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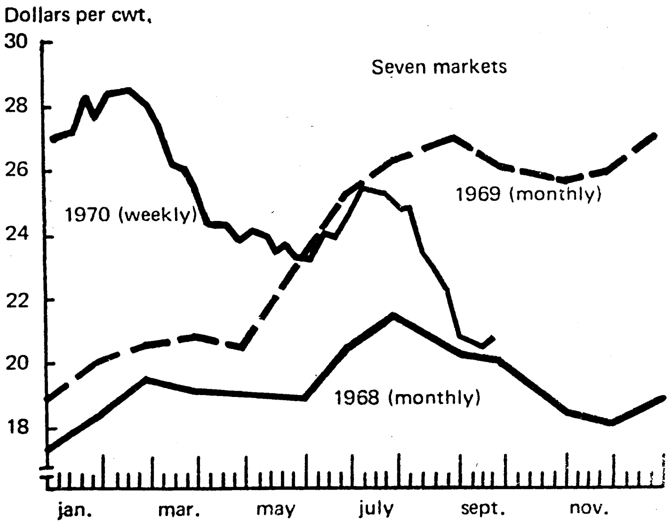
HOG PRICES HAVE DROPPED SHARPLY since midyear. Prices of barrows and gilts at major markets are currently around $20 per hundredweight—nearly a fifth below July levels, and a fourth less than the comparable period a year ago.

The lower prices reflect a substantial increase in meat supplies, especially pork. Federally-inspected hog slaughter has averaged 7 percent above year-ago levels since midyear and has increased even more rapidly in recent weeks. Competitive poultry supplies have been substantially larger, too, averaging around 11 percent greater than a year ago, since July. Beef production has been about the same as a year ago.

Hog Prices Approach Two-Year Low



Hog marketings are certain to continue well above year-ago levels during the remainder of 1970. Hogs intended for market in the ten major hog producing states numbered 13 percent greater than a year ago according to the Department of Agriculture's September 1 pig crop survey. The bulk of the increase will reach market weight toward the end of 1970.

Apparently, farmers, although scaling down previous plans, intend to continue expanding hog production into 1971. The number of hogs kept for breeding purposes was 11 percent greater than a year ago, as of September 1. This is down from a 13 percent indicated increase on June 1. The number of sows farrowed during June through November will be 15 percent greater than last year. This is down slightly from June 1 intentions. An increase in sows sold for slaughter also points toward some cutbacks in earlier production plans. Sow sales at seven major markets are averaging around 12 percent of total hog marketings, compared to about 11 percent last year.

Despite signs of some slowing in the expansion of hog production, prospective marketings and farrowings still portend sizable increases in production and further weakening in prices well into 1971. By year's end, prices at major markets could drop to the lowest levels in two years. December futures contracts for hogs are now trading around $19 per hundredweight.

Profits of hog producers are being squeezed by higher feed costs as well as lower market prices. The prospect of a substantial decline in corn yields due to blight disease has caused an unexpectedly sharp increase in corn prices. The hog-corn price ratio—a rough measure of the profitability of hog raising—has dropped from nearly 20 at midyear to less than 15. This is the lowest level since 1967. However, the level of hog and corn prices as well as the ratio of these prices is important in assessing hog feeding profitability. When hog prices are at relatively high levels, as in the current situation, a low hog-corn ratio will result in greater profits than the same ratio when hog prices are at relatively low levels.

University farm management budgets indicate the average midwestern hog feeder will break even at current price levels (cover all costs including labor and overhead) at a hog-corn ratio of around 14. This ratio is now being approached and may prompt many producers that usually feed their corn crop to hogs to sell corn for cash rather than feeding it.

Farmers in areas where corn blight damage has been severe, however, may choose to purchase feeder animals—hogs and cattle—to utilize their damaged crop. Blighted corn is harvested at higher moisture levels and requires added expense in drying and handling to make it storable. Furthermore, it is subject to substantial discounts from the usual Number 2 grade price basis because of excess moisture, presence of mold, and possible impaired nutritive value. Thus, for farmers with large supplies of damaged corn, the most profitable alternative may be to feed it, rather than sell it on the cash market.

The greatest financial hardship resulting from declining hog prices and rising corn prices likely will fall on specialized commercial hog raisers with large investments in confinement feeding facilities. Favorable hog prices of the past several years have encouraged such investments. These farmers are more likely to rely on purchased feed rather than homegrown corn. Because of their large fixed cost in facilities, they are less likely to shift in and out of production. Lower feeder pig prices this fall, however, may partially offset higher feed costs for those producers who purchase rather than raise their own feeder pigs.

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