price for the next 6 weeks. The key question is whether hog prices will dip down close to the \$40 level.

The main basis for our forecast of sharply lower hog prices was the size of the March-May pig crop. At a normal ratio of slaughter to the pig crop, hog slaughter during the September-November period should be up 2.4 percent. The number of market hogs weighing 60 pounds and over on September 1 was 3.7 percent higher than the year before, tending to confirm estimates on size of the pig crop. During September, the weekly average for federally inspected slaughter was 1.721 million, up 1.3 percent from September, 1979. In October last year, the average weekly average for federally inspected slaughter was 1.911 million, up 12.4 percent from September. The weekly rate during the first 3 weeks of November of 1979 was 1.926 million, just equal to October. So far in 1980, the slaughter figures confirm the ones for the pig crop. We should expect increased marketings of hogs during the next 6 weeks.

Prices have been strong despite the high rate of slaughter. As noted, the average hog price for early October is 36 percent above a year ago. During September, pork loins* were 95-1/2 cents, compared to 89 cents in September, 1979. Hams were 84 cents compared to 72 cents, and pork bellies were 54 versus 39 cents. All other things remaining equal, an increase of about 10 percent would have been expected because of general inflation. A little of the price strength stems from lighter slaughter weights. In September, the average weight at slaughter was 239 pounds, compared to 241 pounds last year. Whether hog producers have kept marketings current because they expected lower prices or because of high feed costs is unknown. But total pork production has not been reduced very much.

*Midwest wholesale prices, per pound.

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Some of the strength in hog and pork prices may be the result of certain expectations, for example, a widespread belief that hog prices will rise rapidly during the winter and on into next spring and summer. The June-August pig crop was down 9.5 percent. Intentions to farrow during the September-February period were also down sharply. These indications led us to forecast hog prices of around \$50 during winter and spring and above \$60 next summer. On October 6, hog futures prices were \$47.50 per hundredweight for October delivery, \$49.50 for December, \$52.50 for April, and \$55 for June, indicating the expectation of rising hog prices.

Such an expectation leads to inventory building. At the end of August, frozen pork stocks totaled 219 million pounds, up 21 percent from the year before. This large stock can be interpreted two ways: as an indication of willingness to carry inventory, hence of price strength; or as an already burdensome inventory going into a period of normal seasonal accumulation, hence price weakness.

In the face of strong prices and uncertainty, what is the bottom line? The hogs are probably out there. They will come to market and will put pressure on prices. A slightly smaller supply of pork last year reduced pork prices to \$32. Allowing for inflation, the equivalent would be \$35.20 in 1980. Although such a low appears doubtful now, don't bet too much against it.

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