COOPERATIVE EXTENSION SERVICE
UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN

WEEKLY OUTLOOK

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

December 19, 1984

IS HOG EXPANSION UNDER WAY?

U.S. HOG PRODUCERS HAVE BEEN REDUCING PRODUCTION for the past year. The number of sows farrowed in the 10 major hog producing states last winter (December 1983-February 1984) was down 7.8 percent from the previous year. Farrowings were down 11 percent this past spring and 7.3 percent during the summer months. However, the summer pig crop was reduced only 4.4 percent as the number of pigs saved per litter was record large. The liquidation of hog numbers was primarily in response to high feed costs resulting from the 1983 PIK program and drought conditions.

Producers were surveyed again on December 1 to determine the number of sows farrowed during the September-November period, the level of current inventories, and production intentions for the next 6 months. The results of that survey will be released on December 20.

On June 1, 1984, producers in the 10 major hog producing states indicated that they intended to reduce the number of sows farrowing during the September-November quarter by 7.2 percent. On September 1, their intentions were to reduce farrowings by only 4.6 percent. Actual farrowings, to be revealed on December 20, may have been close to intentions. Hog prices were disappointing in the fall and corn prices remained well above the CCC loan rate.

On September 1, producers intended to reduce the number of sows farrowing during the current quarter (December 1984-February 1985) by about 1 percent. What will the December report show? Since mid-October, cash hog prices have increased \$7 to \$8 per hundredweight. Cash corn prices have declined about 20 cents per bushel and soybean meal prices have remained at very low levels.

There is some expectation that farrowings during the winter months will exceed intentions of 3 months ago. Over the past 2 weeks, the cash price and December futures have remained firm. However, 1985 futures contracts have declined about \$2 per hundredweight. July futures have gone from a \$4 premium to cash hogs to even with the cash price. February futures are premium to July futures, a rather unusual circumstance.

The direction of change in the number of sows farrowing is generally related to profitability 3 quarters earlier. However, the actual magnitude of change has been difficult to predict. Profitability calculations suggest a decline in winter farrowings rather than an increase as the market is apparently expecting.

The December report will contain the first indications of producers' intentions about the March-May 1985 farrowing period. Profitability calculations pont to March-May farrowings slightly smaller than in 1984. However, the market is anticipating an increase of 3 to 5 percent. This expectation is apparently based on the recent changes in hog feeding profitability. Producers may feel that they can receive a higher price for corn by feeding it to hogs.

How the market reacts to Thursday's *Hogs and Pigs* report depends primarily on expectations. The market is apparently expecting the report to show that liquidation has stopped and modest expansion is under way.

Regardless of producers' intentions to farrow, pork supplies should remain below year-ago levels for the next 6 months. During the first 6 months of 1984, cash hog prices at Omaha averaged about $48.25 per hundredweight. We should expect to average at least that high in 1985.

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

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