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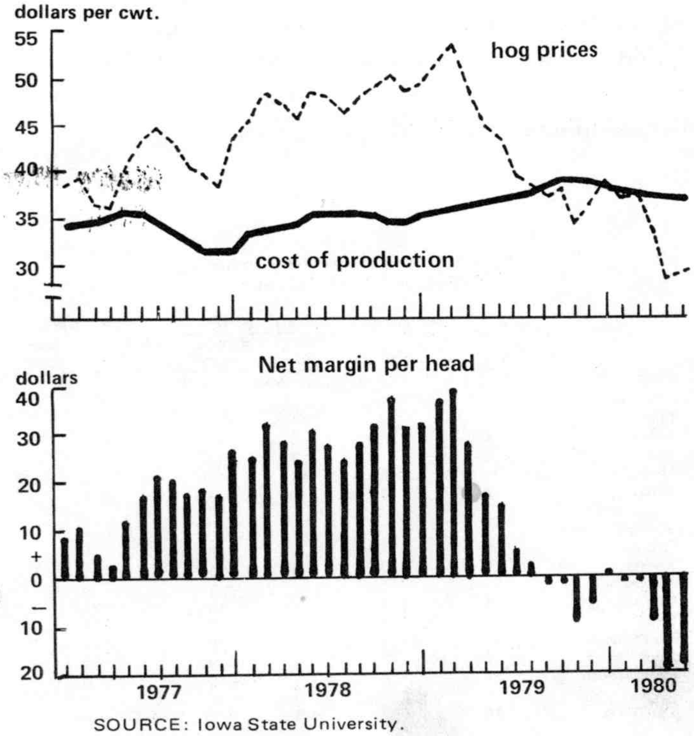
THE UPSWING IN HOG PRODUCTION HAS ENDED, according to the USDA's recent *Hogs and Pigs* report. The report shows that although the March-May pig crop was slightly larger than the year before, the number of sows farrowed during that period was down nearly 1 percent. Moreover, the inventory of hogs held for breeding purposes is down more than 8 percent from the year before and a roughly comparable decline is indicated in producers' farrowing intentions for June-November. These measures suggest pork production will start dipping below year-earlier levels this fall. In the meantime, however, per capita pork supplies will remain at a high level until the record inventory of hogs intended for market has cleared the slaughter channels.

The slight decline in March-May farrowings was the first year-to-year decline in seven quarters and only the third quarter in the past 4½ years to show such a decline. Each of those three declines occurred in the spring, and in all three cases the decline was less than 1 percent. Because of the large losses suffered by hog producers since last summer, the most recent downturn is likely to turn into a more normal cyclical contraction. Iowa State University budgets show that typical farrow-to-finish hog producers had losses of about $20 per head on hogs marketed in April and May.

Low hog prices resulted in large losses on hogs marketed this spring



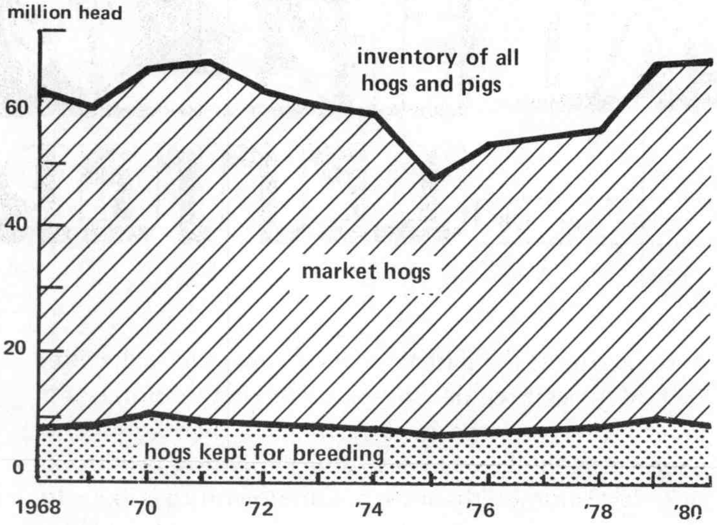
SOURCE: Iowa State University.

The last major cyclical downturn in hog production occurred in the first half of the 1970s. Sow farrowings recorded year-to-year declines in all but one quarter between the winter of 1971 and the fall of 1975. In conjunction with that downturn, annual hog slaughter fell from the 1971 peak of 95.5 million head to a 1975 cyclical low of 69.8 million head. Hog slaughter this year will surpass, for the first time, the 1971 peak. But the pending cyclical downturn is not likely to be as long or as pronounced as that during the first half of the 1970s.

