WEEKLY OUTLOOK
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WHAT CAN HOG PRODUCERS DO NOW?

DECREASING HOG PRICES AND HIGH FEED COSTS HAVE PUT HOG producers in an unprofitable position that is expected to continue for the remainder of the year. There are some central facts about the hog industry that producers should consider in making future production decisions.

First, the industry is in a market that is not expanding. Pork production has been variable but without trend for the past 25 years. There have been trend increases in beef and poultry production that have absorbed consumer willingness to eat more meat. Total meat consumption is about 200 pounds per capita, retail weight equivalent, which may be near market saturation. Consumer demand for meat, as measured by the amount of money spent for a given quantity of meat, has been down each year since 1979. The pork industry will do well to maintain its current market share of total meat consumption.

Second, the USDA June, 1983, *Hogs and Pigs* report does not project an inordinately large production level. Commercial pork production for the October-December, 1983, quarter is projected at 4,053 million pounds, up 11.4 percent from 1982 but smaller than the fall quarters of 1979, 1980, and 1981.

Third, market size, as measured by money spent by consumers, is maximized by stable output and prices. When production is increased sharply, as in the spring quarters of 1976, 1979, and 1983, retail prices decline sharply to clear the market. Subsequent cuts in pork production drive prices up and customers away. It is a poor way to merchandise pork and build product loyalty.

Fourth, hog producers are adversely affected by variable retail prices because live hog prices are nearly twice as variable as retail prices. Retail prices adjust upward slowly and downward slowly. The current situation is at least as much a result of last summer's high price, as it is the result of the current increase in production. That is, the 13 percent cut in the spring, 1982, pig crop was as much a mistake as the 17 percent increase in the spring, 1983, pig crop. From December, 1981, to October, 1982, retail pork prices increased 21 percent, while wholesale prices increased 39 percent. From October to May, 1983, retail prices decreased 10 percent, while wholesale prices decreased 29 percent.

The slow downward adjustment in retail prices restricts total product sales and puts additional downward pressure on hog prices. This slow adjustment provides some hope for hog prices in the October-December, 1983, quarter. If retail prices continue to decrease to meet the current wholesale prices, the market may be able to absorb the prospective production increase without a further decrease in wholesale pork and live hog prices.

Fifth, current feed costs are above equilibrium. The current U.S. production capacity for corn is in excess of eight billion bushels per year, and current use is about 7.3 billion bushels. Corn prices will eventually decrease to levels that hog producers can afford.

These central facts suggest a possible course of action for hog producers. Each producer should establish his own long-term level of hog production and stick with it. It should be the level that maximizes the input-output efficiency of his operation. Stable hog prices would slow down the rate of entry by new hog producers. Hopefully, wide swings in the hog cycle would disappear.

If the industry is one of little future growth, it will be intensively competitive with other meat sources, and only the more efficient hog producers will survive.

A major risk to the industry at this time is an overreaction to the current situation that would cut production sharply and kickoff another roller coaster in production and prices.

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