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THE UPSWING IN HOG PRODUCTION, which was temporarily interrupted last spring, resumed this summer. The number of pigs farrowed on farms in the 14 major states during the June-August period rose 9 percent above the corresponding year-earlier level, according to the U.S. Department of Agriculture. The increase was nearly double the gain indicated by the farrowing intentions expressed by producers in June and contrasts with the slight decline in farrowings experienced during the March-May period of this year. Moreover, current intentions for the September 1977-February 1978 period portend further large increases in farrowings. These measures imply pork production will be substantially larger next year and that the recent decline in hog prices will likely be prolonged.

Hog inventories, which were equal to the year-earlier level in June, have increased as a result of the rise in the June-August pig crop. Hogs and pigs on farms September 1 in the 14 major producing states—which account for 85 percent of the nation's total—numbered 3 percent more than a year ago. The inventory of hogs held for breeding purposes was up nearly 8 percent, while that for market hogs was up 2 percent. Heavier-weight market hogs—those weighing 120 pounds or more—numbered 1 percent less than a year ago, while the inventory of those weighing less than 120 pounds was up more than 3 percent.

Among District states covered by the 14-state report (Michigan is not included) the expansion is most evident in Iowa where the inventories of breeding hogs and market hogs are up 15 and 4 percent, respectively, from last year. In contrast, Indiana farmers have 9 percent fewer breeding hogs and 5 percent fewer market hogs. In Illinois and Wisconsin breeding inventories are up from a year ago, while market hogs are down.

Farrowing intentions suggest the expansion in hog production will continue into next winter. Producers indicated they now intend to boost September-November farrowings 10 percent above the year-earlier level, up from their June intentions of a 4 percent increase. Intentions for the December 1977-February 1978 period point to an 11 percent rise in sow farrowings. The large increase in farrowing intentions reflects the recent decline in corn prices which has reduced the incentives for cash sales of corn by crop farmers and heightened the profit expectations of hog producers. Indicative of this, the hog-corn price ratio rose to an unusually high 25.6 in August, up from 16.1 a year ago.

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Hog slaughter has trended seasonally higher in recent weeks, a general trend that is expected to prevail into the first part of next year. However, year-to-year gains have narrowed appreciably from the 12 percent recorded in the first half of this year. Based on preliminary estimates of federally inspected slaughter, it appears third-quarter slaughter will only nominally exceed that of 1976. Although rising seasonally, fourth-quarter slaughter is expected to fall short of last year's level, reflecting both the abnormally heavy slaughter in the fourth quarter of 1976 and the temporary dip in pigs farrowed during the spring of this year.

Preliminary indications point to large increases in hog slaughter next year. First-quarter 1978 slaughter may be up 10 percent or more from that of this year. Moreover, the current farrowing intentions for the September 1977-February 1978 period suggest roughly comparable year-to-year gains in slaughter will prevail through the summer of 1978. Increases of this magnitude, should they materialize, indicate that next year's hog slaughter would be the largest since the 1971 record and that hog prices will experience substantial downward pressures.

Hog prices have trended lower from the late-August peak of around \$45.75 per hundredweight. Barrow and gilt prices at seven major markets averaged about \$41.25 last week, about \$1 above the rapidly declining level of a year ago. The downtrend in prices will probably continue into the early months of next year. The seasonally larger slaughter volume for the fourth quarter will likely cause prices to average in the middle to high \$30s per hundredweight, considerably above the October-December 1976 average of \$34.25. In contrast to historical trends, first-quarter 1978 prices will probably move even lower—perhaps into the low to mid-\$30s—reflecting prospects of a further buildup in pork supplies. These potential prices could result in financial losses for many producers, despite the likelihood of low feed prices.

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