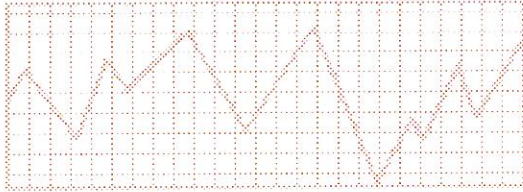




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WEEKLY OUTLOOK



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HOG SUPPLIES TO BE SURPRISINGLY LOW

The USDA's September *Hogs and Pigs* report indicated that the number of hogs which will be available for slaughter this fall and winter was sharply lower than previously expected. The surprise was primarily as a result of the USDA revising the spring pig crop lower and reporting that fewer sows were farrowed in the summer than intentions had indicated. A lower weaning rate in the summer was also partially responsible for fewer pigs.

In June, the spring pig crop was reported at 27 million. That number was revised lower by over 1.4 million pigs in the latest report and means that fourth quarter pork production will be down about 4 percent rather than up modestly. The summer pig crop was reported at 23.7 million head, which reduced the previously expected winter supplies by about 1.9 million head and means winter pork production could be down about 3 percent.

These sharp revisions are a result of the USDA now saying that the breeding herd has actually been smaller than their previous reports indicated. It is likely that the breeding herd actually was smaller than year-previous levels as early as June or September of 1992. The USDA revisions, however, still peg March 1993, as the first report showing declines. It has been a difficult period for USDA to get accurate counts on hog inventories.

USDA indicates that producers intend to farrow 2.5 percent fewer sows this fall, but 1.8 percent more sows in the winter quarter. It would be unusual for hog producers to move back toward expansion this rapidly after just cutting the herd. In the past three contraction phases of the hog cycle, the number of quarters in which the USDA reported the breeding herd being below year previous levels has been 8, 13, and 11 quarters. Having only three quarters in liquidation (March-September, 1993) would be unprecedented in recent history.

Perhaps the most puzzling numbers from the report are the patchwork of contraction and expansion which USDA suggests is going on in neighboring states in the midwest. As an example, the breeding herd numbers in Iowa indicate a massive liquidation, where the herd was reported as down 15 percent. Yet producers in Minnesota are rapidly expanding, with a 7 percent larger breeding herd, and the Missouri breeding herd is up 5 percent. It is hard to accept that the adverse summer weather would have caused such opposite reactions by hog producers. These seemingly inconsistencies, in combination with major revisions in the inventory count, will make market participants cautious about accepting the accuracy of the report.

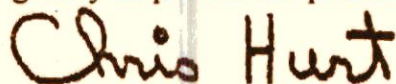
Breeding herd inventories for other major hog states include reductions of 3 percent in Illinois, 6 percent in Kansas, 5 percent in Nebraska, and 8 percent in Indiana. North Carolina's breeding herd was reported as up 18 percent. (If you would like an article which describes why the North Carolina herd is increasing so rapidly write me at: 1145 Krannert Building, Purdue University, West Lafayette, IN 47907).

The price projections made here use the USDA numbers. The market will also trade the report numbers until daily slaughter counts can begin to confirm or deny the accuracy of the inventory count.

Prices of barrows and gilts at terminals are expected to reach their fall lows in late October and early November. These prices may not be much lower than \$46. Improvement into late November and December can be anticipated with cash prices moving to the very high \$40s and perhaps around \$50. Winter and spring 1994 prices are expected to average near \$50, which means that they could reach the low \$50s in mid-February, drop back into the \$47-48 range in April, then make an early yearly peak in late-May and June back into the \$51 to \$54 range. If farrowings increase by this December, as the report indicates, prices for next summer may average in the \$45 to \$48 range.

Producers do need to keep in mind that 1994 could be the peak price year of the hog cycle. This appears more likely now that USDA is suggesting that liquidation has been underway. Recent peak hog price years occurred in 1978, 1982, 1986, and 1990, a consistent four-year interval. In the last 3 of those years, hog prices exceeded \$60s during the summer period. Studies of historical hedging strategies have suggested not hedging summer contracts during the peak price year because the futures market does not anticipate how high hog prices can go. However, hedges in the February and April contracts are much more acceptable.

While this report has not answered all the questions about what is happening to hog numbers, it has greatly improved the profit outlook for hog producers.



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