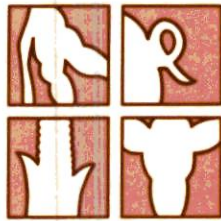




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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

January 7, 1987

HOG REPORT BEARISH FOR MID-1987 AND BULLISH FOR LATE 1987

THE USDA HOGS AND PIGS REPORT released on December 22, 1986 showed a more than expected increase in fall farrowings but also a less than expected willingness to increase farrowings in the next six months. There were no major surprises in the inventory and market hog count, indicating that prices should remain strong through the first quarter of 1987. The fall pig crop indicates pork production in the second quarter of 1987 will be up slightly over last year. This will lead to hog prices in the low \$40s before next summer. Intentions for winter and spring farrowings show little expansion. If producers hold to these intentions, prices will remain in the low \$40s next summer and recover to the mid-\$40s next fall. As producers are likely to expand farrowings more than intentions indicate, it is likely that cash prices for hogs could go even lower.

The inventory of hogs totaled 39.7 million head in the 10 principal producing states on December 1, 1987. This number is 3 percent below last year's inventory. Market hogs totaled 34.6 million, also 3 percent lower. The breeding herd was 5.1 million, 4 percent below last year.

Light weight hogs (less than 60 pounds) were 13.2 million head, down 3 percent from last year. Heavier hogs (60 to 179 pounds) were 15.8 million, down 5 percent. The number of heavy market hogs corresponds fairly well with the summer pig crop. Both the summer pig crop and heavy market hogs indicate slaughter of 19.2 million head in first quarter 1987. Pork production during first quarter 1987 is estimated to be 6 percent less than the previous year's production. Live hog prices at Omaha should average \$47 per hundredweight during the first quarter of 1987.

Producers farrowed 2.15 million sows during the September-November quarter, down 3 percent from last year. Pigs per litter, 7.78, increased 2 percent over last year, so the fall pig crop of 16.73 million was down only 3 percent. These farrowings are larger than intentions stated in the September 1 report and lead to an upward revision in estimated pork production for the second quarter of 1987. Pork production in the spring of 1987 is estimated to be 1 percent greater than the previous year's production. Prices during the spring of 1987 may fall as far as the low \$40s with the increased production and the seasonal low.

STATE • COUNTY • LOCAL GROUPS • U.S. DEPARTMENT OF AGRICULTURE COOPERATING

THE ILLINOIS COOPERATIVE EXTENSION SERVICE PROVIDES EQUAL OPPORTUNITIES IN PROGRAMS AND EMPLOYMENT.

Producers intend to farrow 1.87 million sows in the current December-February quarter, just about equal to last year's farrowings. Producers also indicated intentions to farrow 2.21 million sows next March-May 1987, up 2 percent from last year. This spring pig crop expansion was less than expected, given the high profits producers received this past summer. If producers actually hold to these small intentions, production in the fourth quarter of 1987 should be up 1 percent and hog prices will average \$45. It seems likely that producers will actually expand farrowings somewhat more. If farrowings are up 6 percent, for example, prices could easily fall to the low \$40s.

Pork production during the last quarter of 1986 was 7 percent less than production the previous year. Hog prices remained strong at \$50 to \$54 during the quarter. Hog prices began to decline before the end of December and are expected to continue declining through the spring of 1987.

Futures prices fell sharply before the report was released and increased slightly after the report. Currently futures prices do not look much different from cash price projections. Producers who did not take the opportunity to lock in high prices for 1987 production a few months will probably not have another opportunity to lock in extra high profits. The strategy now should be to watch and wait for prices that offer profits for production during the second half of 1987. The downside risk for prices in the last six months of 1987 is substantial.

Laurian J. Unnevehr

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

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

FIRST CLASS