Production, Prices and Profits

Address by Ezra Taft Benson, Secretary of Agriculture, United States Department of Agriculture, Before the National Swine Industry Committee, Sherman Hotel, Chicago, Illinois, January 31, 1956, at 10:00 a.m.

This has been a difficult season for hog producers They have come through a season when hog prices have been substantially below production costs. They have in some cases sold their corn crop on the hoof for less than it was worth in the crib. They have seen hog prices decline markedly while retail prices of select pork cuts declined little. They have watched their profits turn into losses while processing and marketing margins have increased.

Hog producers have suffered a substantial decline in gross receipts from farm marketings, while helplessly watching costs buy. They have been caught in the web of a cost-price squeeze that hurts.

Not Sharing Prosperity

In short, they are not sharing in the rising general prosperity they see their nearby city cousins enjoying. Small wonder then that our hog farmers are restive here in the great breadbasket of America.

I appreciate your coming to this conference today When I telegraphed your chairman last Wednesday requesting an opportunity to meet with you, I had every confidence that you would be here to share your counsel with me, even though I knew all of you were very busy men.

You are a group broadly representative of the swine industry. You represent producers, marketing agencies, packers, distributors, retailers, livestock organizations, and farm organizations And, of course, government is represented here today also.

When this committee met in Chicago last July, you organized and launched a broad promotional campaign to increase the consumer demand for pork and pork products on the American table. As a result, a tremendous job has been done in recent months in promoting and selling pork products. It has been a multi-million dollar campaign. The job could never have been accomplished without complete teamwork by every segment of the industry represented here today. I sincerely appreciate the fine job that each of you has done in this effective campaign.

Pork Consumption Is Up

We are moving pork into consumption in record quantities. Per capita consumption of pork, exclusive of lard, was 66 pounds in 1955 compared with 60 pounds the year before and the 1935-39 average of 56 pounds. It is estimated that consumption during recent weeks has been at an annual rate of more than 80 pounds.

However, in spite of these promotion efforts, hog producers have continued in serious trouble It is to that problem that I wish to address the remainder of my remarks

Hogs are important in the American farm economy. They rank third among all major farm enterprises as a course of income They normally account for about one-eighth of our cash farm income. In the North Central States they account for more than one-fifth of total cash farm income. In the states of Iowa, Illinois and Indiana, for example, approximately two-thirds of all farmers, raise hogs for market. It is at once apparent that continued economic distress among this important group of farmers will soon blight the economy of entire communities, if not entire States.

The price of barrows and gilts at Chicago last December averaged \$10 73 per hundredweight This was a 15 year low. It was caused largely by the much heavier than normal marketings of hogs during that period. Low prices continued into early January, as marketings continued heavy However, we are all heartened by the substantial price increase of the last 10 days, which we feel is convincing evidence that the period of heaviest supplies and unduly low prices is behind us.

What Caused the Trouble?

It may be well to reflect briefly on causes of our current hog situation, if we are intelligently to discuss remedies.

In the first place, we have been going through that phase of the hog cycle which brings increased numbers to the market The hog cycle is normally about 5 years long—that is, 5 years from high marketings to high marketings or from low marketings to low marketings Conversely, there is a time lapse of approximately 5 years from low prices to low prices or from high prices to high prices Most of you are familiar with this cyclical movement It occurs with a good deal of regularity. It represent farmers' reactions to high or low prices, feed supplies, and other factors as they plan their breeding programs for the next year

The last high point in hog slaughter occurred in 1951-52, at which time prices received by farmers declined However, the impact of the Korean War at that time partially obscured the full impact on price of marketings cycle. Following that, hog production was curtailed, and total slaughter decreased in 1953 and 1954. Prices rose. The hog-corn ratio again became favorable to hog farmers. Increased breedings and excessive marketings followed in 1955. This change underyirded at least a portion of the price decline we have recently - experienced. Slaughter of hogs under Federal inspection during last October-November was up 18 per cent over a year earlier The spring pig crop had been around 8 per cent

The hog market will improve when numbers marketed are brought in line with demand. This is beginning to occur. Two months ago farmers' intentions to breed indicated a 2 per cent decline in spring farrowings. Reportsfrom marketing agencies and packers in recent weeks covering sows and gilts coming to market indicate that the actual reduction may be greater This would indicate that prices, after their usual spring-summer advance, should be stronger in late summer, and should average above last fall.

Crested At Same Time

You are aware, I am sure, that the hog marketing cycle and the cattle marketing cycle both crested at the same time in 1955 This is the first time this has happened in recent years It probably has been an important factor in causing the hog price decline

Another reason for the low hog prices, I am confident, has been the sharply increased processing and merchandising costs, most of which ahve come out of the hog check. But I'll touch on that later.

