Cooperative Extension Service

WEEKLY OUTLOOK

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LARGE PORK SUPPLIES KEEP MARKET SEARCHING FOR THE BOTTOM

Pork producers continue to increase the size of the hog breeding herd, according to the USDA's September *Hogs and Pigs* report. The nation's breeding herd is 4 percent larger, which means that pork supplies over the next 12 months could increase by 4 percent to 6 percent. Profit prospects remain dim as pork will continue to compete with large beef and poultry supplies through 1995. However, some improvement in prices from the low-to-mid $30s is expected by the end of the year and for 1995.

The month of September was particularly brutal for producers as cash hog prices dropped $8 to $10 per hundredweight, with most of the decline occurring in the first two weeks of the month. Pork supplies for September were up nearly 7 percent from year ago levels, but this factor by itself should only have pressed prices into the higher $30s. The additional $4 to $5 per hundredweight drop seems to be as a result of retail prices not dropping enough to move the larger wholesale pork supply. Over time, some of this $4 to $5 may be recovered as retailers reflect much lower wholesale prices to consumers.

The expansion of the breeding herd was once again concentrated in North Carolina and Missouri, with an addition of 180,000 and 45,000 animals, respectively, in the past year. In fact, in the remaining 48 states, the breeding herd was up only modestly.

Productivity of the breeding herd continues to grow rapidly, contributing to even greater pork supplies. The number of pigs weaned per litter approached 8.25 pigs during the last six months. This is about a 1.5 percent gain over weaning rates one year ago. In addition, market weights continue to trend higher.

Supplies of pork are expected to be about 4 percent larger in the fourth quarter of 1994. During the first half of 1995, pork supplies are expected to be 6 to 7 percent above year ago levels. If producers farrow nearly 4 percent more sows this winter, pork supplies next summer will be more than 4 percent larger. For calendar year 1995, pork supplies are projected to be up 4.7 percent, to 18.3 billion pounds.

While little improvement in prices can be expected in the next 4 to 6 weeks, prices are expected to improve somewhat by the end of the year. Normally, hog prices remain under pressure in October and early November. However, with the large price drop in September this year, and with prospects for retailers to reduce prices, hog prices may not move much lower into early November. In late November and December prices at terminal markets are expected to recover modestly into the $36 to $39 range.

Given the large farrowing this past summer, winter terminal prices are expected to be in the $34 to $38 range, with the highest prices next summer only reaching the low $40s. If producers continue with current production plans, terminal prices in 1995 will only average about $37, down from near $41.50 in 1994.

Cost of production for average cost farrow-to-finish operations is expected to be in the $41 range over the next year. The current outlook calls for an extended period of losses for many producers. The surprisingly low prices in September, however, have already caused nearly all producers to reconsider their 1995 plans. The momentum toward expansion has likely come to a halt. Other producers are already considering reducing or liquidating their sow herds. It seems safe to say that increases in farrowings will not be as large as indicated in the September report.

Does this mean that this period of loss will end soon? Unfortunately, it is not likely that the industry will move to liquidation quickly. Generally it takes at least 3 to 4 months of hog prices near-or-below variable costs to begin liquidation. Even if prices do not improve this fall, it is unlikely that the breeding herd will move below year-ago levels until the spring or summer of 1995. This means that overall improvements in hog prices cannot be anticipated until very late 1995 and early 1996.

Most producers will want to reexamine their fixed and variable production costs, remembering that if variable costs can be covered in the next year, they may be better off to continue in production rather than to liquidate.

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