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WEEKLY OUTLOOK

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FRIENDLY HOG REPORT, BUT HARD TO BELIEVE

Hog producers received a belated Christmas present in the form of the USDA's December *Hogs and Pigs* report. The report indicated a much smaller increase in last fall's farrowings than producers had indicated earlier. In addition, the inventory of market hogs which will be slaughtered this winter was somewhat smaller than expected. While these are factors which should lead to higher hog prices, several inconsistencies exist which will temper the bullishness of the report.

The breeding herd was reported as 5 percent larger than last year on the December 1 survey date. This is somewhat smaller than the 7 percent increase in the breeding herd as of the last report in September, and may indicate a reduction in the rate of expansion of the breeding herd. Market hog numbers were also up 5 percent, which was less than the expectations of a 7 percent increase.

The most surprising number in the report was the 4 percent increase in last fall's farrowings. Producers had reported in September that their fall farrowings would be up 8 percent. The 8 percent increase would be fairly consistent with the 7 percent larger breeding herd reported in September. If the current estimate of farrowings is correct, the supply of pork for the spring of 1992 will be about 4 percent lower than previously expected, with prices back into the mid-to-upper $40s. However, the very small number of fall farrowings makes one question if producers under-reported their fall farrowings, or if USDA got an inaccurate reading.

A second inconsistency arises in the inventory of hogs weighing over 180 pounds. The report listed a 5 percent increase in these hogs, most of which should have been marketed in December. While December slaughter data is not yet complete, it appears that slaughter was up about 7 percent. If so, this is an indication that the report is showing fewer hogs than are actually coming to market. The market place must then evaluate if the report is also indicating too few hogs in other categories.

In cases where major inconsistencies such as these exist, the market often must turn back to the data it can be sure of. In this case, it can only be sure of the current cash market, which continues to show large hog supplies and depressed prices. The bullishness of the report must be tempered by the inconsistent numbers and by the large supply and low price situation of the current period.

Live hog prices at the terminals are expected to recover to the low $40s by the middle of February. They may drop back below $40 in late March and April, but are expected to rise back to the $45 to $47 level in late spring and early summer. However, if producers follow through on their intentions to farrow 7 percent more sows this winter, mid and late summer hog prices will return to near $40, with fall prices in the high $30s.

For 1992, hog prices at terminals should average in the $40 to $43 per hundredweight range. Total pork supplies will be about 16.8 billion pounds, which will exceed the 16.5 billion pound record production in 1980. However, retail per capita supplies will not be at record levels. In 1992, per capita supplies are estimated to be about 53.2 pounds compared with the record of 57.3 pounds in 1980.

Continued expansion of the breeding herd is expected at least through the spring or summer of this year. Low prices and losses in the last quarter of 1991 were not severe enough to sufficiently discourage producers to move into liquidation. If hog prices do recover to the low and mid-$40s in the first half of 1992, the beginning of liquidation is not expected until late 1992. However, if hog prices below $40 persist in the first half of 1992, then liquidation is expected to begin in the late spring and summer. The lowest prices of a hog cycle generally occur with the liquidation of the breeding herd, when breeding herd slaughter is added to a large market slaughter. Odds still favor this time period beginning late 1992.

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