Hog inventories are still at record levels, despite the downturn in sow farrowings this spring. Because the average number of pigs saved per litter rose to 7.30 from a low 7.18 the year before, the March-May pig crop was actually 1 percent larger than last year. The increase followed a 9 percent year-to-year gain in the December-February pig crop, contributing to a cyclical peak in the inventory of market hogs. According to the USDA, the June 1 inventory of market hogs—at 56.4 million head—is 3 percent larger than last year. Market hogs weighing 180 pounds or more number 7 percent more than a year ago, as do those weighing 120 to 179 pounds. Hogs weighing 60 to 119 pounds number 4 percent more than last year, while the inventory of market pigs weighing less than 60 pounds is unchanged from last year.

Evidence of the pending downturn in hog production is most vividly reflected in the smaller number of hogs held for breeding purposes. As of June 1, the inventory of hogs kept for breeding was down 8 percent from the nine-year peak set in 1979. The cutback in the breed-

Number of hogs kept for breeding is down, but market hogs are at an all-time high



ing inventory was somewhat larger than many analysts had anticipated, although sow slaughter in May had been at quite high levels.

The reduced breeding inventory corresponds closely with producers' intended cutbacks in farrowings during the rest of this year. These intentions suggest June-November sow farrowings will be down a little more than 8 percent from last year. Intentions among producers in the 14 major states point to a 9 percent decline in the June-August quarter and a 10 percent decline in the September-November quarter. Interestingly, the cutback now indicated for June-August is considerably more than the planned 3 percent reduction producers reported in March.

In district states recent trends in hog production have varied somewhat. The five district states account for 46 percent of the nation's hog inventory, with Iowa alone accounting for 25 percent. During the latter half of 1979, production in all five district states was on the upswing, with year-to-year gains in sow farrowings—ranging from 2 percent in Wisconsin to 37 percent in Michigan. Production has turned lower in Illinois and Indiana since last November, but continued to edge higher in the other three district states. These trends contributed to larger June 1 inventories of market hogs in all district states except Indiana.

Hog producers in all five district states have reduced the number of hogs kept for breeding purposes, with the declines ranging from 1 percent in Michigan to 10 percent in Indiana and Iowa. Except for Michigan, producers' intentions point to fewer sow farrowings in June-November. Indiana is the only district state, however, in which the cutback in farrowing intentions exceeds the 8 percent reduction nationwide.

Hog slaughter has been at record levels so far this year, a trend that will likely extend through this summer. In the first quarter, commercial hog slaughter was up 21 percent from the year before. Preliminary indications suggest second-quarter slaughter will show an increase of around 15 percent. Slaughter has recently turned seasonally lower, a characteristic that will likely be reflected for the overall third quarter. Nevertheless, the size of this winter's pig crop and the existing inventory of market hogs suggests third-quarter slaughter will likely be up 6 to 9 percent from last summer. During the fourth quarter, hog slaughter may start trending below year-earlier levels. Based on the spring pig crop, it appears as if fourth-quarter slaughter might be seasonally larger than in the third quarter, but still 1 to 3 percent less than the year before.

Projections for first-half 1981 slaughter are presently based on estimates of the inventory of hogs kept for breeding and the number of sows producers intend to farrow in June-November. Those estimates point to a June-November pig crop that is 6 to 8 percent smaller than the year before, assuming the number of pigs per litter continues to average higher than last year. First-half 1981 slaughter would therefore be expected to be down by a comparable amount or more. It should be noted, however, that some analysts doubt the breeding herd has been reduced as much as indicated in the USDA's latest survey of producers. Although the intended reductions in June-November farrowings are considered possible, the recent run-up in hog prices might lead to a smaller cutback.

Recent and prospective trends in hog production for selected states

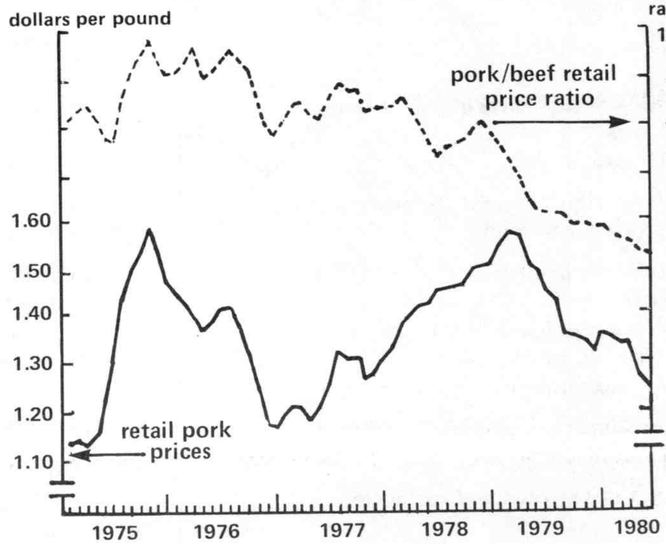
	Number of sows farrowed		June 1 inventory		Intended sow farrowings, June-November 1980
	June-Nov. 1979	Dec.-May 1980	Market hogs	Breeding stock	
	(percent change from year earlier)				
District states					
Illinois	10	−3	1	−3	−7
Indiana	14	−6	−6	−10	−13
Iowa	9	1	3	−10	−6
Michigan	37	8	13	−1	3
Wisconsin	2	7	11	−3	−7
Other major states					
Georgia	30	2	2	−8	−9
Kansas	4	−3	4	−13	−11
Minnesota	22	14	14	−2	0
Missouri	16	−6	−5	−14	−21
Nebraska	15	−4	−4	−19	−14
North Carolina	22	8	4	−8	−10
Ohio	20	−2	−2	−19	−16
South Dakota	18	−5	−7	−18	−8
United States	15	2	−3	−8	−8

