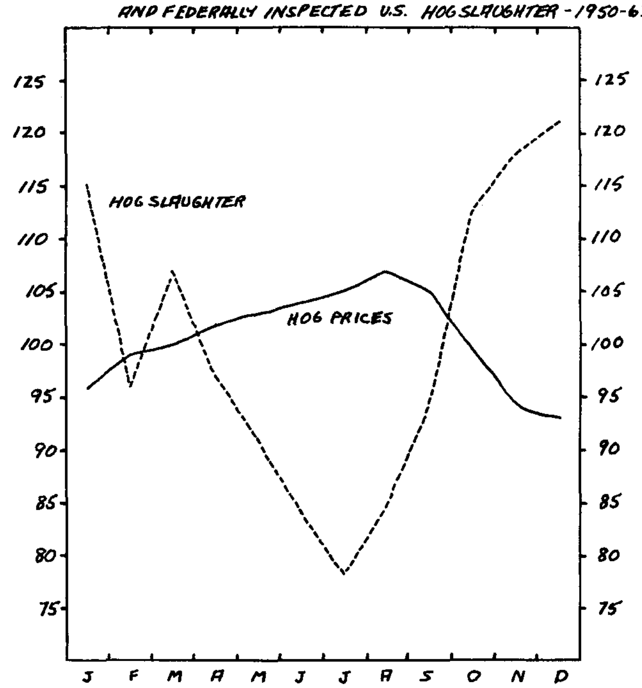
Tummy Turn-Up Time

Hog slaughter, hog prices, pork prices, all have a quite regular seasonal pattern. This in turn is based on the timing of the farrowings (births) of baby pigs and their subsequent feeding to market weights (6.5 months or so). In recent years there have been significant trends toward narrowing the disparity in size between the spring crop and fall crop, and also toward reducing the month-to-month farrowing volume disparities within the two crops. But the seasonals are still there. To some extent, the hog slaughter seasonal is reflected in a pattern for lard prices outright and lard prices as per cent of soybean oil. High lard prices create substitution demand for soybean oil. For meat, however, there is no adequate substitute; short run elasticities for individual cuts are probably more controlled by retailer "featuring" and "specialing" than by price alone. Consumption of pork at the consumer level is much less seasonal than hog slaughter. Consequently there is pressure on wholesale prices during periods of flush production. This encourages storage of pork products, particularly bellies (the raw material of bacon) during high production–low price periods, for withdrawal during low production–high price periods. Buildup of storage stocks of pork cuts is probably one reason why hog prices are not more responsive to the sharp summer dip in hog slaughter. Another reason may be summer increases in broiler meat and beef production, in both cases accompanied by some price pressure. The problem for the warehouseman who stores pork has always been inability to assess what the up-move might be from a given price in a given year, i.e. whether the price advance would recover costs of handling plus processing plus storage plus interest. These are, respectively (for bellies stored March 1 to Sept. 1), 25 points + 75 points + 120 points + 60 points = total 280 points. So assessment of the extent of the move is a real problem. The introduction of belly futures on the Chicago Mercantile Exchange has aided greatly in allowing confident storage accumulation.

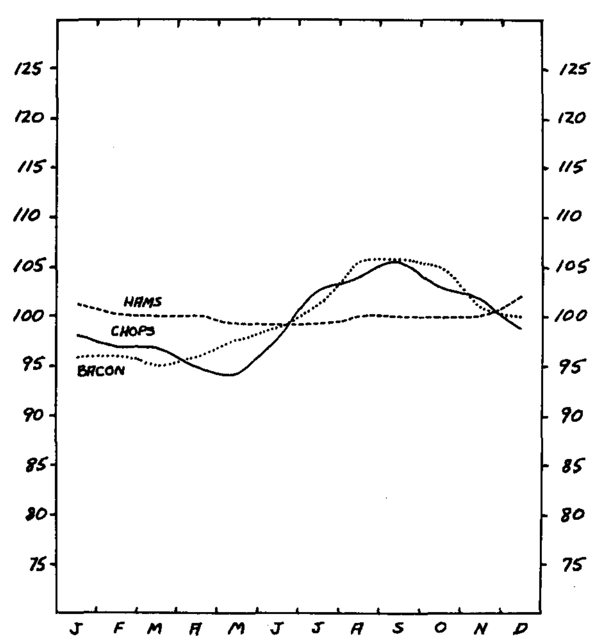
For the first time, the warehouseman knows with certainty what total spread change he can secure, independent of the flat price. For instance, for much of the current season the spread between delivery quality bellies and August futures has run over 300 points, sometimes as much as 350–375 points. This allows the warehouseman 30–100 points margin, enough profit to encourage significant storings. In the two prior full seasons that the contract has been trading, price moves have been reasonably in line with expectations. Cash bellies went from big discounts under futures to premiums over. This allowed futures to perform their hoped-for functions, encouraging storage early in the season, encouraging withdrawals late in the season. To some extent this is reminiscent of the drum lard contract. When lard trade in drums was a big item, drum futures had to go over cash loose by an amount sufficient to encourage drumming. At end-season, when old crop drummed lard was not deliverable, the amount drummed over needs (if any), often forced futures prices down to a spread vs. loose at which the lard would be dumped out of the drums.

