Federal Reserve Bank of Chicago - - Agricultural Letter

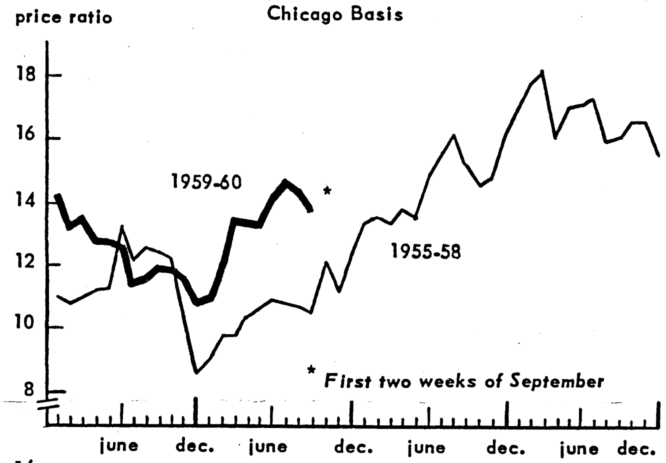
September 23, 1960

Number 576

The pig crop report for September 1 gives further evidence of the beginning of a cyclical upswing in hog production. The number of sows intended to farrow in ten Corn Belt states in the September-November period is 3 per cent more than a year earlier and in the December-February period is 4 per cent higher. These year-to-year increases follow decreases for only three consecutive quarters and make the cyclical downswing in 1960 very short compared with downswings of a year and a half to two years duration in previous postwar hog cycles.

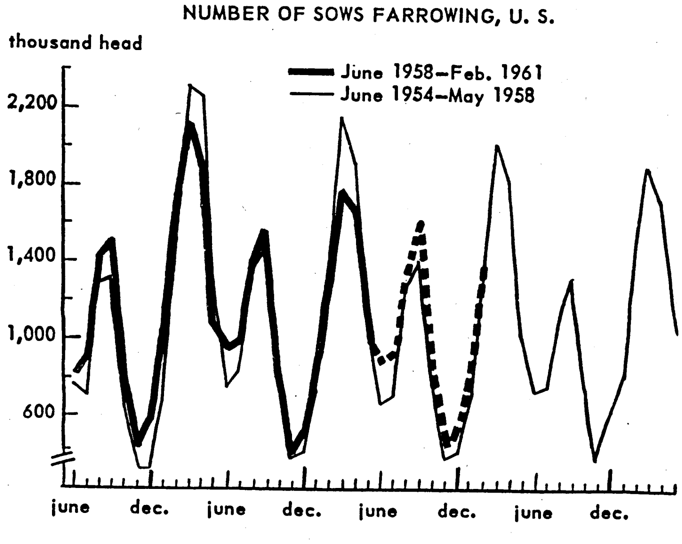
This turnabout in hog production has come as no surprise to most observers. However, in view of the relatively high hog prices and a hog-corn ratio above the long-term average during the summer, a larger increase in the winter quarter would not have been unexpected. Perhaps the large losses of pigs due to severe winter weather the past two years have discouraged those hog producers who had shifted to early farrowings. Thus, a larger increase might be forthcoming during the milder weather in the latter half of the spring period.

HOG-CORN RATIO 1/
Chicago Basis



1/ Number of bushels of corn equal to 100 lbs. of hog, live weight.

NUMBER OF SOWS FARROWING, U. S.



Hog prices and the hog-corn ratio climbed last spring in a manner similar to the previous hog cycle in 1958. Should hog producers follow through with the intended increase in farrowings, hog prices would not be expected to continue upward through the middle of 1961. This would present a sharp contrast to the rise in 1957, the second year of the previous hog cycle. Even if there is only a moderate increase in the number farrowed in March-May, 1961 (the last half of the spring pig crop), hog prices next year will tend to be depressed by competition from larger beef supplies.

One of the most surprising events this summer was the sharp decline in hog prices during August. In the week ending August 6, the daily average price of 200-220 pound hogs at Chicago reached a peak of $18.58 per hundredweight, $4.00 higher than a year earlier. In the week ending September 3, prices had dropped to $15.66, a decline of nearly $3.00 at the time many "experts" had expected hog prices to reach a top of $20.00 or $21.00. Since the beginning of September, hog prices have risen nearly $1.00.

The explanation for this unexpected decline is to be found in the pattern of marketings during July and August. The estimated number of hogs slaughtered under Federal inspection in the United States dropped 11 to 14 per cent below last year's levels in the last two weeks of July and the first week of August. At the same time, the average live weight of these hogs ranged from 4 to 7 pounds above the year-earlier weights. The last two weeks of August, however, saw hog slaughter climb to within 3 or 4 per cent of the year-earlier levels and average weights dropped to within 1 pound of a year earlier in the first week in September. By the middle of September, slaughter was again running 10 to 11 per cent below year earlier.

This evidence indicates many hog producers were planning their marketings in expectation of higher hog prices at the end of August. Furthermore, storage stocks of pork were at very high levels at the beginning of August. Thus, it appears that the forecasts based on figures from the pig crop report were used by many people in making their plans which in turn made the forecasts wrong.

Research Department