I could go on listing additional factors which caused the price decline, such as the production of feeds from diverted acres, the trend of consumer purchases away from over-fat pork, and the like However, I want to move on quickly to a brief discussion of what we are doing to alleviate the situation, and to discuss with you what further needs to be done

Government Purchases Total 95

Let me review briefly some of the things the Department is doing at the present time.

Last October when hog prices began their serious decline, I promptly invited to Washington representatives of the entire swine and pork industry—producers, packers, wholesalers, retailers, and others Together we frankly discussed the marketing porblem that faced hog producers The group then came up with a recommended program. We in the Department of Agriculture have been guided by the recommendations developed at that meeting

The Department started a pork purchasing program, under which to date we have purchased 95 million pounds of pork and lard. This is now in full distribution to the school lunch program.

We have stepped up our pork purchases. In each of the last three weeks, for example, we have bought close to 10 million pounds of pork. We are broadening our purchase operations to include additional pork products in order to remove from the market even greater quantities of pork.

Expanding Contracts

We also have lard in distribution to needy persons and institutions in the various states, and shortly expect to make pork available for such distribution.

We are also expanding outlets for government-purchased pork, through contracts with additional states for needy person distribution, through work with ICA in foreign relief programs, and through contact with the voluntary religious and charitable overseas relief agencies.

Just last week we signed an agreement with Yugoslavia for the sale of 88 million pounds of lard for foreign currency. And we are continuing to press for additional overseas sales. We are pressing also for the sale of pork for foreign currencies.

Our commercial exports of lard this year are running about 100 million pounds ahead of last year.

I pledge to you again today, as I have on frequent occasions in recent weeks, that as long as the need exists, the Department will use every resource at its command to develop outlets for pork, and will do everything in the best interest of hog producers themselves to bolster hog prices. However, we do not intend to contribute to the problems of livestock farmers by approving any program for the Government to purchse and store vast quantities of meat products for which it has no visible outlet. We feel that to do this would do irreparable injury to the industry.

Distribution Costs Are Too High

I have been extremely concerned in recent months that prices to farmers were going down while marketing margins were going up. In other words, low hog prices were not fully reflected in pork values to the consumer. On the one hand the producer was being squeezed by high costs and low prices for his hogs while, on the other hand, processing and distributing charges remained relatively constant and even increased

The average marketing for pork in 1955 was 5 per cent wider than the previous record margin established in 1954, and 13 per cent wider than the 1950-54 average. Both the retail price and farm price averaged lower in 1955 than in 1954. But the retail price declined less than the farm price, so the marketing margin increased, particulaly in the second half of 1955. In the fourth quarter of 1955, the farm price of pork was 30 per cent lower than a year earlier but the marketing margin was 13 per cent higher than a year earlier. Compared with the last quarter of 1953, farm price in the last quarter of 1955 was per cent down, but the marketing margin was 18 per cent up.

About the same thing has been happening in beef. In the last quarter of 1955, the retail price of choice grade beef declined 5 per cent from a year earlier but the farm price declined per cent. During this interval charges for marketing beef advanced 26 per cent.

The farmers' share of the dollar that consumers spent for meat products declined from cents in 1954 to 54 cents in 1955.

Processing Costs Up

I am fully aware that total costs of processing and merchandising pork have gone up, as they have in other farm commodities Wage rates have increased each year and are almost 100 per cent above 1954. Freight rates and other costs, such as packaging materials, containers, fuel, equipment, rents, and the like are up about two-thirds. But all of these higher costs in processing and merchandising pork have been offset in good measure by the increased marketing of hogs during this season. And all that the farmer has gotten out of these increased marketings has been low prices and sharply reduced income.

I believe firmly you're entitled to a fair return. But when one segment of the meat team is suffering, gentlemen, it cannot be too long before other segments also will suffer. Now I want to speak very bluntly with you It is essential that marketing margins be kept in line so they do not exceed real costs and that farmers be paid as much as possible for their products. The welfare of the livestock farmer is of vital interest to you. To stay in the hog and cattle business, the farmer must, year in and year out, be able to market his grain and forage through animals at a profit. As processors and retailers, you are essential to the farmer because you sell his end product.

The Depatment of Agriculture and the American farmer have no desire to interfere with or change the legitimate functions of the meat industry. In general the processors have done a splendid job of slaughtering and handling a near record supply of hogs in an effective manner. Processors, wholesalers, and retailers are doing a good job of selling and merchandising. For this we are grateful. But each group needs to be fully aware of its responsibility to return to the farmer maximum prices for his meat animals.

Keep Your Costs Under Control

I urge you in industry to

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