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

JULY 10, 1995

HOG PRODUCERS READY TO EXPAND? WILL PRICES CRASH AGAIN?

Hog producers indicated in the June *Hogs and Pigs* report that they intend to begin increasing the size of the breeding herd by late this summer and farrow 1 percent more sows this fall. If they follow through on these plans, the industry will likely experience another major dip in prices and return to losses. However, there remains a question whether this is an accurate reading of intentions or if producers will actually follow through on these plans. It is more likely that expansion will not occur as indicated by USDA, and that the breeding herd will remain 3 to 5 percent smaller this fall.

The size of the breeding herd on June 1 was down 4.2 percent, which was consistent with the reductions of the herd reported in March. There were signs that the industry had not cut back as much as earlier intentions. For example, the farrowing intentions for this past spring had been down 5.2 percent, but actual farrowings were down only 3.8 percent. Summer intentions are to farrow 1.8 percent fewer sows, but fall intentions are, surprisingly, to increase farrowings by 1.1 percent.

Most of the major production states registered decreases in the size of the breeding herd, and some were sharply below the average national reduction of 4.2 percent. Breeding herds were down 9 percent in Iowa, Michigan, and Kentucky, while the herd in Georgia was down 11 percent. Several states had sharp reductions in their herds, including Wisconsin, down 16 percent, both Kansas and Tennessee were down 17 percent, and South Dakota was down a startling 28 percent from last year. Illinois, Indiana, and Ohio were at the national average, with 4 percent reductions.

A limited number of states had larger breeding herds than a year ago. North Carolina returned to a double-digit rate of growth with a 12 percent increase. Producers in North Carolina had slowed the breeding herd growth to 10,000 animals last fall and 20,000 animals this past winter. However, in the spring quarter they added 40,000 animals to the breeding herd. "Other states" also had a 2 percent increase in the breeding herd. These are most likely the states of Colorado, Oklahoma, Texas, and Utah.

It is likely that the breeding herd will not expand late this summer as indicated by producers. First, large financial losses, as in late 1994, usually result in farrowing reductions about one year later, or in the fall of 1995. Second, the uncertainty of feed prices this growing season discourages expansion.

The market hog inventory numbers show that summer pork supplies will remain above year-ago levels by about 2 percent. However, supplies are expected to begin to drop by September, reflecting a smaller number of pigs from the 4 percent decline in spring farrowings. For the fourth quarter of 1995, supplies are expected to be down about 4 percent, and continue to be down about 2 percent in the winter. Spring 1996 supplies will come from this fall's pig crop, for which producers say they will expand farrowings 1 percent. It is more likely that farrowings will continue lower this fall and that spring 1996 pork supplies will be down in the range of 2 percent to 3 percent.

Prices of barrows and gilts at midwest terminal markets averaged under $40 each month from September 1994 to May 1995. During this 9 month period, terminal prices averaged $35. The price recovery in June, back to the mid-$40s, was due to moderating slaughter supplies, increased product values, and a sharp narrowing of the marketing margin.

Prices are expected to move to the very low $40s by the end of summer and to the high $30s for the fall of 1995. Winter prices are expected to average in the $40 to $42 range. Spring prices remain more uncertain. If the USDA is correct, and producers do expand farrowings this fall, prices will plunge back toward the high $30s for an average and at times test the mid-$30s for daily lows. However, producers are not likely to expand and prices in the spring of 1996 will remain in the lower $40s. While no inventory data is available to project supplies for the summer of 1996, prices may average in the mid-$40s, with some daily highs in the higher $40s. To attain these prices, the industry must reduce numbers further, rather than expand.

These price prospects suggest averages of about $40 to $41 from July 1995 through June 1996. This compares with an average terminal price of only $37 over the previous 12 month period. The $3 to $4 higher prices seem optimistic, but higher feed prices have already increased costs by a substantial portion of this potential price rise. Profit prospects are by no means optimistic, and if producers do expanded this fall as they indicated in the June report, returns during the coming 12 months would be similar to the last 12 months. The clear message is that the industry cannot afford to move back into expansion.

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