



WEEKLY OUTLOOK



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CONTINUED HOG EXPANSION MEANS LOSSES WILL RETURN

The latest USDA *Hogs and Pigs* report indicates that producers expect to continue expansion of the breeding herd at least through this fall. The nation's breeding herd was reported as 1 percent larger than last year as of the June 1 survey date. More troubling, however, were the intentions of producers to increase farrowings by 1 percent this summer and by 3 percent this fall. Pork supplies will continue to be at record high levels for the last half of 1992 and into early 1993.

North Carolina continues to lead the expansion with a breeding herd increase of 24 percent over year-ago levels. The state has increased breeding herd numbers by 90,000 over the past year. The size of the breeding herd in the rest of the country was unchanged from last year. In the midwest, some states are increasing and some are decreasing the size of the breeding herds. Three important states seem to have an accelerating rate of expansion: Iowa up 4 percent; Indiana up 2 percent; and Ohio up 6 percent. The rate of expansion in each of these states was higher in this report than in the March report. However, breeding herds in the states of Illinois, Minnesota, and Missouri were reported as down from 3-5 percent.

Pork supplies are expected to at record high levels at least through the first quarter of 1993. Supplies for this summer will be coming from the huge winter pig crop which was 9 percent larger than during the same quarter in the previous year. Pork production for the third quarter is estimated at about 4.13 billion pounds which will exceed the previous summer record supply set last summer.

Supplies for the last quarter of 1992 will largely come from the spring pig crop, which was about 4 percent larger. The large pig crops of the last six months were a result of an increase in farrowings and record high weaning rates. In the last two quarters, the weaning rate has exceeded the 8 pig per litter barrier, with 8.02 pigs weaned in the winter and 8.07 pigs per litter weaned in the spring. North Carolina continues to lead the nation in weaning rates with an average of 8.55 pigs weaned in the spring quarter. Supplies for all of 1992 are estimated at nearly 17 billion pounds, breaking the previous record of 16.4 billion pounds in 1980.

The supply records are expected to keep falling into early 1993. First quarter supplies will come from this summer's farrowings, which are expected to be up 1 percent. Pork supplies will tend

to exceed the percentage increase in the farrowings because of higher weaning rates and heavier market weights. If producers do expand farrowings by 3 percent this fall, next spring's supplies will be about 4 percent larger than the supplies of spring 1992.

Record pork supplies will not be positive for live hog prices. Prices at the 6 terminal markets are expected to average about \$42.50 per hundredweight in the third quarter of this year. July prices are expected to be in the mid-\$40s, before dropping to the lower \$40s in August. September prices will likely move from low \$40s early in the month to the high-\$30s by late in the month. Fourth quarter prices are expected to average about \$37.50 per hundredweight. Fall lows will likely drop into the mid-\$30s in late October and early November, but struggle back into the high-\$30s in December.

Low prices are expected to continue into the winter, with the first quarter of 1993 having an average price about \$36.50. If producers do follow through with their current expansion plans, prices in the second quarter of 1993 will average in the low-\$40s.

Producers should get ready for a sustained period of financial losses. Prices are expected to be below the break even point for average cost producers from September of 1992 until May of 1993. Assuming an average price of \$38 for this eight month period, average losses may be about \$10 per head. For high cost producers, losses will exceed \$20 per head, while the lowest cost producers will about break even.

This fall and winter will likely be the worst financial period of this hog cycle. Losses during this period are expected to move the industry toward sow liquidation with overall improvement in hog prices in the late summer and fall of 1993.

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