Cooperative Extension Service

WEEKLY OUTLOOK

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HOGS LIKELY TO BE PROFITABLE DESPITE HIGH FEED PRICES

Hog producers have been biting their fingernails since the November crop report added major uncertainty to feed costs. Now with the release of the December *Hogs and Pigs* report, there is a greater assurance that hog prices will be high enough in 1994 to absorb the higher feed cost, and still provide profits.

The report indicated that the breeding herd on December 1 was down 1.4 percent and that the inventory of market hogs was down 2.4 percent. Prior to the November crop report, most analysts felt that the breeding herd would begin to increase by December. The uncertainty created by the higher feed prices and lower-than-expected hog prices in late 1993, appears to have delayed some expansion plans.

Producers indicated intentions to farrow 1.7 percent more sows this winter than last winter. This increase seems to be at odds with the decrease of 1.4 percent in the breeding herd, and it is likely that farrowings will actually be smaller than intentions. Farrowing intentions for the spring quarter are down 3.1 percent. This indicates that producers plan to keep the breeding herd at relatively low levels, with the potential for some further reduction this winter.

With the poor corn crop in the western corn belt, most hog industry observers had felt that the greatest reductions in the breeding herd would come in that area. This was not the case, however, according to the USDA numbers. The Iowa breeding herd was listed as down 3 percent, with Minnesota down 5 percent, and Missouri up 15 percent. These three states on average were down only 1 percent. The majority of the increase in Missouri is likely due to the growth of Premium Standard Farms. Surprisingly, eastern corn belt states had greater reductions in their breeding herds. Breeding herd numbers were down 6 percent in Illinois, 9 percent in Indiana, and 7 percent in Ohio. These three states, on average, were down 7 percent.

Several states had notable expansions of their herds, and each are likely due to integrated mega-farms. Missouri with a 15 percent increase has already been mentioned. The North Carolina breeding herd was up 22 percent, or 110,000 head. The Oklahoma herd was up 25,000 animals, which represented a 71 percent increase. Numbers in Arkansas were up 4 percent, or 5,000 animals. Increases in these two states are most likely related to expansion of Tyson's and Seaboard Coast.

The last two years have been a difficult period for USDA to get accurate readings on hog inventories. Adjustments were made in this report to both 1992 and 1993 inventory numbers. The major problem seems to have come in early 1992 when the herd was in liquidation, but the USDA numbers continued to suggest further expansion. As an example, the breeding herd inventory in Iowa in December 1992 was originally listed at 1.95 million animals. This has since been lowered to 1.7 million animals.

Now that a more valid picture of the last two years is coming into focus, where are we in the hog cycle? It appears that 1992 was the largest production year of this cycle. Pork production per person was down 2.1 percent in 1993, and is projected to be down another 2.4 percent in 1994. This will make 1994 the lowest production year of the current cycle, and likely the highest price year of the cycle.

With pork supplies per person down about 2.4 percent in 1994, hog prices are expected to move higher by about 6 to 8 percent in 1994. Hog prices at terminal markets averaged about $45.40 in 1993, and are expected to average close to $49 in 1994. In the winter, prices are expected to average in the $43 to $48 range. High prices are expected in the second quarter, with averages in the low $50s. The highest prices of the year are expected in late May and June and could reach the mid-$50s. If producers increase this winter's farrowings as expected, summer prices will weaken to the mid-to-high $40s, but some recovery back to near $50 is expected for the last quarter of 1994.

The year is expected to yield an average of about $5 per hundredweight in profits. Average cost of production is currently estimated to be near $44 per hundredweight across the industry. Each 10 cent change in the price of corn impacts costs about $.50 per hundredweight. Costs are expected to remain in the $43 to $45 range until the prospects for the 1994 corn crop can be better determined. With normal sizes of crops in 1994, cost of production should be near $42 by year end.

Will further liquidation occur due to the higher feed prices? Given the current price and cost outlook, it is not likely that further reductions in the breeding herd will occur. This seems at odds with the current high corn prices, but hog producers do not change herd size just because of corn prices, but rather because of profits or losses. Hog prices are expected to be high enough in 1994 to offset the higher prices of feed. The case for expansion, however, becomes stronger in late summer and fall of 1994 if a return to normal crop sizes becomes evident. This suggests that hog prices will remain profitable at least through the first half of 1995. If expansion occurs in late 1994, it will mean that the lowest returns on the next cycle could come in late 1995 and 1996.

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