Cooperative Extension Service

WEEKLY OUTLOOK

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CURRENT HOG PRICES EXTREMELY LOW BY PAST STANDARDS

The pork industry remains in shock over the depths to which hog prices have fallen. The primary factors providing the low prices are very large hog supplies, which in October averaged about 8 percent greater than last year, and wide packer and retail margins.

In the last inventory report, USDA estimated the number of hogs which would come to market in October about 4 percent larger than supplies of a year ago. With actual slaughter being about 8 percent higher, it is obvious that hog inventories are much larger than the last USDA count. Compounding this concern is the fact that in late October and early November slaughter supplies have been over 10 percent above year earlier levels.

How low will hog prices go, and how long will they stay there? The answer, of course, lies in the particular supply and demand events over the next several months. However, a look back across price patterns of the past 20 years may help provide some clues.

Hog prices at current levels have been extremely rare over the last 20 years. Looking at average monthly prices over this period, terminal hog prices were under $40 only 15 percent of the time; under $35 only 3 percent of the time, and under $30 less than one percent of the time.

In October of this year, monthly terminal market barrow and gilt prices averaged about $32. There have only been three other months in the last 20 years that prices have been this low. The lowest prices of hogs in this time period was an average of $28.86 per hundreweight in April of 1980.

Current financial losses are also consistent with those of previous low price periods in 1980, 1983, 1988, and 1991. During the months of largest loss, losses averaged about $8 per hundreweight, but were as high as $12. With cost of production near $38 and hog prices in the high $20s to low $30s, losses are in the $8 to $10 range, on average.

How quickly did prices recover in past low price periods? On average, the prices during the 6 months following the low price months averaged about $8 per hundredweight higher than the low price months. Prices one year after the low price months were nearly $9 higher, and 18 months after the low price period were $11 higher.

What lessons does a review of past price patterns hold for the current low price situation? First, the current prices are rare, and historically prices at this level have not lasted for more than one or two months. Secondly, losses in the range of $8 to $10 per hundreweight have caused the industry to begin to make supply adjustments quickly. Third, prices recover fairly quickly and sharply from the lows. Average prices in the 6 months following the low price period have typically been $5 to $10 per hundredweight higher than during the low price period.

Has the structure of the industry changed so much that historical price patterns are not of use today? It seems logical that the industry is more stable today, but two factors support the argument that the historical patterns will repeat again. The first is that hog prices are so low that nearly everyone in the industry is losing money. This includes independent family farms, corporate farms, and mega-farms. Supply adjustments will have to occur due to the financial inability for these prices to be sustained.

Secondly, there is a view that the industry is dominated by large producers who can not change course. This is simply not true. The latest structure data from USDA indicates that the median size of sow herd is around 100 sows, and that about 67 percent of the hogs are still produced on farms with less than 200 sows. The industry remains dominated by moderate size independent producers. Any firm, of course, can change course when forced by finances or by a heightened level of discouragement.

In summary, the magnitude of supply buildup still remains uncertain. However, historically speaking, hog prices do not stay at these levels for long, with considerable improvement noted in the 6 month period following the lowest price months. In addition, while the industry's structure is much different today, adjustments of supply will occur because prices are below costs for nearly all producers.

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