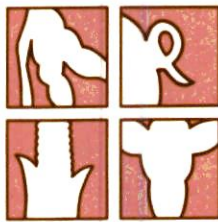




Cooperative
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

September 23, 1986

LARGE MARKET SUPPLY OF HOGS BUT NO EXPANSION

THE SEPTEMBER 1 USDA HOGS AND PIGS REPORT, released on September 22, showed a 5 percent drop in inventory and market hogs. This decline was not as large as expected. Supply in the fourth quarter of 1986 may be only 4 percent below last year, instead of the 6 percent drop predicted from the spring pig crop. If the market hog count is correct, live hog prices will continue to decline this fall. If the pig crop is correct, prices will stay strong. The report also shows a sharply reduced summer pig crop and intentions to farrow for the next six months. This drop should lend strength to prices through the summer of 1987.

The report showed a total inventory of 39.6 million: 4.8 million breeding hogs and 34.8 million market hogs. Total inventory and market hogs are down 5 percent from a year ago, and the breeding herd is down 10 percent. Heavy market hogs over 60 pounds are down only 2 to 3 percent, and hogs under 60 pounds are down 8 percent. The relatively large number of heavy market hogs indicates that the pork supply in October through December will be down only 4 percent, rather than the 6 percent decline predicted from the spring pig crop in the June report.

Farrowings in June through August were down 7 percent, and the 15.8 million pig crop is down 6 percent. The summer farrowings were very close to intentions stated in the June report. The small summer pig crop means that pork supply in early 1987 should be 7 percent less than in early 1986.

Intentions to farrow 2.1 million sows in September through November were down 9 percent. Intentions to farrow 1.8 million sows in December through February were down 6 percent. The decline in intentions to farrow indicates that pork supply will be down 6 percent next spring and 4 percent next summer.

The preliminary estimate of pork production for July through September 1986 is down 9 percent from last year. With this large drop in supply, the average summer price was \$60 per hundredweight. Cash prices fell from \$64 to \$58 during the last two weeks as slaughter runs increased seasonally. There is uncertainty about the fall pork supply because of the discrepancy between the spring pig crop count and the September heavy hog count. If the pig crop is correct, then live hog prices will

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average \$55 per hundredweight between now and the end of the year. If the market hog count is correct, prices will be closer to \$50. With tight supplies indicated in 1987, live hog prices in early 1987 should be around \$50, and prices should fall to the high \$40s next summer. It is likely, however, that winter farrowings will expand more than indicated by intentions, and so prices may be lower next summer.

Futures prices for nearby months should decline in response to this report. After the initial reaction, there is some possibility of a small rally in the distant contracts for next summer. Producers who did not take the opportunity to lock in high prices for next year's production may have another chance to do so.

Laurian J. Unnevehr

Issued by *Laurian J. Unnevehr*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
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University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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