WEEKLY OUTLOOK

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HOG SLAUGHTER TO PEAK IN 1984

THE USDA'S SEPTEMBER 20 *HOGS AND PIGS REPORT* PROVIDES some evidence that hog slaughter may peak in 1984, based on farmers' intentions to farrow sows this winter. In the meantime, a large increase in hog slaughter from a year ago is still expected this fall. As a result, hog prices should decline somewhat from present levels but may strengthen to near break-even levels in 1984.

There were just under 45.9 million hogs and pigs on farms as of September 1, according to the USDA report, or about 4.2 million (10.1 percent) more than a year ago. The bulk of this increase represents those kept for market, a total of over 40 million head that represents an increase of about 11 percent from a year ago. The number of hogs kept for breeding increased by only 5 percent to just over 5.8 million head, reflecting two quarters of losses this year and their continuation into 1984.

The report also clearly indicates that hog slaughter should be in the midst of a sharp increase that should peak sometime in October or November. The 9.4 percent increase in hogs weighing 180 pounds and over is already reflected in the substantial acceleration of hog slaughter in September. This acceleration will certainly continue in October, given the 14.1 percent increase in the number of hogs weighing between 120 and 179 pounds as compared with a year ago. In fact, total hog slaughter in the final three months of this year could increase by more than 14 percent from the same period in 1982, based on a 13.5 percent increase in hogs weighing between 60 and 179 pounds and the expectation that breeding-herd liquidation should add another percentage point of increase. Finally, the magnitude of the increases in slaughter should begin to diminish in December as a reflection of the more modest 8.5 percent increase in hogs weighing under 60 pounds as compared with a year ago.

Farmers' intentions to farrow sows through February at rates a little higher and possibly below last year's suggest that the increases in hog slaughter, when compared with a year ago, will continue to diminish until late in the spring of next year. At that time, slaughter should just about equal that of this past spring and summer. That is, hog slaughter in late winter and early spring of next year should closely match the 4.3 percent increase in farrowings intended by producers in the September-to-November period. Then, if farmers follow through with their intentions to reduce farrowings by 1 percent in the December-through-February period, hog slaughter around midyear of 1984 should about equal that of 1983.

The figures in this report regarding sows' farrowing indicate that producers collectively had a quick change of mind from three months ago. When surveyed on June 1, producers had planned to farrow over 8 percent more sows in the September-to-November period as compared with a year ago; those plans have been revised downward to an increase of only 4.3 percent as of September 1. Such a change in plans should have been expected, given the absence of profit expectations due to high feed costs and below break-even cash hog prices.

The trade has apparently construed this report as bearish, given the general decline in live hog futures prices since the close of Tuesday's market, just before release of the report. As of September 23, most hog contracts for delivery before mid-1984 are trading $2 to $3 below our expectations for cash hog prices. The $52 to $53 prices offered in the June, July, and August contracts appear to be at more reasonable levels. Therefore, little if any additional hedging of fall or early spring production appears to be necessary, but producers might consider hedging a portion of their production for delivery late next spring and summer.

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