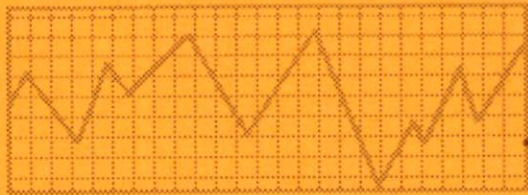




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WEEKLY OUTLOOK

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DOWNWARD PRESSURE ON HOG PRICES TO CONTINUE

The USDA's September *Hogs and Pigs* report revealed a somewhat larger buildup in the breeding herd than anticipated by the market. In addition, the number of sows expected to farrow in the next two quarters was larger than expected. The result will be record high pork production for the last half of 1991 and record high yearly production in 1992. Live hog prices are expected to generally move lower over the next year, although seasonality can be expected.

The size of the breeding herd on September 1, 1991 was reported by USDA to be 7 percent larger than last year at this time. The previous report in June indicated that the herd was up 6 percent. The September report shows that the rate of expansion continues to increase. There are signs that the USDA estimate may still be too low. In June, the breeding herd was up 6 percent, but actual farrowings for the summer quarter were up 8 percent. Producers intend to farrow 8 percent more sows this fall and 7 percent more this winter, both of which exceed the current percentage increase in the breeding herd.

The expansion is widespread, geographically. Iowa and Illinois breeding herds are both up 10 percent with Indiana, Nebraska and Minnesota up 4, 8 and 9 percent, respectively. Leading the nation in percentage increase is North Carolina, where the herd is up 28 percent, or 90,000 breeding animals, over the past year. It is assumed that most of this increase is occurring on the large corporate hog farms in that state. In the Midwest, some states were still showing declining breeding herds: Missouri -6 percent; Ohio -4 percent; and Kansas -3 percent.

Concerns about drought across portions of the Midwest seem to have caused little cutback in expansion plans. Some had felt that reduced corn production and higher soybean meal prices would discourage expansion. This report is an indication that expansion plans, once put into place, are not easily diverted unless a major change in expectations occurs. The drought has not been a large enough factor to change these plans. Higher corn and meal prices, however, may reduce the ultimate size of the expansion.

Pork production is expected to be at record high levels. Record high pork production does not mean record low prices. Previous record pork production was established over a decade ago, in late 1979 and early 1980. Since that time, population has increased, so that per capita supplies will not be as large. However, imports are larger and pork demand is

probably somewhat weaker. Terminal prices at that time were in the mid \$30s, but averaged near \$31 per hundredweight in the second quarter of 1980.

The current expansion means that producers have a higher percentage of gilts in their breeding herds. A larger percentage of gilts, which have fewer pigs per litter, means that weaning rates will not continue to increase in the next year. It is more likely that weaning rates will be at about the same level as the previous year. Hog weights have been trending higher, but low hog prices and higher feed prices may keep weights about unchanged to only slightly higher over the next year.

Pork production is expected to be up about 6 percent in the fourth quarter, but up about 8 percent in the first three quarters of 1992. Total pork supply for 1991 is projected at 15.9 billion pounds. Production in 1992 will likely be near 17 billion pounds, an increase of 6 to 7 percent over 1991 production.

Hog prices at terminal markets are expected to average about \$44 per hundredweight for the fourth quarter of this year. Prices will likely drop to the very low \$40s for periods in late October and early November. During the first half of 1992, terminal prices are expected to also average in the very low \$40s, with April lows in the higher \$30s. Projections for next summer are for prices to average near \$40s, which will be the lowest summer hog prices since they averaged about \$44 in 1988. Pork supplies next summer are projected to be about 9 percent larger than those of the summer of 1988.

Producers should continue to expect a difficult cash flow situation from their hog operations, especially in the last half of 1992 and early 1993.

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