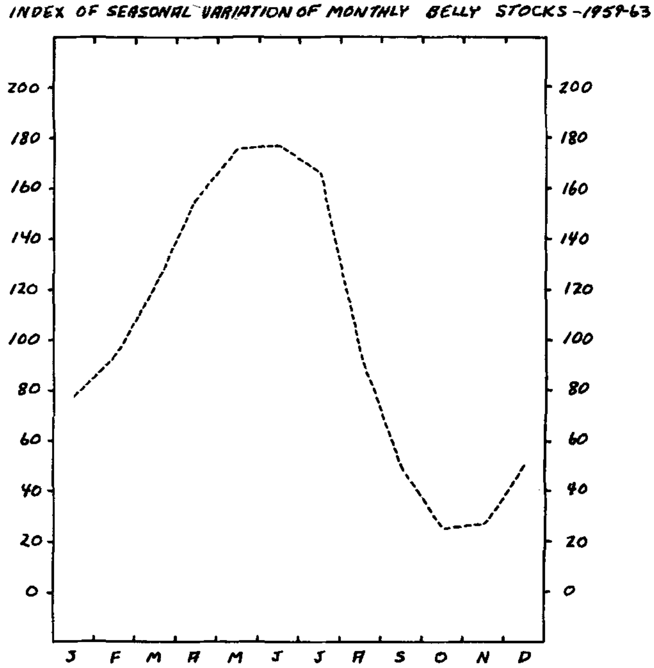
There seems to be no reason to expect the seasonal pattern in bellies this year to be noticeably different than normal. Storings so far have been heavy, in part a reflection of the availability of a volume trade in futures. March 1 storage stocks were 112 million lb. vs. 73 million in 1963; 61 million in 1962; 59 million in 1961; 108 million in 1960. Stocks of this size have created among some traders a bearish sentiment. They feel that the bacon slicing rate will not be large enough to consume these stocks. However, this assumes a continuation of the average storing tendency of recent years, i.e. continuing buildup until about June 1. There is another factor which may come into play before June 1. That is, the age distribution of pigs would imply sharply reduced marketings during late spring. There was a peculiar structure in last fall's farrowings. The June-November crop as a whole was down 4% from the prior year, but the decrease was not evenly spaced. June was 2% higher, July 3% higher, August was 10% *lower,* September 8% lower, October 3% lower, and November 6% lower. The high June-July farrowings plus the generally quite mild open winter may have caused heavier than normal January-February marketings in terms of per cent of total crop, partly at the expense of later marketings. In other words, from now on the marketings may be down even more than the 5–8% lower needed to confirm that the crop as a whole was down 4%. Hog slaughter during the month of May could be down 11% from las year. The lower farrowing trend continued through the December-February period, the first half of the spring pig crop, and the source

INDICES OF SEASONAL VARIATIONS OF CHICAGO HOG PRICES AND FEDERALLY INSPECTED U.S. HOG SLAUGHTER - 1950-63



INDEX OF SEASONAL VARIATION OF RETAIL PORK PRICES - 1959-63.





of hogs for slaughter June-August. So unless the pig crop reports are all wet, we should have a considerable pressure to withdraw bellies from store during the period from late May on. Also note from the chart that the heaviest daily rate of bacon slicing period comes in the last 6 months of the October-September year, particular from Decoration Day on, a period when hog slaughter is low.

There are other factors, however, to consider. A prime one is the future of beef prices. Although cattle on feed are down from a year ago, cattle on ranges are at an all-time high. Ranges will support cattle in almost direct proportion to the condition of the grass. After a bad start in moisture terms, the situation has improved greatly lately implying probably no heavy forcing of cattle into feedlots and to market. There has been an enormous amount of discussion lately about beef imports into the USA, and undoubtedly this has been a factor in past beef price weakness. However, the comparative price structure of world

(Continued on page 36)

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