Federal Reserve Bank of Chicago - - Agricultural Letter

October 1, 1965

Number 824

THE HOG CYCLE appears to be on the threshold of an upswing in production. Corn Belt farmers, who account for about three-fourths of the nation's production, indicated that they intend to make progressively smaller cutbacks, compared with a year earlier, in the number of sows farrowing over the next six months. About 5 per cent fewer sows are expected to be farrowed during the September through November period, but the number farrowed in the December through February period is estimated to be about the same as during the corresponding year-ago period, according to the recent U. S. Department of Agriculture estimates. This would be in contrast to the rather sharp cutbacks in farrowings during the past two years.

Progressively Smaller Cutbacks Are Being Made

	Summer farrowings (June-Aug.)	Fall farrowings (Sept.-Nov.)	Winter farrowings (Dec.-Feb.)
	(per cent change from a year earlier)		
Indiana	-18	-7	-3
Illinois	-10	-8	—
Iowa	- 6	—	+4
Wisconsin	- 9	-5	-1
10 Corn Belt states	-10	-5	—

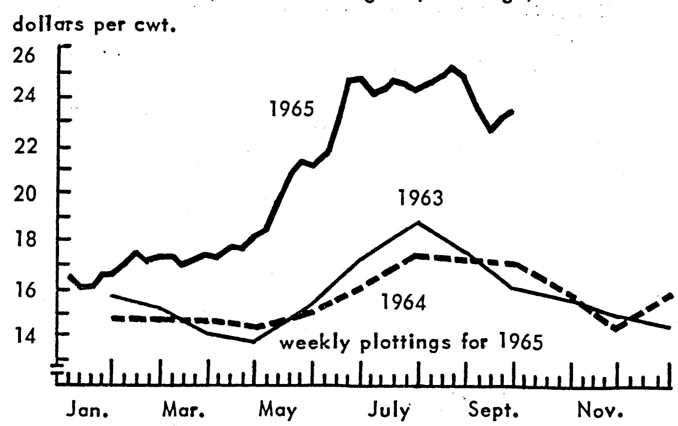
The current downswing started with a relatively small reduction in the number of sows farrowing during the fall of 1963. Continued low prices for hogs during 1964 caused sharper cutbacks in 1964 and thus far in 1965—ranging from 7 to 10 per cent.

The apparent start of a turnabout in hog production has come as no surprise to most observers. In view of the relatively high hog prices and a hog-corn ratio well above the long-term average during the summer months, an increase in farrowings during the winter quarter would have been expected. Sow prices, however, have averaged better than $20 per hundredweight since about mid-year and many farmers are apparently cashing in on these high prices. Many country bankers in the Seventh District report that farmers are marketing sows but are holding gilts for breeding. Although the number of sows marketed during the past couple of months has been well below a year ago, the number of sows as a per cent of total marketings has been about the same as in 1964.

Hog producers have considerable incentive to expand production. From about mid-March to the first part of September, hog prices at Chicago rose from slightly less than $17 per hundredweight to over $25. The normal seasonal rise during this period is about $3. Although prices have declined about $2 per hundredweight during September in response to seasonally larger marketings, they are still about $6 per hundredweight above year-earlier levels.

As a result of the sharp rise in hog prices, the hog-corn price ratio—one measure of the profitability of producing hogs—has shown an equally impressive rise. During 1963 and 1964 the hog-corn price ratio fluctuated around 11 to 14. Since March, however, the ratio jumped from about 13 to well above 19—the highest in more than six years. Although the hog-corn price ratio has declined slightly in recent weeks it is still well above the level that has resulted historically in an expansion of hog production. Furthermore, it is likely that this ratio will remain at relatively high levels through a good part of next year.

Hog Prices Continue Well Above Year-ago
(barrows and gilts, Chicago)



Marketings during the next several months, while increasing seasonally, are likely to average well below year-earlier levels. The early September survey indicated that the number of hogs weighing more than 120 pounds on farms in the 10 major hog producing states was down about 7 per cent from a year ago. Those weighing under 120 pounds were down about 12 per cent. The bulk of these hogs will be marketed during the next six months. Pigs from the estimated 5 per cent fewer sows that are bred and intended to farrow during September through November would continue to hold marketings well under the 1965 level through mid-1966. Prices, therefore, while possibly declining somewhat further in response to larger seasonal supplies, are expected to remain well above year-earlier levels.

In view of the expected favorable returns and the present trend in farrowings, the spring pig crop (December-May farrowings) could be increased sharply from a year ago. However, this would not affect marketings until after mid-1966.

Roby L. Sloan
Agricultural Economist