WEEKLY OUTLOOK
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WILL HOG PRODUCERS CUT BACK TO PROFITABLE LEVELS?

THE SWINE INDUSTRY IN THE UNITED STATES HAS OVEREXPANDED. Hog prices are above the very low levels reached last spring and early summer but still below the level that enables producers to break even. Output needs to be reduced if the industry is to become profitable again. The results of a March 1 survey of inventory, farrowings, and farrowing intentions will be released on March 20. The report should indicate the direction of hog prices for the balance of 1981.

Hog production became unprofitable during the third quarter of 1979 and has remained unprofitable since then. By our stylized profitability calculation method, the average profit during the 1970s was $3.94 per hundredweight. Over the past six quarters, the average loss has been $5.65 per hundredweight. The losses were caused by high production. From 1966 through 1980, the average annual pork production was 66.6 pounds per capita. Since mid-1979, the average has been 73.2 pounds. Currently, production is running at an annual rate of 71.2 pounds per person.

Changes in the number of sows being farrowed tend to lag profitability by three quarters; that is, the relationship is fairly close between profitability and changes in the number of sows farrowing three quarters later. The large increase in farrowings during 1979 was preceeded by high profitability in 1978. However, the losses in 1979 did not result in as much of a decrease in farrowings in 1980 as previous changes would suggest, nor did the losses in 1980 result in farrowing intentions dropping as much as previous unprofitability would suggest. The survey on December 1, 1980, indicated that farmers intended to reduce farrowings by about 6 percent. Previous losses had suggested a cut of 10 to 12 percent.

The problem stems from an increase in hog production of about 20 percent between the first half of 1978 and the first half of 1979. That change put pork production above 70 pounds per capita. The problem continues because the reduction during the first half of 1980 was quite small.

The question now is whether the needed cut of 10 to 12 percent in farrowings will occur during the first half of 1981. Previous experience indicates that producers will cut back, but the changing structure of the industry may prevent such a response. For the past 4 years, the USDA has tabulated the number of producers and the inventory being held on December 1 by size of unit. On December 1, 1980, some 10.2 million hogs were being held in units of 1 to 99 head, 27 million in units of 100 to 499 head, and 27.3 million in units of 500 and over. Inventories of the small units increased 2.7 percent from December 1, 1978, to December 1, 1979--decreasing 8.3 percent from December 1, 1979, to December 1, 1980. Inventories of the middle size units increased 7.2 percent from 1978 to 1979 and decreased 6.1 percent from 1979 to 1980. Inventories of the large units increased 20.7 percent from 1978 to 1979 and on December 1, 1980, were up 0.9 percent from the year before.

Small units are continuing to decrease in importance. The middle-size units remained the same, so that their inventories on December 1, 1980, were about equal to the profitable level of 1978. The large units were responsible for the excessive increase in 1979, and no corrective steps were taken in 1980 by the operators of those units.

From the limited data we have (4 years), output by middle-size producers appears to be basically stable; while there is a trend increase by large-scale units. These two trends cannot continue, especially if the 1981 corn crop is a moderate one. Who will give ground? The report coming out on March 20 will give us some answers for the industry as a whole, but the next report by size groups is not scheduled for release until December 22.

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