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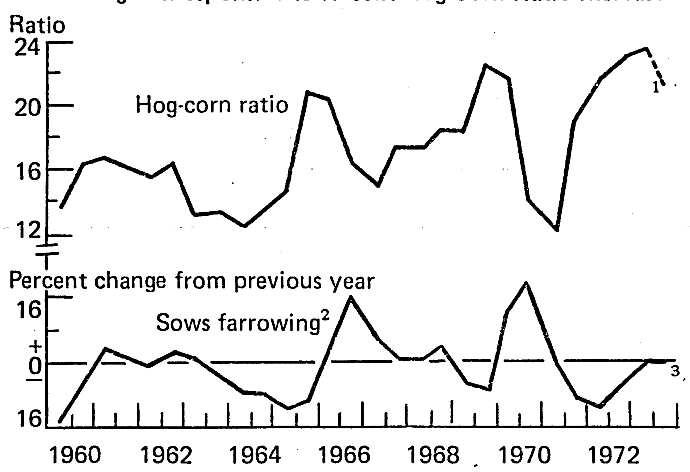
PORK PRODUCERS continue to limit expansion plans despite recent record high prices. Producers in ten Corn Belt states plan to farrow 1 percent fewer sows in the September-November period than indicated in June according to a recent U. S. Department of Agriculture report. The number of sows farrowed during the June-August period were also 1 percent below producers' June indications. As a result of the reduced farrowing rate, and compounded by a reduction in pigs surviving per litter, the 1973 second-half pig crop (June-November) is expected to be about 3 percent below that of 1972.

The inventory of hogs and pigs on farms September 1 was up slightly in the ten-state area. Hogs kept for breeding purposes were up 1 percent over the year-ago date. Essentially the same number of hogs and pigs were being fed for market this September 1 as on the same date last year. The ten states typically account for three-quarters of total U. S. hog production.

Producers' reluctance to expand hog production during the second half of 1972 and throughout 1973 represents a marked divergence from past responses to price changes. In past years, production was usually increased or decreased in relatively close correlation with changes in the hog-corn ratio (a rough measure of profitability). Historically, a "high" hog-corn ratio triggers decisive action by pork producers. On the two previous occasions that the hog-corn ratio exceeded 20 (1965 and 1969), producers held back substantial numbers of sows for farrowing in the next six-month period. In both cases, farrowings peaked within about a year after the hog-corn ratio hit 20.

Farrowings Unresponsive to Recent Hog-Corn Ratio Increase



[1]Estimate based on third-quarter actual.
[2]December-May and June-November.
[3]Forecast based on September 1 Hogs and Pigs Report.

Although the hog-corn ratio has been well above historical levels since the first half of 1972, producers have yet to increase farrowings. The number of sows farrowed actually declined during the latter part of 1972, and has shown essentially no change during 1973. Producers now indicate that they plan to expand production only marginally, approximately 1 percent, during the first part of 1974.

Several factors are responsible for the present lag in expansion. Farmers in the Corn Belt had great difficulty in harvesting their crops last fall. Some may have been more concerned with harvesting corn and soybeans than expanding hog production. First-half 1973 farrowings were affected by extremely bad late-winter/early-spring weather conditions. Other market externalities, such as the March 29 price freeze on meat, the consumer boycott, and a sharp increase in feed cost also influenced producers' decisions to limit expansion.

The past summer was marked by chaotic marketing conditions. While hog marketings have been down 9 percent, a factor that has had considerable effect on prices, much of the price strength came when the freeze on pork was lifted on July 20, while beef prices remained subject to the freeze. Hog price levels between July 20 and September 10, when the beef price freeze was lifted, did not reflect long-term, free market influences, and apparently many hog producers again chose to moderate expansion plans.

Higher prices for both hogs and feed mean that considerably more risk is involved in feeding operations. Farmers may opt to sell corn this fall rather than feed it to hogs, and risk the prospect of lower hog prices at a later date. Given the present tight credit conditions, farmers may also be somewhat reluctant to borrow heavily to finance a hog feeding operation.

Increased specialization in hog production is another factor that may be affecting current expansion rates. In the past, increased production came about when hundreds of producers increased their hog output. At present, however, expansion comes, in the main, from large confinement operations. Tight credit conditions and environmental protection laws may be inhibiting growth of these larger production facilities.

Hog marketings will probably continue at lower rates than the previous year throughout most of the remainder of 1973. Marketings may pick up in December and early 1974, but even then only equal or increase marginally—2 or 3 percent—above the previous year's level. With marketings of this dimension, past price/marketing relationships would indicate that prices should stay in the same range for the next several months. However, possible shifts in consumer demand patterns along with the recent jump in the level of cattle marketings will probably counter any price increase the rest of this year. Whether or not consumers accept current price levels that are—depending on the cut—15 to 50 percent higher than a year ago, is a crucial question, and the key to future hog prices.

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