281.9
F313
DC BRANCH
S D

Federal Reserve Bank of Chicago - -

Agricultural Letter

March 27, 1970

Number 1058

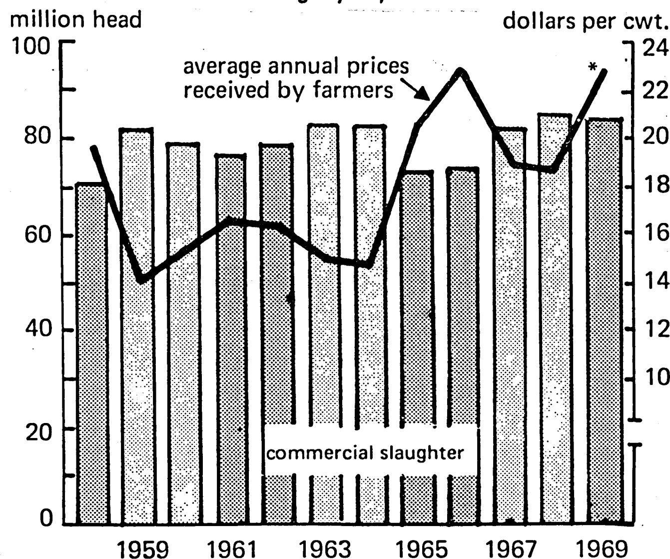
HOG PRODUCTION is increasing according to a recent Department of Agriculture survey. Although there were 1 percent fewer swine in the ten major hog producing states than a year earlier, the number of pigs born in December through February was up 4 percent and the number of sows expected to farrow in coming months is substantially above a year ago. Farrowings during March through May are expected to be up 7 percent and in June through August up 8 percent.

Hog production dipped in 1969, despite favorable prices. In part, the decreased production last year may be explained by a greater incidence of swine disease and breeding problems due to adverse weather. Also, record high interest rates and the reduced availability of money may have discouraged investment in capital equipment necessary for expansion by large, specialized producers. Furthermore, the attractive off-farm employment opportunities that have existed for the past several years probably have reduced the number of small and part-time farmers that raise hogs.

Hog price and slaughter statistics indicate that the "hog cycle" was operative during the 1960s. Traditionally, the so-called hog cycle lasts approximately four years- two years of low production and high prices followed by two years of increased production and declining prices. This cycle is a result of the psychology of the producer and the physiology of the hog. Producers do not respond immediately to a change in price. Only after prices have remained high for a year or so do producers begin breeding more sows. And then about one year is required to produce a hog from breeding to slaughter.

Hog prices and production fluctuated in the usual four-year cyclical pattern during 1965-68 but on a higher plane. Prices, although bolstered by strong demand, trended down during most of the latter two years of the period and were well below the peak of the cycle. Some farmers, as in past cycles, probably responded by selling off their sow herd and curtailing production.

The Hog Cycle, 1959-69



*1969 price average for 10 major hog producing states only.

Reflecting reduced production and increased demand, prices farmers received for hogs rose sharply in 1969, averaging over 20 percent above the year before. Prices have also averaged higher than year-ago levels thus far in 1970–prices received in February, at $27.40 per hundredweight, equaled the highest price on record in 60 years. Prices are expected to remain strong during the first half of the year. But increased hog marketings, larger supplies of competing beef and poultry, and a slowdown in the general economy are apt to put considerable downward pressure on hog prices in the latter half of the year. Futures quotations suggest prices at Chicago about $3 per hundredweight below year-ago levels in the latter part of this year but, at more than $20 per hundredweight, still at a fairly profitable level for most producers.

PRICE SUPPORTS for manufacturing milk will be boosted from $4.28 to $4.66 per hundredweight beginning April 1. The move to the higher support level is surprising in view of the prospects for increased milk production this year at the same time that demand is slackening.

Total consumption of dairy products in 1969 dipped about 1 percent with consumption per person dropping to a new low about 2 percent under 1968. The reduced level of consumption resulted from a number of factors, including the continued emphasis on dietary considerations and a somewhat slower rise in consumer incomes last year. But most of the decline probably can be attributed to the 5 percent increase in dairy prices over the year before. According to Department of Agriculture estimates, a 10 percent increase in milk prices is usually associated with around a 3 percent decline in consumption.

Commodity Credit Corporation purchases last year while sizable were reduced from the previous year. About 4.6 billion pounds (on a milk-equivalent basis)–4 percent of production–was removed from the market. But the reduced purchases resulted from smaller imports and curtailed production.

Despite reduced production, dairy farmers' gross incomes in 1969 were boosted to record levels by the higher milk prices. Expenses were also higher but net returns were generally improved from the 1968 level.

Milk production, which has been on an uptrend in recent months (exceeding the year ago level in six of the past seven months), is apt to be stimulated by the higher support prices. Also, a slowing economy resulting in fewer employment opportunities could reduce the exodus from dairying. This would increase milk output, while tending to dampen demand for dairy products. Thus, Commodity Credit Corporation will probably find it necessary to remove increased quantities of dairy products from the market in order to maintain prices.

Dennis B. Sharpe
Agricultural Economist

...TURE
...BRARY
... 1970
CURRENT SERIAL RECORDS