Cooperative Extension Service

WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

April 8, 1991

HOG PRODUCTION TO RISE WITH MODERATE EXPANSION

Initial reactions in the first week after the USDA's March *Hogs and Pigs* report was somewhat bullish. By late in the week, futures markets turned more bearish. The downward movement in futures prices was related to weakness in cash prices, reflecting concern about the retail sector. On the surface, the report seemed somewhat friendly to prices, but on closer examination there were several signs of caution.

The report indicated the first signs of expansion since the industry returned to profitability in late 1989. While the breeding herd is only 1 percent larger, pork production for the remainder of 1991 is expected to be nearly 4 percent above year-ago levels. Hog prices for 1991 are expected to average near $51 at terminal markets, down from the $54.45 per hundredweight average of 1990.

Expansion is much slower than in previous cycles. In the two previous cycles, the March report following the peak prices of the cycle showed the herd had expanded by an average of about 5 percent. This is in comparison to the current 1 percent expansion. Potential reasons for slow expansion include: the need for many producers to build new buildings to expand at this time; the changing industry structure in which larger producers are just beginning to expand, while smaller ones continue to drop out of production; the unwillingness, or the inability, of producers to use debt capital for expansion; the lack of expansion incentive provided by discounted deferred futures; the growing productivity of the breeding herd which enables each sow to produce more pork each year; and environmental concerns of large producers who are questioning whether expansion might draw more attention to their operations.

While the nation's breeding herd is slow to expand, there is considerable variation by state. States showing major breeding herd expansion include: Illinois, +7 percent; Minnesota, +2 percent; Kansas, +9 percent; North Carolina, +8 percent, and Missouri, +11 percent. In stark contrast, the USDA reports a 3 percent smaller breeding herd in Iowa. Since Iowa represents nearly 25 percent of the nation's herd, their apparent contraction of the breeding herd has a moderating impact on the national expansion numbers. One of the mysteries of this report is why Iowa producers are responding differently than other neighboring states.

Producers farrowed 3 percent more sows in the winter quarter and intend to farrow 1 percent more in the spring quarter and 2 percent more in the summer quarter. The inventory of market hogs indicates that pigs weighing over 60 pounds, representing spring slaughter supplies, were up 2.5 percent. The number of pigs weighing less than 60 pounds, representing summer supplies, were up about 2.8 percent.

Pork supplies are expected to be larger than the 1 percent increase in the breeding herd for three reasons: 1) producers are increasing the percentage of the herd which farrows in any given quarter,

2) producers are weaning about 1 percent more pigs per litter each year, and 3) producers are feeding hogs to heavier weights.

Pork production in the second and third quarters of 1991 is expected to rise by about 5 percent over year-ago levels. For the last quarter of 1991 and the first quarter of 1992, pork supplies are expected to be about 3 percent larger than the same time a year earlier. For the calendar year 1991, pork production is forecast at about 15.8 billion pounds, up 3 percent from 1990.

Prices at terminal markets are expected to average between $51 and $54 per hundredweight for the second quarter. It is expected that prices will move from the high $40s in April into the mid $50s during the June and July time period. Highest perices for some days this summer may be in the mid-to-higher $50s, however, third quarter prices are expected to average in the low $50s, with prices moving from the mid-$50s in July to the high $40s into September. Prices at terminals during the fourth quarter are expected to average in the higher $40s with early 1992 prices in the mid to higher $40s.

Producers will want to evaluate forward pricing opportunities for this summer. Futures prices have been in the $58 to $59 price range for June and July. These are higher prices than we would expect on average for summer marketings. Opportunities to sell futures for October 1991 and forward near $50s should be considered.

In the past, we have suggested hog producers plan for a "blue 1992". This report seems to suggest little expansion, with the implication that 1992 won't be such a bad year. While the national expansion does seem slow, there is evidence that expansion is robust in some states. We can also observe in this report some classic signs that the expansion may be larger than is now reported. For example, the farrowing intentions for the second quarter were -2 percent in the December report, and are now up 1 percent. This, "larger when we get there" situation has traditionally been a sign that the expansion may be larger than USDA numbers now indicate. In addition, keep in mind that with the greater productivity of the breeding herd today, pork production can be increased without any increase in the breeding herd. For these reasons, prudent hog producers should continue to be cautious about projecting favorable profits for 1992.

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