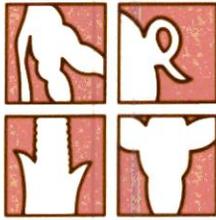




Cooperative
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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June 25, 1986

USDA REPORT SHOWS NO HOG EXPANSION

THE USDA HOG AND PIG REPORT released June 23 shows a surprising drop in inventory, pig crop, and intentions to farrow. All numbers were so sharply below market expectations that strong rallies in futures prices are expected in response to the report. Pork supply should be lower than the previous year's levels during the end of 1986 and early 1987. Supplies of other meats are expected to be large, however, and this may put limits on further increases in hog prices.

The Hog and Pig report shows a June 1 inventory of 38 million hogs in the 10 major states, down 9 percent from last year. The breeding herd of 4.8 million hogs is down 10 percent from last year, and the 33.2 million market hogs are down 8 percent. Light hogs weighing less than 60 pounds were down 9 percent, and market hogs weighing 60 to 179 pounds were down 7 percent.

The pig crop and intentions to farrow showed similar sharp declines in numbers. As in past reports, the decline in sows farrowing was larger than in the pig crop, because the number of pigs saved per litter continues to increase. March through May, 2.2 million sows farrowed, down 11 percent from last year and substantially below intentions stated in the March report. Pigs saved per litter averaged 7.81, up 1 percent, so the pig crop of 16.9 million head was down 10 percent from last year. Producers stated intentions to farrow 2.02 million sows June through August, down 8 percent from last year, and to farrow 2.04 million sows September through November, down 10 percent from last year.

Most market analysts had expected some expansion in intentions to farrow. Expected declines in corn prices and lower interest rates should reduce pork production costs. The small numbers of hogs going to slaughter recently hinted that sows and gilts were being retained in the breeding herd. This report shows contraction rather than expansion and will therefore strengthen the outlook for hog prices.

The relatively large December-February pig crop, up 1 percent over the previous year, will be marketed in the July-September quarter; hog prices normally decline seasonally the third quarter. The number of market hogs reported in the middle weight category, however, indicates that third-quarter slaughter will not be quite as large as indicated by the December-February pig crop. The very small March-May

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pig crop will lead to a sharp reduction in supply in the fourth quarter of 1986 when demand is seasonally strong. Prices should therefore remain strong through the end of 1986, but may dip in the third quarter.

Pork and hog prices have been unusually strong in relation to beef and cattle prices during the last month. Pork supply in the April-June quarter will be 5 percent below last year, while beef supply will be 5 percent above. The small relative supply of pork has caused the unusual price relationship. The question is whether strong hog prices can continue in the face of large, competing supplies of beef, as well as rapid growth in poultry production. Adjustment may come either through a limit on hog price increases or through greater strength in cattle prices.

While projections for early 1987 are uncertain at best, it seems unlikely that hog prices of \$50 per hundredweight can be sustained through then even with the reduced pork supply indicated by the intentions to farrow. If current rallies in futures prices following the June report offer prices of \$50 for early 1987, producers might wish to take advantage of the opportunity to obtain a profitable price.

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