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WEEKLY OUTLOOK

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HOG INTEGRATOR EXPANSION DEFLATES 1994 PRICE PROSPECTS

The USDA's March *Hogs and Pigs* report indicated that the breeding herd was at 99.6 percent of last year's level as of early March, about 1.4 percent higher than expected. The number of pigs available for market this spring is about 2 percent lower than last year, but about 1 percent more than had been anticipated. Summer supplies are expected to be unchanged to down about 1 percent.

Farrowing intentions for this spring are currently reported as down 1.7 percent. Three months ago, producers indicated their spring intentions would be down 3.1 percent. In general, the March report shows about a 1 percent larger supply of hogs for 1994 than the previous estimates. The breeding herd will move back into expansion this summer, with farrowing intentions at 100.3 percent of last summer's farrowings. Given the uncertain economic environment of this past winter, it is surprising to see the beginnings of expansion. It appears that integrators are causing a non-traditional hog cycle which may generate a more rapid expansion than previously expected.

The shifting structure of hog production is also resulting in a geographic shifting of the industry and may further impact the hog cycle in the next two years. Huge breeding herd expansions have occurred over the last year in North Carolina and Missouri. Expansion in these two states is primarily due to integrated hog operations. The numbers indicate that North Carolina has added 130,000 animals to the breeding herd and that Missouri has added 55,000 animals.

These expansions have largely offset declines in states with more traditional family-farm production. States with a decline in the breeding herd over the past year include: Iowa(-50,000); Indiana(-45,000); Nebraska(-40,000); Illinois(-30,000); Ohio(-20,000); Kansas(-20,000); and Wisconsin(-10,000).

Over the past year, the more family-farm oriented states seem to have followed the normal hog cycle — liquidating sows after the financial losses of early 1992 and then keeping the herd smaller through the high cost period due to the 1993 floods. On the other hand, the integrators have been driven by the thought that the current time period is a window of opportunity as the industry is commercialized into larger production units which are highly coordinated with processors. Integrators have expanded because of their feeling that now was the period of opportunity to gain U.S. market share.

In geographic terms, North Carolina has gained nearly 2 percent of the nation's pork production capacity in the last year. Other integrator driven states such as Missouri, Oklahoma, Colorado, and Arkansas, have likely gained another 1 percent of U.S. market share. These gains have come at the expense of production in the corn belt.

In the normal hog cycle, one would expect family-farms to begin expanding their breeding herds once they see a favorable growing season develop for 1994 crops. However, the rapid growth of integrators over the past year means that hog prices will not be as high this summer and the incentive for family-farms to expand will not be as strong. Since integrator expansion is expected to continue through 1994, normal expansion by family farms could cause a period of sharp losses in late 1995 and 1996. However, if family farmers do not expand, they will continue to give up U.S. market share. This seems to be a Catch 22 for family-farm managers.

Prices for 1994 are now expected to average in the $47 to $48 range, about $1 per hundredweight lower than previous expectations. Prices should be at their spring lows in the last half of March and begin recovery into April. Summer highs are likely to be in the June and July period, and be in the very low $50's. Odds of prices reaching the mid-$50s have been greatly deflated.

Average prices over the second and third quarters of this year are expected to be in the $48 to $50 range. By the last quarter of the year, prices could fall back to the $45 to $47 range, and trade in the mid-$40s in the winter of 1995.

This year continues to look like a profitable year overall, but profit prospects have eroded about $1 per hundredweight with the March report. The size of 1994 crops will be an important factor in determining whether the industry moves into more rapid expansion. A poor corn crop in 1994 could throw the industry back into liquidation.

Chris Hurt

Issued by Chris Hurt
Extension Economist
Purdue University

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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