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LITTLE FOLLOW THROUGH ON SOW LIQUIDATION

The nation's pork producers did not follow through on plans to reduce the size of the breeding herd this past winter. Consequently, the breeding herd stayed at about the same size, down 3 percent as reported in the March USDA's *Hogs and Pigs* survey. Market hog numbers were also somewhat higher, so the report was more bearish to hog prices than was the December report.

In the Midwest, where the industry is more traditional, producers continued to reduce the size of the breeding herd. However, in North Carolina and the Southwest and West, the breeding herd continued to rise. Last fall, Iowa and the states which border it, had a decline of 360,000 in the breeding herd. This winter this area had a further liquidation of 70,000 animals, for a total since last September of 430,000. This represents a reduction of about 6 million market hogs produced in the region for 1995.

In the Eastern corn belt states of Indiana, Michigan, Ohio, and Kentucky, the breeding herd was down 55,000 last fall and an additional 30,000 last winter. This region will produce about 1.3 million fewer market hogs in 1995. The size of the breeding here in North Carolina has increased by 30,000 since last September. Increases in other states not individually identified in the survey totaled 90,000. These other states presumably include Colorado, Oklahoma, Texas and Utah.

The number of market animals on March 1 was also somewhat higher than expected. These higher numbers were a result of upward revisions in the size of last fall's pig crop, which is now reported as larger by 2.1 percent,and a record high winter weaning rate of 8.27 pigs per litter, making the winter pig crop 1.6 percent larger.

Producers say they will reduce their spring farrowings by 5 percent, but with the breeding herd down only 3 percent, farrowings are not likely to drop this much. Intentions for summer farrowings were down about 3 percent, which is consistent with the current reduction in the breeding herd.

Pork supplies are expected to reach record high levels of 17.8 billion pounds in 1995, about 1 percent higher than last year. Production in the first three quarters of the year will set new records, but supply should begin to drop by the final quarter of 1995, when it could be down about 3 percent from the last quarter of 1994.

Prices are expected to average only $40 at Midwest terminals for 1995. During the first quarter of the year, prices averaged about $38, but for the last three quarters of this year and the first quarter of 1996, prices are expected to have quarterly averages near $41. As usual, prices are expected to exhibit seasonal variation. A strong spring rally is expected, moving prices to the $43 to $44 range by early June, but are likely to slide back into the lower $40s by the end of summer and fall.

Most hog producers will see the return to a breakeven situation by May, after 8 months of losses. Most of 1995 is expected to provide price levels which will enable producers to only breakeven or show modest positive returns. Unfortunately, higher-cost producers will likely face continued losses most of the year.

Another threat to a return to breakeven margins is the possibility of higher feed prices. Adverse crop growing conditions this summer could increase feed prices and drive the hog industry towards another aggressive round of liquidation this fall. Pork producers can protect against rising corn prices by buying corn futures, or corn call options. Producers may want to consider the purchase of 20 cent out-of-the-money September corn calls. These have a cost of about 10 cents per bushel, but will protect against major increases in corn prices, yet allow producers to take advantage of lower corn prices this fall if the growing season is favorable.

Hog futures will likely provide additional opportunities to lock in 1995 profits over the next several months. Summer futures contract prices at $46 or higher should be considered, as should fall and winter 1996 contract prices in the $42 to $43 range. However, producers should be slower to hedge spring and summer 1996 production because of the potential for sharply higher hog prices. Following historic cycles, hog prices have tended to reach their high cycle prices about 18 months after the lows. With lows made in late 1994, this would be the summer of 1996.

Prices during the next cycle highs, currently best judged to be in the mid-1996 to mid-1997 period, may only extend to around the $50 level (unless major changes occur in feed prices). While these prices sound very attractive today, they are much lower than on previous cycles, and they are more than one year away. To even reach these price levels, further liquidation of the breeding herd must occur.

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