Hog prices have recovered sharply from the six-year lows that prevailed most of this quarter. Prices at Omaha during the early part of this week averaged nearly $40 per hundredweight. That compares to less than $30 from late March through early June and is about the same as prices a year ago. If prices hold at this week's level, losses to most producers would be greatly minimized unless feed costs suddenly escalate. This could temporarily delay the liquidation needed to restore longer-run profitability to hog producers. However, it is doubtful that hog prices will be able to sustain this week's level for very long. Most producers will therefore probably continue to experience losses during the second half of this year.

Total meat supplies during the second half of this year are expected to remain quite large. Beef production will remain below last year's low levels, and poultry production, following an extended upswing, may also turn lower. But these declines will be offset by increased pork production. Per capita supplies of all meats this summer will likely about equal the abundant levels of a year ago. By the fourth quarter, however, the upswing in pork production will likely end, pulling per capita supplies of all meats below year-earlier levels. Although the strength in consumer demand may be weakened somewhat by the downturn in the overall economy, indications of tightening meat supplies will likely hold second-half prices in the livestock complex above the low levels of the first half. Nevertheless, hog prices this summer and fall are likely to range mostly in the mid- to upper-$30s per hundredweight, similar to the range that existed the year before.

Consumption of pork has been markedly encouraged by a downturn in retail prices for pork. USDA estimates for May show retail pork prices had declined to a three-year low of $1.24 per pound. In May of last year, retail pork prices averaged $1.49 per pound. Moreover, pork is favorably priced compared to beef. Although retail beef prices have also fallen below year-ago levels, the pork/beef retail price ratio in May was around .53, compared to .62 a year ago and the past five-year annual average ratio of .81. Although retail pork prices may turn upward this summer, consumer demand for pork will probably be supported by a continuation of the relatively low pork/beef price ratio. The relative decline in retail pork prices has also outpaced that for poultry. During the past couple of years, the pork/poultry retail price ratio averaged 2.15. So far this year, the ratio has averaged 1.95.

The decline in retail pork prices has made pork relatively inexpensive compared to beef



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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from: Prior period	Percent change from: Year ago
Index of prices received by farmers	1967=100	May	226	+ 0.9	- 8
Crops	1967=100	May	222	+ 2.3	0
Livestock	1967=100	May	231	- 0.4	-14
Index of prices paid by farmers	1967=100	May	275	+ 0.4	+10
Production items	1967=100	May	268	0	+ 8
Producer price index* *(finished goods)*	1967=100	May	241	+ 0.4	+13
Foods	1967=100	May	230	+ 0.6	+ 2
Processed foods and feeds	1967=100	May	233	+ 2.0	+ 5
Agricultural chemicals	1967=100	May	258	0	+23
Agricultural machinery and equipment	1967=100	May	255	+ 0.8	+12
Consumer price index** *(all items)*	1967=100	May	245	+ 1.0	+14
Food at home	1967=100	May	246	+ 0.5	+ 6
Cash prices received by farmers					
Corn	dol. per bu.	May	2.40	+ 1.7	+ 2
Soybeans	dol. per bu.	May	5.71	+ 1.4	-19
Wheat	dol. per bu.	May	3.62	+ 1.1	+13
Sorghum	dol. per cwt.	May	4.11	+ 3.8	+12
Oats	dol. per bu.	May	1.42	+ 2.9	+10
Steers and heifers	dol. per cwt.	May	63.50	0	-16
Hogs	dol. per cwt.	May	28.50	+ 1.8	-34
Milk, all sold to plants	dol. per cwt.	May	12.60	- 0.8	+10
Broilers	cents per lb.	May	23.6	+ 4.9	-20
Eggs	cents per doz.	May	47.0	- 9.8	-17
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	1st Quarter	133	+ 1.8	+ 3
Net realized farm income	bil. dol.	1st Quarter	28	-14.8	-23
Nonagricultural personal income	bil. dol.	May	2,030	+ 0.2	+10

*Formerly called wholesale price index.

**For all urban consumers.

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