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

JANUARY 4, 1993

HOG RETURNS NEAR BREAKEVEN IN 1993

The hog breeding herd continued to expand in late 1992. The breeding herd inventory on December 1, as estimated by USDA, was 2 percent larger than last year's inventory. The marketing herd was about 4 percent larger. A new pork production record will be set in 1993, with production of about 17.6 billion pounds exceeding the 1992 record of 17.2 billion pounds. Even with very large supplies, prices are expected to remain near breakeven levels for much of the year due to relatively strong demand factors.

The breeding herd expansion was largely confined to three major states. Iowa's herd was up 8 percent; Nebraska was up 5 percent; and the breeding herd in North Carolina was up 14 percent. The breeding herds in some major production states were down somewhat. States where the herd was lower include: Illinois, down 3 percent; Minnesota, down 2 percent; and Missouri, down 1 percent. The states of Indiana and Ohio had breeding herds which were unchanged from last year.

The large expansion in Iowa reflects the fact that producers there were late to respond on this cycle, and due to the abundant and low priced corn in the state. The North Carolina expansion is an ongoing expansion which is stimulated by a new packing plant which will begin production in 1993 and by changes in environmental regulations which are to go into effect in 1995. North Carolina will likely move up in its current state rank of 6th in the size of the breeding herd during 1993.

Farrowing intentions indicate producers intend to continue to increase farrowings into 1993, but the rate of growth is slowing. For the December-February quarter, farrowing intentions are up 3 percent, but for the spring quarter, they are up only 1 percent. If these intentions are realized, the market is assured of a record large slaughter rate throughout 1993. The total number slaughtered is expected to be near 97 million head for the year.

Large supplies in 1993 have been fully expected. An equally important part of hog price determination has been demand. Two demand related factors have contributed to hog prices being somewhat higher than expected in the last half of 1992. The first has been the much narrower marketing margins this fall. This has enabled retail pork prices to be priced about 8 to 10 cents per pound lower with higher prices on live hogs versus the fall of 1992. The lower marketing margin, when considered by itself, has added about $4 per hundredweight to the price of hogs compared to late 1991. Marketing margins are expected to increase modestly in 1993, at about the inflation rate, and should continue to support a large amount of pork consumption.

Export demand is the second strong demand factor. Data for the latest reporting period of January through October 1992 show that pork exports are up 49 percent from the same period in the previous year. During the same time period, pork imports have fallen by 18 percent. In addition, the live hog imports from Canada are down 367,000 head, or 40 percent. These improvements in pork and live hog trade have contributed to higher prices compared to 1991 in the range of about 80 cents per hundredweight.

The trade outlook for pork in 1993 continues to be favorable. Current USDA projections are for pork trade to add an additional 80 cents per hundredweight over 1992 prices. It is clear with the low value of the U.S. dollar, abundant U.S. production, and low U.S. prices, few in the world can effectively compete with domestic producers at this time. In addition, economic trade reforms in Japan and Mexico are allowing additional market access and export opportunities for pork.

Prices of hogs are expected to be supported by favorable demand factors even in the face of record supplies. The six terminal average prices for 1993 are expected to average about $41.25 per hundredweight. This will be only about $1 lower than the average price in 1992. The seasonal pattern of prices is expected to show live hog prices in the high $30 in the winter, with prices moving back to the $46-47 range for highs in June. Late summer prices are expected to average in the low $40s with fall prices back to near the $40 mark.

Production costs throughout the winter and spring will be near $40 for many producers. Therefore, prices will be around breakeven levels for the first half of the year. In the last half of 1993, margins may also be near breakeven, if feed costs remain moderate. Unfavorable weather for the 1993 crops would, however, throw margins into the red, and result in a more rapid liquidation in the fall of 1993.

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