Cooperative Extension Service

WEEKLY OUTLOOK

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NO EXPANSION IN HOG BREEDING HERD

The USDA's December *Hogs and Pigs* report provided bullish numbers for hog prices in 1991. The report indicated that producers are not expanding the nation's breeding herd. If this is the case, supplies of pork in 1991 will be only modestly higher than last year, with average yearly prices only $2 to $4 per hundredweight lower than in 1990. If current feed prices persist, this report suggests that 1991 could be another very profitable year for hog producers.

The size of the breeding herd on December 1 was reported as unchanged from last year's level. In the September report, the breeding herd was also reported as unchanged, but most analysts felt some additional buildup would be reported. Indications are that hog producers are cautious about building the herd, and that the slow expansion will keep profits in place for the industry throughout 1991.

Sow farrowings in the fall quarter of 1990 were up 1 percent from the previous year, somewhat under the 2 percent higher intentions reported by producers in September. Farrowing intentions for the winter quarter are for a 2 percent increase, followed by a 2 percent drop in spring farrowings. The reported 2 percent drop in spring farrowing intentions was a major surprise. For this to occur, some decline in the breeding herd would be necessary. In the herd expansion phase of the hog cycle, it is very unusual to see any decline in the herd once the expansion has started. It is prudent to treat this anticipated contraction of the breeding herd with considerable caution. Keep in mind that this is a report of intentions for the spring quarter. Actual farrowings may in fact be larger than this early indication.

The number of pigs weaned per litter continued to set new records. For the fall quarter, producers weaned 7.83 pigs per litter, 1.2 percent more than were weaned a year ago. The consistent growth in the number of pigs per litter demonstrates the productivity increases in the breeding herd. More pigs weaned per litter also add pork to the market place without adding sows to the breeding herd.

The pork production industry continued to have a large outmigration of producers in 1990, in line with long run trends. The USDA reported that the number of hog producers dropped by about 10 percent in 1990, to a total of 278,000. In corn belt states, the decrease in producer numbers was somewhat slower as Iowa producers declined by 5 percent, Indiana by 7 percent, and Illinois by 8 percent.

This report suggests that pork supplies will be up only about 2 percent in 1991 over last year's supply. Supplies are expected to be down 1 percent in the first quarter, up 5 percent in the second and third quarters, and down about 1 percent in the fourth quarter. The biggest uncertainty about these supplies is for the fourth quarter. Fourth quarter slaughter supply will come from the intended 2 percent lower spring farrowings. As mentioned, spring farrowings and thus fall supplies, may in fact be larger than indicated. Higher slaughter weights are also built into these slaughter supplies, especially for the first three quarters of the year.

Using the estimate of a 2 percent increase in pork supplies suggests that hog prices for 1991 will be only about $2 per hundredweight lower than the $54.50 average terminal price in 1990. However, with the uncertainty about decreasing slaughter supplies in late 1991, it is more prudent to suggest that prices will likely average $2 to $4 per hundredweight lower than in 1990. This would still result in an average yearly price at terminals in the $50 to $52.50 range.

First quarter terminal prices are expected to average in the low $50s. This suggests some additional price increases from current levels into mid-February. Spring seasonal lows in late March and April could drop prices back into the mid to higher $40s, but a sharp recovery into the mid $50s would be expected by June. The second quarter may see prices average about $1 higher than the first quarter. Summer supplies will be building, keeping a lid on strong summer prices. Third quarter prices may average near or slightly over $50. The fourth quarter remains more uncertain. If spring farrowings do drop as intentions suggest, hog prices could actually increase to the mid $50s. It is more likely, however, that prices will be in the mid to upper $40s as they were in the last two months of 1990.

Producers can anticipate some bullish reaction from this report. Futures prices for late 1991 are the most underpriced, given the new information in the report. Hedging guidelines for the summer contracts remain at the mid $50s. For fall 1991 futures contracts, prices approaching $50 are reasonable hedge levels. Cash prices should also receive some boost from the report over the coming weeks.

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