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HOG OUTLOOK

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Hog producers suffered large losses or fared reasonably well in 1980 depending on the time of production and the purchase of feeds. Producers suffered large losses in the first half of the year as hog prices declined to less than $30 in April and May. Those that became discouraged and sold feeder pigs rather than finishing them or culled breeding stock heavily during the months of lowest prices were hit hardest. Producers fared better in the second half of the year, especially if feed requirements had been purchased before corn prices increased this summer.

Hog prices are expected to increase in 1981 because producers adjusted their breeding inventories downward in response to losses in 1980. These losses likely caused many small to medium sized producers to cease production. However, the larger volume operators are more committed to continuing production. They may make only small downward adjustments in their output unless their financial losses in 1980 were so severe that they were forced to cease operation. Much of the higher returns in 1981 are expected to be offset by higher production costs, especially higher feed costs.

PRODUCTION COSTS INCREASE SHARPLY

Feed costs rose sharply during the second half of 1980 as it became apparent that yields of the major feed grains would be reduced by this summer's dry, hot weather. Grain prices will be substantially higher in the months ahead than they were a year earlier, but not much higher than current prices. Commercial protein supplements will also cost more, but the increase may not be as sharp as for grain. Total feed costs for the average farrow-to-finish operator may increase to $37 per hundredweight of hogs sold in 1981, up from $30 in 1980.

Other cash costs—medicine, fuel, repairs, labor, etc.—averaged about $14 in 1980 and may increase to $15 in 1981. Fuel and energy prices increased nearly 39 percent in 1980, more than other production items. Prices of other production items increased about 10 percent in 1980, and a similar increase is expected in 1981.

Consequently, total cash costs may average near $52 per hundredweight in 1981, up from $43 in 1980. Total production costs, which include cash costs as well as noncash costs such as operator labor and management and depreciation, are even higher. The total costs for new entrants to hog production with modern facilities may exceed $60 in 1981.

Producers reacted to the severe financial losses in the first half of 1980 by slaughtering more sows and boars than they did in 1979 and

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adding fewer gilts to the breeding inventory. Commercial sow slaughter in the first half of 1980 exceeded year-earlier levels by 30 percent and boar slaughter was up 35 percent. Consequently, the breeding inventory declined from year-earlier levels. By June 1, 1980, the U.S. breeding inventory was estimated to be 8 percent smaller than a year ago. Producers continued to liquidate through the summer so the breeding inventory on September 1, 1980, in the 14 major hog producing States was 5 percent smaller than on June 1 and 10 percent smaller than a year earlier.

Breeding inventories this September 1 were down 10 percent or more in the Southeast, the eastern Corn Belt, Kansas, and Nebraska. Corn prices have been higher in the Southeast and the eastern Corn Belt, so producers in these areas that grow their own corn may have considered selling corn directly rather than feeding it to hogs. Kansas and Nebraska were hit extremely hard by the heat and drought which reduced local feed supplies.

Producers in Minnesota, South Dakota, Wisconsin, and Iowa reduced their breeding inventories 6 percent or less. Producers in these areas have experienced corn prices below the national average, so their feed costs have not been as high. However, there are still many hog producers in these States where the hog operation is supplementary to cash grain production. These producers have more flexibility in adjusting hog production to hog and feed prices. If corn prices rise above the $3-per-bushel average of October, more of these producers may opt for cash grain sales rather than hog production and reduce breeding inventories further.

Paralleling the decline in breeding inventories was a decline in the number of sows farrowing. Farrowings in the 14 States were up 3 percent from year-earlier levels during December 1979–February 1980, but fell 3 percent below a year earlier during March–May. This was the first time since the March–May quarter of 1978 that farrowings fell below year-earlier levels. Farrowings were down 10 percent during June–August. Producers also indicated September–November farrowings may decline 10 percent and December–February farrowings 7 percent.

As a result of the decline in farrowings, the September 1, 1980, inventory of hogs and pigs was 3 percent smaller than last year. The breeding inventory declined 10 percent and the market inventory dropped 2 percent.

HOG SLAUGHTER EXPECTED TO DECLINE IN 1981

Hog slaughter through the first half of 1981 is largely determined by this time and current indications are that it will be below year-earlier levels. Slaughter through the first quarter of 1981 will be drawn primarily from the September 1, 1980, market inventory and second quarter slaughter will come from the September–November pig crop.

Hog slaughter under Federal Inspection in the first 6 weeks of the fourth quarter was down 4 percent from the same period a year ago. Slaughter is expected to remain below year-earlier levels for the rest of the quarter, so commercial slaughter for the fourth quarter may total near 24.3 million head. Since slaughter was up sharply early in the year, the annual 1980 commercial hog slaughter will total about 95.8 million head, 7 percent larger than 1 year ago.

Pork production in the fourth quarter is expected to be near 4,125 million pounds, down 5 percent from a year ago. Annual 1980 production would be a record 16.3 billion pounds, up 7 percent from 1979 and 23 percent from 1978.

