WEEKLY OUTLOOK

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March 3, 1982

WHAT IS AHEAD FOR HOG PRODUCTION AND PRICES?

THE CURRENT HOG SITUATION RAISES QUESTIONS for both hog and corn producers. Hog producers have an opportunity to forward price summer production to about $52.00 per hundredweight, basis Peoria, by selling July futures and this spring's crop at about $48.50 by selling October futures. Such prices are very near break-even profitability. Should producers fix prices now or anticipate an increase? The answer depends primarily on pork production next summer and fall. Corn producers have a major stake in pork production because hogs are the biggest corn consumers. The decisions made by hog producers will, therefore, affect the size of the corn carryover next fall.

The recent history of prices is of little help in anticipating this year's prices. In 1979 cash hog prices decreased from $55.30 in mid-February to $39.10 in mid-July, to $34.25 in mid-October. July futures that year decreased from $55.37 in mid-February to $40.97 in mid-July, and October futures dropped from $50.02 in mid-February to $35.00 in mid-October. The next year cash hogs went from $38.10 in mid-February to $44.15 in mid-July, to $48.40 in mid-October. July futures increased from $42.35 to $44.25 from mid-February to mid-July, and October futures increased from $41.30 in mid-February to $48.07 in mid-October. In 1981 cash hogs increased from $42.80 in mid-February to $51.75 in July and decreased to $44.75 in mid-October. July hog futures that year decreased from $55.50 in mid-February to $52.90 in mid-July, and October futures decreased from $53.30 in mid-February to $45.70 in mid-October. In two out of three years it paid to price forward. Traders in futures, like producers, try to anticipate supply and prices changes, but they are not always successful.

Currently, the hog supply picture is anomalous. The 8.2 billion bushel corn crop in 1981 has created surplus feed supplies. The huge supply and low prices make hog production attractive at today's hog prices. However, the December Hogs and Pigs report indicates a summer slaughter supply 10 to 15 percent below last summer's and a cut of 11 percent in sows farrowing from March to May, 1982.

If these reductions materialize, prices will exceed the $51.75 and $44.75 of last summer and fall by a wide margin.

The sharp reduction in hog numbers indicated by the December report contrasts with the September report in which some rebuilding of numbers was indicated. Will producers follow through with their December 1 intentions? Some insight can be gained by looking at current slaughter. The June-August pig crop indicated a December-February slaughter of 20.3 million head, and the December 1 inventory of market hogs suggested a December-February slaughter of 20.8 million. The actual number slaughtered in February is not yet fully available, but the December-February total appears to have been 22.1 million, suggesting a modest underestimate on December 1.

On balance, we think that the substantial decrease indicated in the December-February farrowings did materialize, so hog prices will be higher in the summer than current July futures prices. We also think that the indicated reduction in the spring pig crop will not materialize and that cash hog prices will decrease substantially from summer to fall. Strength in cash and July futures prices may carry October and December futures to attractive selling levels during the next few months.

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