Cooperative Extension Service

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

January 3, 1995

HOG INDUSTRY SHIFTS TO LIQUIDATION AND 1995 LOOKS MUCH BRIGHTER

Hog producers made a dramatic shift in their plans. After suffering through the lowest prices in over 20 years and the greatest losses since 1983, many said, "Enough."

The USDAs December 1 inventory report implies that hog producers cut back sharply on farrowings last fall and intend to cut more sharply by next spring. This report has returned a feeling of renewed hope to hog producers. The last quarter of 1994 was brutal, both financially and psychologically.

The breeding herd, which was up about 4 percent in September, was down about 3 percent on December 1. The USDA report shows that the major cuts in the herd came out of the heart of the corn-hog belt. Iowa reduced the size of their breeding herd this fall by an astounding 300,000 animals, or about 18 percent. With surrounding states added to Iowa's total, the liquidation in this region totaled 465,000 animals.

Producers also cut the number of sows they intended to farrow. In September, they said they would farrow 4 percent more sows last fall. The actual farrowing level was down 1 percent. In addition, they say they will farrow 1 percent fewer sows this winter and 6 percent fewer this coming spring. If they follow through on these plans, there will be further liquidation of the breeding herd this winter.

These numbers mean the industry has shifted from expansion late last summer, to relatively rapid liquidation in the fall. The magnitude of change in numbers is indeed dramatic and may overstate the degree of actual liquidation that has occurred. In addition, with the improved outlook as a result of this report, the herd liquidation planned for this winter may not be as large as indicated. Few analyst felt that producers would respond as quickly as USDA has indicated.

If producers follow through with their intentions, pork supplies will be at about the same level in 1995 as in 1994. However, first quarter 1995 supplies will continue to be burdensome, resulting in prices below costs of production for many producers. First quarter supplies are expected to be up about 7 percent.

By the spring and summer, pork supplies should be nearly unchanged from the same time period in 1994. The beginning of reduced supplies of pork can be expected in the last quarter of 1995 as a result of potentially lower spring farrowings.

Prices of barrows and gilts at terminal markets are expected to average in the mid-$30s for the first quarter. February highs may reach the $37 to $38 range. The spring price rally can be expected to be fairly strong this year with prices moving into the mid-$40s in June. The summer highs could reach the $46 to $47 range. However, average prices for the second and third quarters are expected to be more like $42 to $43. For the last quarter of 1995, prices are expected to remain in the low $40s.

In 1994, prices averaged $39.65 at terminal markets. Current projections are for an average of $41.25 for 1995. The improvement in prices and somewhat lower production costs in 1995 means that the profit prospects are better in 1995. Production costs may be in the $38 to $40 range for many producers, which means that the average price for the year may provide modest profits. In the early part of the year, however, financial losses will be the rule, with return to profitability coming in the spring. The degree of profits in the last-half of 1995 will largely depend on the magnitude of further cutbacks in the breeding herd this winter. Pork producers will need to continue to watch their financial position closely over the next several months. Most who have made it through the gloom of late 1994 will now feel more comfortable about continuing in hog production.

There is a reasonable chance that the USDA inventory numbers are too low. Keep in mind that the survey date around December 1 was near the bleakest period in the last 20 years. Producers may have had a tendency to report fewer hogs than they actually had, and to report intentions at a lower level than they truly intended. With this in mind, don't bet that the hog industry is past its huge supply problems. The rally in futures after the report, and the improved outlook for 1995, may provide some reasonable hedging opportunities this winter. While 1995 still has supply uncertainties, it is more likely that 1996 will be a good profit year, so be cautious about hedging too far into the future.

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

FIRST CLASS