Cooperative Extension Service

WEEKLY OUTLOOK

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HOG EXPANSION CONTINUES WITH BIG CORN CROP

The latest USDA *Hogs and Pigs* Report indicates that hog producers are continuing to increase the size of the breeding herd. The herd on September 1 was reported as 2 percent larger than on the same date last year. The continued expansion ensures that the record high level of pork production in 1992 will be exceeded in 1993. Prices are expected to be below $40 for periods in the late fall and winter. Lower annual prices can be expected for 1993.

The rise in the breeding herd continues to be led by the state of North Carolina, where the number of animals in the breeding herd has expanded by 22 percent. The North Carolina breeding herd now stands at 500,000 animals, and is rapidly catching the herd sizes in Nebraska (550,000); Minnesota (570,000); and Indiana (580,000). The herd in North Carolina has increased an astonishing 56 percent (180,000) in the last 2 years.

Iowa producers have also put the accelerator to breeding herd expansion, according to the latest report. After the breeding herd had increased by only 4 percent in the June report, the expansion is now reported at 7 percent. This acceleration in the rate of expansion is very unusual from observations of past cycles, with the best logical explanation being the incentive provided by abundant and cheaply priced corn in Iowa.

Costs of production are going to be lower this fall compared to the past year, led by lower corn and protein meal prices and lower interest rates. With corn priced at $2.10 per bushel and 44 percent meal at $170 per ton, costs of production will be about $2.50 to $3.00 per hundredweight lower this fall than in July. This will allow average cost producers to produce hogs for $39 to $41 per hundredweight. Unfortunately, the full impact of the huge corn crop which will be harvested this fall may not have been fully factored into this hog report. This is because the survey date of the hog report was around September 1, when early frost was still a major concern. Now with the corn crop assured, some further expansion in the breeding herd can be anticipated.

Futures prices for live hogs are also providing reasons for hog producers to expand further. Given the low cost structure now in prospect, there is not a futures price for any delivery month which provides incentives to move the herd to liquidation. In addition, cash prices are perceived to be generally better than anticipated, providing some false security that somehow we will make it through this expansion phase without a period of severe losses. These stronger-than-anticipated prices are largely a result of increases in consumption stimulated by lower retail pork prices. These lower prices have stimulated domestic consumption and, in combination with a low value dollar, have reduced pork imports and stimulated pork exports. Adding to the better live hog prices in late summer and fall has been the reduction of sow slaughter.

Pork production will be a little over 17 billion pounds for 1992, but will likely soar toward 17.7 billion pounds in 1993, if pork producers follow through with their intentions to farrow 3 percent more sows this fall and winter, and if the trend toward more pigs per litter (at least in the fall) and higher market weights continue. Increased pork supplies in the range of 3 to 4 percent are anticipated for the first three quarters of 1993. The last quarter of 1993 will likely provide a 1 to 2 percent increase in production.

Prices of barrows and gilts are expected to move lower into the fall and average near $40 in the fourth quarter. Winter supplies are expected to drive prices below break even levels. The large winter supply comes from the summer pig crop which was up 5 percent as a result of 2 percent higher farrowings and a remarkable 3 percent increase in the number of pigs per litter. Prices for the first quarter of 1993 are expected to average in the $36 to $38 range. Some seasonal improvement in prices back into the mid $40s is expected for the summer highs, but late summer prices will likely be back into the higher $30s. Prices for the calendar year 1992 are going to average around $42 at the six terminal markets. It now appears that 1993 will be the lowest priced year of this cycle, with average prices around $39.

In summary, the big corn and bean crops are going to propel hog production to levels not seen before. The crucial question to be answered in 1993 is, "how are we going to get down from this production mountain?" Will a short corn crop in 1993 lead to massive losses and rapid liquidation, or will continued low pork prices stimulate consumption enough to make our descent soft and gentle? For now, the market appears not to be concerned at all with the record level of production coming in 1993.

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