

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

July 11, 1994

HOG PRODUCERS EXPANSION PLANS ARE TOO AGGRESSIVE

The USDA's June *Hogs and Pigs* report provides a disturbing picture of large expansion with much more to come. Unfortunately, inventory numbers from previous reports missed the level of breeding herd build-up which USDA now suggest began in earnest during the summer of 1993.

The breeding herd was reported as up 3.2 percent from last year's inventory with the market herd 3.1 percent larger. The weight categories show the number of pigs coming to market in July and August to be up about 2 percent and those coming to market in September through November up a sharp 4.3 percent. Farrowing intentions for this summer quarter are up 4.9 percent, and are 5.4 percent larger for the fall quarter. If these inventory numbers are accurate, pork supplies will be about 4.5 percent larger over the next 12 months compared to the last 12 months. Terminal market prices over the next 12 months may average around \$40, with the potential for calendar year 1995 prices to average near \$38.

The USDA revised the eastern Corn Belt breeding herd upward. In March, the breeding herds in the eastern Corn Belt were shown as significantly smaller. This did not seem to match with the fact that the corn crop was favorable in the eastern Corn Belt, and with reports from the field that the herd was near unchanged. Now in the June report, the USDA has added those hogs back to the March inventories. For example in the 16 major producing states, 160,000 animals were added to the breeding herd. Of this total, 130,000 sows were added east of the Mississippi River and only 30,000 were added west of the River.

The states of Indiana (+40,000); Illinois (+30,000); Ohio (+15,000) and Michigan (+5,000) comprised the largest single block, with 90,000 animals added to the revised March totals. These revisions paint a much different picture of the eastern Corn Belt than the original March report which suggested a region in production decline.

The June breeding herd numbers show the same pattern which has dominated the changing face of hog production for the past several years. Integrator and large hog farm states are growing dramatically, while family farm states are fighting to hold on. The June report shows that the U.S. breeding herd is up by 230,000 animals over the same period a year ago. The growing states are easy to find: North Carolina (+190,000); Missouri (+75,000); and "Other States" which are not itemized, but are likely led by Colorado and Oklahoma (+50,000).

The major area of decline is in the western Corn Belt states of Iowa (-50,000); Minnesota (-40,000); Nebraska (-10,000); and Kansas (-10,000). Both Iowa and Minnesota were hard hit by flooding in 1993 and it will be interesting to see if these states can return to previous levels of hog production

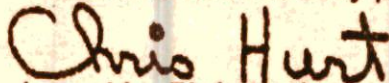
during the next year, especially in the face of below breakeven prices. Given the momentum in the current expansion, and the apparent return of a favorable 1994 corn crop, it is unlikely that the expansion can be turned off quickly. This means that many plans to add sows will continue and that further increases in farrowings can be expected into early 1995.

Pork supplies, based on the current report, are expected to be up by about 3 percent to 4 percent during the last half of this year. If farrowing intentions develop, pork supplies could be up by 6 percent to 7 percent during the first half of 1995. For calendar year 1994, this would mean production at a new record of about 17.4 billion pounds. With some further buildup of the herd, pork supplies in 1995 may reach 18.1 billion pounds, representing the largest per capita pork supplies since the excess expansion in 1980-81.

Prices are expected to peak this summer in the mid-July to mid-August time period. Highs may only reach the \$45 to \$47 level at terminal markets. However, the average price for the July-September quarter is expected to be near \$44. Price levels are expected to reflect the mounting supply pressure in the last quarter of the year, with average prices near \$40, with some daily prices in the very high \$30s. If farrowing intentions do develop as reported, the first half of 1995 will thrust many hog operations into financial losses, with prices averaging around \$38. All pork producers will want to check their projected cash flows for 1995 and 1996. Use a \$38 terminal price for 1995 and perhaps \$40 in 1996.

How long will it take to move the herd toward liquidation? Assuming that the 1994 corn crop is large, breeding herd liquidation will not begin until losses begin to mount. This would likely be the spring of 1995 at the earliest. If so, supply pressures could begin to ease in very late 1995 and 1996. Regardless, it appears that operating margins during the 18 month period from October 1994 to the spring of 1996 will be small or negative, for the industry on average.

Many producers who have not started an expansion will want to put those plans on hold. Those who were considering leaving the industry this summer may also want to continue with those plans. Those who have already put expansions in place are probably obligated to carry out those plans.



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