

Plan Now For Lower Hog Prices

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NEWARK, Del. — Hog prices are up and things look bright for the industry. I recently had the opportunity to thumb through some market reports in a local farm newspaper and found hog prices as high as \$69.25 per hundredweight. That's enough to put a smile on any hog producer's face, but how long will it last?

Market hog prices depend on two key factors, supply and demand. Whenever the demand for hogs exceeds the supply available, prices will rise. This increase will continue until it reaches the point where demand decreases.

Why would demand decrease? Usually the consumers eventually refuse to pay the costs reflective of the market price. As you are well aware, pork prices have increased at the meat counter of your local supermarkets.

If hog supplies remain constant, and consumers start refusing to buy pork in the supermarkets, demand for hogs will decrease and so will prices until both supply and demand stabilize.

As many of you are aware, this is not what usually happens. When prices rise to the level that they are now, producers begin the all too familiar expansion of their herds, which ultimately gluts the market. In turn, the market price plummets and profitability is reduced.

Now I'd be a fool to suggest that you not expand your herds. Everybody knows that if sow and gilt numbers remained constant, prices would remain high as long as the demand didn't decrease. However, with high hog prices, people want to make more. Once a producer starts expanding, everybody else gets into the act. And before you know it, prices decrease.

The point I'm trying to make is that high market hog prices won't last forever. Many of the factors that dictate supply and demand will eventually change and reduce the market price.

The key to profitability is to be aware of your operating costs and make sure you're doing an efficient job of producing market hogs.

It's easy to forget about your

production costs and "efficiency" when you're making money. Remember, however, that while everybody is making money in the hog business, some producers are doing a better job. A producer who is making a profit on a \$40 market, is obviously doing quite well on a \$60 market.

One problem that we need to address is how we handle the increased income from an up market.

We all know that prices will eventually go back down. Currently, futures prices contracts for July, 1987 are at \$47. But where the cash market will be at that time is hard to pinpoint.

An option you need to consider in your operation is whether or not to

buy into futures contracts. Doing so can look you into a profit that may not be there next July on the cash markets. Then again, maybe the cash markets in July will be \$50, and you'll be on the short end of the stick. Futures can remove some of the uncertainty of the cash markets, but as you can see above, they don't remove all of the risk.

Another possible option is to sell on the cash markets, but plan ahead and save some money when the markets are high to get you enough periods of low market prices.

One unfortunate occurrence is that as prices increase, we automatically think of all the extras that we need. Sometimes this can get a little dangerous when

a market is volatile. We quickly forget about the \$40 market and for some strange reason think that market hogs will sell for \$60 for the rest of our lives. A rude awakening will occur when the cash market crashes.

The key thing to remember is that efficient economical management is always important in the hog business.

Always shop for your best market. Prices vary from one market to the next, so make sure you're selling at the best possible place. Consider futures contracts as an option.

Secondly, keep up on feed and supply costs. Buy wherever you can get the best deal on supplies, feed and equipment. Don't let high markets entice you into buying new equipment that you don't really need.



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