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Federal Reserve Bank of Chicago --

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Agricultural Letter

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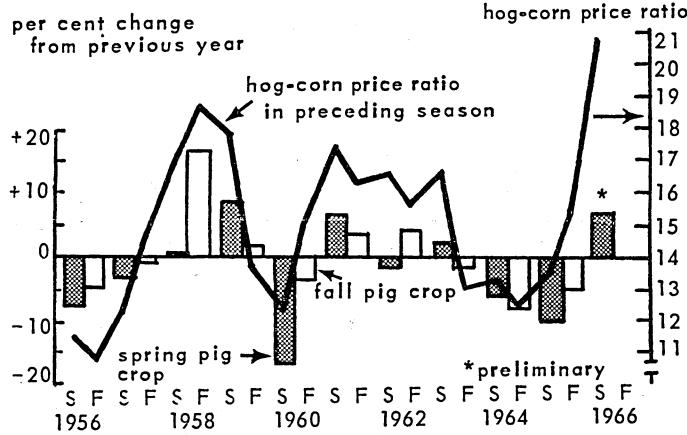
Number 837

THE PIG CROP REPORT for December 1 gives further evidence of the beginning of a cyclical upswing in hog production. According to the recent survey made by the U. S. Department of Agriculture, farmers intend to increase the number of sows farrowing in the spring season (December through May) 6 per cent above the 1965 period. This would mean an increase of 7 per cent in the spring pig crop to about 46 million head, taking into consideration the upward trend in average litter size.

The fall pig crop (June-November) is now estimated at 5 per cent less than last year. A larger decline had been indicated by an earlier survey, but an upward revision in farmers farrowing plans and a record number of pigs saved per litter resulted in the smaller than expected cutback.

This turnaround in hog production is no surprise to most observers. However, in view of the relatively high hog prices and a hog-corn ratio which was substantially above average during the summer and fall, a larger increase during the spring quarter would not have been unexpected.

Farmers Respond to Favorable Ratio

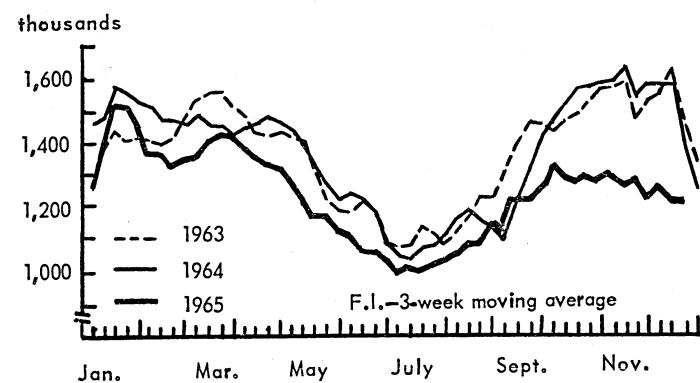


Hog prices rose sharply from about \$18 per hundredweight in May to a summer high of about \$25. Although hog prices typically decline during the latter months of the year in response to seasonally large slaughter supplies, 1965 has been a dramatic exception. From about mid-October through the third week in December, prices of barrows and gilts at Chicago rose from less than \$24 per hundredweight to more than \$28—approaching the record levels which followed World War II. Slaughter of hogs under Federal inspection during November, however, declined about 4 per cent from the preceding month and was about 20 per cent below November 1964. During December, weekly slaughter under Federal inspection has averaged more than 30 per cent under a year ago.

While hog prices have increased sharply in recent months, the price of corn has declined slightly, reflecting the record harvest. As a result, the hog-corn price ratio—one measure of the profitability of producing hogs—has risen substantially. During 1963 and 1964, this ratio fluctuated around 11 and 14. The average for the past four months, however, has been above 20.

Distant farrowings can still be altered, and with strengthening hog prices in December and with abundant supplies of corn, the spring pig crop may indeed show a larger increase than is presently indicated. If the spring pig crop should be larger than is now indicated, the increase will probably occur in the late end of the crop, which will be marketed during the latter part of 1966.

Hog Slaughter Declines Sharply



Marketings during the next several months are likely to continue below a year earlier, although by a smaller margin than in recent weeks. The early December survey indicated that the number of hogs weighing more than 120 pounds on farms in the 10 major hog producing states was down about 14 per cent from a year ago. Those weighing under 120 pounds were about 7 per cent fewer. The bulk of these hogs will be marketed during the next six months.

Hog prices through the first half of 1966, therefore, are expected to average above year-earlier prices, although the seasonal price rise during the second quarter is likely to be much smaller than that experienced during 1965. Larger pork supplies, however, are in prospect after midyear if farmers winter farrowing plans are realized. This is expected to result in correspondingly lower prices.

Roby L. Sloan
Agricultural Economist