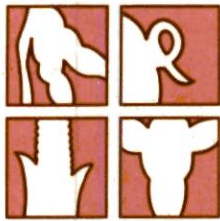




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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October 5, 1988

HOG REPORT SHOWS EXPANSION CUTBACK

The USDA released the 10-state *Hogs and Pigs* report on September 30, 1988. The September 1 inventory is up 5 percent and the summer pig crop was up 2 percent. Intentions to farrow for the next six months are up only 2 to 4 percent. The pig crop and the intentions are substantially smaller than those reported on June 1. Hog producers have responded quickly to higher feed prices by cutting back expansion plans. The bulk of production expansion should already be behind us, and production in 1989 should not be much larger than in 1988. This means that hog prices should recover from their current low levels and reach the mid-\$40s per hundredweight by next spring.

The inventory in the 10 states numbered 14.9 million hogs, up 5 percent from September 1, 1987. The breeding herd was up only 3 percent, reflecting the slowing of expansion. Market hogs in the 60- to 180-pound category were up 7 percent. These heavy animals will come to market during the current fall quarter. Supplies during this quarter will continue to be large, probably up 5 percent from last year.

The summer pig crop was much smaller than indicated by June 1 intentions. A total of 2.3 million sows farrowed, up 4 percent from last year. Productivity has declined with the entrance of new producers during the recent expansion, and also because of the very hot summer. Therefore, the number of pigs saved per litter, 7.63, was down 2 percent from last year. As a result, the summer pig crop of 17.9 million head was only 2 percent greater than last year. These pigs will come to market during the first quarter of 1989. Estimated production for that quarter is only 1 percent greater than in 1988.

Intentions to farrow during the fall quarter are up 4 percent, and intentions to farrow during the coming winter are up only 2 percent. These are substantially lower than intentions to increase farrowings by 6 percent reported on June 1. This is good news for the industry because it means that hog prices will remain fairly strong during 1989. If producers stick to these revised expansion plans, pork production in the spring and summer of 1989 will just about equal 1988 levels.

It appears that most of the expansion of pork production is behind us. Pork production was up 12 percent in both the spring and summer quarters of 1988. Prices averaged \$46 per hundredweight in the spring and \$44 per hundredweight in the summer for live hogs at Omaha. Supply continues to grow in the last quarter of 1988 and prices are at their seasonal low. Hog prices have dipped below \$40 during the last few weeks.

However, prices should rebound as production stabilizes in 1989. Based on the above production estimates, live hog prices should be \$41 to \$43 in early 1989, \$46 in the spring, and

at least \$45 next summer. Futures prices for live hogs in 1989 went down the limit following the report, and were below our price projections except for next summer's contracts. A larger cutback in production had been expected. Prices on the futures market do not offer good pricing opportunities immediately following the report, with the possible exception of next summer's contracts. If prices of \$49 or higher for next summer are offered again, prudent producers may wish to lock in that price.

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