A 10-percent reduction in the size of the June–November pig crop will result in a similar reduction in first-half 1981 hog slaughter. However, slaughter in the second quarter of 1981 may be down 10 to 15 percent from a year earlier because of an expected decline in breeding stock slaughter. Aso, the September–November pig crop may be down more than 10 percent if the heat of the summer reduced the fertility of boars causing smaller litter sizes.

HOG PRICES NEAR $50 IN EARLY 1981

The decline in hog slaughter from the levels that were seen this spring has resulted in sharply higher hog prices. Barrow an gilt prices at the markets averaged $46 per cwt in the third quarter, up from $31 in the second quarter and $38 a year earlier. These higher hog prices this summer were above producers cash production costs.

Hog prices averaged $48 in October as slaughter remained below year-earlier levels. Hog prices will probably be under pressure of large marketings of hogs and broilers in November, but increase again in December. For the quarter, hog prices are expected to average $45–$47, up from $36 a year ago. For all of 1980, hog prices will average about $40, down from $42 in 1979 and $48 in 1978. Net returns to hog producers are estimated to average about $3 below cash production costs in 1980.

Hog prices are expected to average near $50 per cwt. in the first half of 1981. These prices would be nearly $16 above the prices received in the first half of 1980. But, in spite of these higher hog prices, hog producers may still find that returns from hog production are near the cost of production because of higher feed costs. However, if slaughter in the second quarter of the year is reduced because of fewer pigs saved per litter during the September–November quarter, hog prices could be even higher.

DECEMBER–MAY FARROWINGS DETERMINE SECOND-HALF 1981 OUTPUT

Pork production in second-half 1981 is much less certain at this time. Producers still have time to change their production plans in response to changing costs and returns. The slaughter that materializes in the second-half of the fourth-quarter of 1980 will have an impact on hog prices and, consequently, breeding decisions. If hog slaughter were to increase sharply in November and hog prices decline to the low $40's, producers may revise their production plans downward because returns would be below cash costs. Further increases in feed costs may spur more liquidation, especially for hog-corn producers, where the hog operation doesn't account for a large proportion of farm income. These producers may find selling corn an attractive option to feeding corn to hogs.

The first indication of potential hog slaughter in the second half of 1981 was given by producers on September 1. They intended to decrease December–February farrowings by 7 percent from a year ago.

If these farrowings materialize, slaughter in the third-quarter of 1981 would be down by a similar percentage.

The March–May pig corn crop will supply the bulk of the fourth-quarter 1981 hog slaughter. This pig crop will likely be down 5 to 10 percent, since producers are expected to have little incentive to expand their breeding inventories until returns exceed cash costs. So, expansion of the breeding inventories may not occur until the second-half of 1981.

If the March–May pig crop declines 5 to 10 percent, hog prices are expected to average near $60 per cwt. in the second-half of next year. These prices would exceed cash production costs for most operators, but may be near the breakeven point for producers that are paying for new facilities. Producers with older, paid-for facilities will likely receive a positive return to their labor and management.

HIGHER RETAIL PORK PRICES LIKELY IN 1981

After declining steadily during the 5 previous quarters, retail pork prices increased 15 percent this summer. Further increases in pork prices are expected for the rest of 1980 and in 1981.

Retail pork prices began to decline in the second-quarter of 1979 as larger supplies of pork came on the market. Prices averaged $1.48 per pound in the second-quarter of 1979, down from $1.56 in the previous quarter but still 6 cents above prices a year earlier. Prices continued to decline in the second-half of 1979 and averaged 8 cents per pound below year-earlier levels. For 1979, pork prices averaged $1.44 per pound, nearly the same as a year earlier.

Pork prices continued to decline through the second-quarter of 1980, when there was a record second-quarter pork production, large supplies of competing meats, a sluggish economy, and seasonal weakness in pork demand. Second-quarter 1980 pork prices averaged $1.25 per pound, 23 cents below a year earlier. Pork prices rose sharply in the second-half of the year and may average near $1.50 per pound, about 16 percent above the first-half level. But retail prices in 1980 will average about $1.40 per pound, 3 percent below the 1979 level.

Further increases in pork prices are expected in 1981 as supplies of pork available for consumption decline. Real growth in consumer incomes and inflation will also boost prices.

Consumption of pork is expected to decline to around 62 pounds per person—retail weight basis—in 1981, down from 69 pounds in 1980, but still about 2 pounds above the 1976–79 average. Beef production may be up slightly next year, but population growth may result in less beef consumer per person. Poultry consumption may increase slightly, but not enough to offset the reduced red-meat consumption, so per capita red-meat and poultry consumption may decline about 3 percent in 1981.

The decline in meat supplies, along with growing consumer incomes and inflation, is likely to cause retail pork prices to increase 25 percent or more in 1981 from 1980 levels. Declining supplies of nonfed beef, which compete very closely with pork products, may result in large price increases for processed meats which would be reflected in pork prices. This contrasts with the previous hog cycle when declining pork production in 1975 was largely offset by increased production of cow beef and nonfed steer and heifer beef. So retail pork prices are expected to increase faster than in 1975.