Why the Hysteria Over Hog Prices?

COLUMBUS, Ohio — With operation losses of $2.6 billion, 1998 was the worst year to be in the hog business since the Great Depression, said Ohio State University agricultural economist Brian Roe.

"Once inflation is taken out, hog prices in 1998 were 30 percent lower than they were during the Depression," Roe said "That number is a little deceiving because with modern techniques and efficiency it's also cheaper to produce a hog than it was back in the '30s, but that's still a pretty telling figure."

Hog prices typically rise and fall on a four- to five-year cycle, he said Hog producers see themselves and others making good profits, so they expand their operations. Soon, too many hogs are produced and prices begin to drop As prices fall, some producers either decrease their herd or get out of the business entirely This lowers hog production numbers, prices again begin to rise and the cycle starts all over again

The problem in 1998 was producers responded more than normal to strong profits in 1996 and 1997 Some producers, fearing environmental restrictions on future expansion, increased their operations faster than they typically would have, Roe said So instead of building one new barn, they built two or three.

At the same time, meat processing plant closings and labor strikes, especially in Canada, diminished the ability of hog processors to handle the large quantities of pork being produced.

"We not only produced more hogs than normal, but we also went over the industry's capacity to slaughter hogs," Roe said "It was kind of a confluence of several unfortunate things on top of a natural dip in the price cycle"

As a result, hog prices plummeted from $50 to $55 per hundred pounds of pork produced (cwt) in 1996 to a low of around $10 per cwt. just before this past Christmas. For average hog producers, the price they received at market was far less than their production costs, Roe said.

For example, many hog producers run what's called a finishing operation — buying young pigs at about 50 pounds, feeding them for four months until they grow to about 250 pounds, and then taking them to market. The average finisher who bought a 50-pound pig in July '98 raised it to 250 pounds and sold it in November '98 would have had the following production costs per pig. $16 85 to buy the pig initially, $18 50 for feed corn, $20.80 for soybean meal and other feed supplements, $2.50 in labor charges, $1.75 for transportation to the farm initially and later to market, $12.90 in fixed costs such as building upkeep, and $8.10 in miscellaneous costs such as veterinarian services. All together, the production cost to raise a feeder pig at that time was $81.40.

If the feeder pig in the example was sold in November just before Thanksgiving, it would have brought about $17 50 per cwt. at the marketplace. At 250 pounds, the average producer would have gotten back only $43.75 resulting in a loss of more than $37.50 after production costs.

"And that wasn't the worst of it," Roe said "Just before Christmas when prices were about $10 per hundred pounds, producers were only getting about $25 per animal and losing $50 to $55 on each pig. If you put a couple zeros behind that for producers selling several hundred pigs, it really starts to hurt."

However, average producers who sold one her per week from Jan 1, 1996 through Nov. 30, 1998, are still on the plus side in terms of total profit during that time span because of strong prices received in 1996 and 1997, he said But they are only $1,000 above the break-even point, with the losses of December and January included, total profits since January 1996 would drop between $200 and $300.

Things are finally starting to get better. Current prices are back to the low to mid $20 per cwt. range, and most people believe that between April and June of this year prices will return to break-even amounts in the mid $30s, Roe said.

"Less efficient operations and those with financial problems before the low prices hit have left the hog business, moving supplies back to more manageable levels," he said. "And processing facilities ran a lot of overtime and weekend shifts to catch up with the large supplies."

Those producers who have survived either cut costs as much as possible, got rid of less efficient animals or relied on another source of income. Some producers may benefit from recently introduced federally funded programs that will extend operating loans to help them get through the particularly hard part of the cycle, Roe said.

"Prices are very cyclical and eventually they rebound," he said. "Producers who are very efficient and committed will find a way to stay in the industry"