WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

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STRONG HOG PRICES AND WEAK CATTLE PRICES: WHY?

HOG PRICES HAVE REMAINED HIGHER THROUGH THE FALL than expected by most analysts of livestock prices. The precise data for slaughter during the September-November quarter will not be available until December 19; but on the basis of partial information, pork production for the quarter appears to be almost the same as in the fall quarter of 1979. Production is in line with expectations based on the large pig crop from March through May. The price of hogs averaged $47 per hundredweight during the period, compared to $36.30 for the same period last year. That is an increase of 30 percent.

On the other hand, the price of cattle has been below the expectations of most analysts. The average price for choice steers at Omaha was about $67.25 during the September-November period, compared to $66.85 last year. Most analysts expected beef production to increase about 2 percent and thought that the larger supply would be more than offset by general inflation, producing cattle prices averaging in the low seventies.

Looking backward, the explanation of the low cattle prices is simple. The number of cattle slaughtered from September through November was about 7 percent greater than the year before, and beef production was up 6 percent. The price impact was offset by the effects of general inflation and by some recovery in real consumer incomes.

For hogs, the explanation of the higher-than-expected prices is not so easy. There was a decrease in broiler production, which helps pork demand, but the decline was small. The rise in beef production worked the other way. Part of the explanation may be in retail marketing margins and price specials on pork. Although the price of hogs was up 30 percent, wholesale prices of the principal pork cuts—hams, loins, and bellies—went up only 19 percent. However, this leaves open the reasons for the 19-percent increase.

The hog market may have borrowed from the future by inventorying pork products. At the end of October, there were 42 million pounds of frozen pork bellies on hand, compared to 22 million at the end of September and 18 million on October 31 last year. The inventory of frozen hams at the end of October was 68 million pounds, up from

33 million a year ago. The total for frozen pork stocks was 270 million pounds, up from 217 million at the end of September and 219 million a year ago. The pig crop for June through August this year was down 10 percent from a year ago. A sharp decrease in hog slaughter is expected, beginning in December. The buildup in inventories in anticipation of a shortage will result in a smaller increase in hog prices during the winter than generally expected. The rise to the mid-$50 range may not take place.

An opposite pattern may have occurred with cattle. The larger-than-expected slaughter was caused at least partly by a large slaughter of nonfed beef. Nonfed marketings have been high because of poor range conditions and rapidly increasing feed costs. Cow slaughter has been a larger percentage of total slaughter than is typical with an expanding cow herd. The higher number of cattle indicated by the July 1 inventory report may not occur. The larger-than-expected production of beef this fall may result in lower production in early 1981.

Decreasing supplies of both pork and beef in the first half of 1981 should cause prices to rise sharply. On November 22, the hog futures price for February was $56.12. The February cattle futures price was $71.12. If pork has borrowed from the future and beef has been overproduced this fall, the spread between hogs and cattle may widen.

T.A. Hieronymus

T.A. Hieronymus, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801