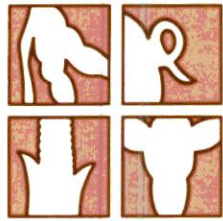




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
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HOGS SHOW EXPANSION DESPITE PRICE RALLY; CATTLE NUMBERS DECLINE

The hog market surprised most participants and observers with a strong price rally in the recent spring quarter. Preliminary estimates of pork supply and hog slaughter for the spring quarter indicate that both were down about 9 percent compared to last year. This reduction in supply was unexpected, since the reported fall 1986 pig crop indicated that production would be about equal to last year. The market responded to the unexpected supply shortfall with a price rally that peaked at \$63 per hundredweight.

The discrepancy between the actual supply and the projected supply based on inventory reports also makes it difficult to interpret the *Hog and Pig* report for June 1, released on June 30. This report showed a 9 percent expansion of inventory and a 10 percent expansion of the breeding herd. It reported the spring pig crop was up 10 percent over last year, and that producers intended to farrow 8 percent more sows over the next six months.

The substantial expansion reported in the June *Hog and Pig* leads to supply projections of sharply increased pork supply for the next four quarters, and consequently much lower prices. The expanded supply of market hogs will most likely show up at slaughter. Our best guess is that a major turnaround in supply and prices will occur before the end of the summer quarter. Prices will fall sharply from their current high levels to about \$45 per hundredweight, and stay in that range until the end of the year.

While the expansion in farrowings indicated for the next six months is substantial, it is still less than the 10-15 percent expected by the market. Hog futures prices for distant contracts increased sharply following the June report. This rally provides producers with the opportunity to lock in some very profitable prices for late 1987 production.

The liquidation of the cattle inventory that has reduced the potential slaughter supply has finally resulted in reduced beef supply. During the first half of 1987 beef supply declined for the first time since 1979. Both cattle slaughter and beef supply dropped by 1 percent in the first quarter and then by 9 percent in the second quarter. The sharp decline in beef supply during spring brought higher cattle prices. Choice steer prices at Omaha increased from an average of \$61 per hundredweight in the first quarter of 1987 to an average of \$71 in the second quarter.

The June 1, 1987, *Cattle* inventory released on June 30 confirmed recent trends toward a decline in the cattle supply and a stabilization of the breeding herd. Total cattle were down 2 percent. Beef cows, beef replacement heifers, and bulls were equal to last year, indicating that herd liquidation has stopped. Slaughter supply (other heifers, steers, and all under 500 pounds) is down 3 percent from last year.

Even if both the high slaughter weights of the last two years and the high slaughter rate of last year continue, the supply of beef is projected to drop sharply. Beef supply should be down 11 percent this summer and 4 percent in the fall. During the first half of 1988, beef supply should be down 8 percent.

With a continued tight supply of beef, cattle prices are expected to remain close to \$70 through the summer and then to decline seasonally to around \$65 during the fall and winter. Futures prices did not react much to the June inventory. Currently, distant futures are heavily discounted in relation to current high cash prices, and are not above \$65 for the late months of 1987. Futures do not offer particularly good pricing opportunities at this time because the cash market will provide good prices through the end of 1987.

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