Cooperative Extension Service

WEEKLY OUTLOOK

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HOG PRICES LIKELY TO MOVE LOWER THIS FALL

Hog prices were higher this summer than most had anticipated. The strength was related to low retail prices which encouraged consumption, and to narrow marketing margins which enabled more of the retail expenditures to return to producers.

Price prospects for this fall will be influenced by a mixture of bullish and bearish factors. On the bullish side, two new packing plants are expected to come on-line which will keep competition for live hogs very strong, and supplies of pork are expected to be down 2 to 4 percent over the next six months. On the bearish side, retail prices will likely rise and retail margins are expected to increase.

The USDA's September Hogs and Pigs report also has elements of bullishness and bearishness. On the bullish side is the nearly 5 percent reduction in the size of the breeding herd. Normally, a reduction of this magnitude would suggest that farrowings would be down a similar amount. However, USDA is suggesting that farrowings will actually be about unchanged in both the fall and the winter quarters. If this is true, it means that the supply of pork will once again move higher by next spring and summer. If marketing margins are closer to normal next summer, and if supplies are larger, hog prices could be in the mid-$40s next summer rather than the low $50s suggested by recent futures market activity. On the other hand, if farrowings are down more like the 5 percent reduction of the breeding herd, price prospects for next summer would be in the higher $40's to low $50's.

Trying to find justifications for how the breeding herd can be down 5 percent yet farrowings unchanged is difficult. First, looking historically, it has happened at least once before in the mid-1980's. Second, the movement to artificial insemination would reduce the number of boars, and thus the size of the breeding herd relative to farrowings. However, even if 20 percent of the industry had shifted to AI in the past year this factor by itself would reduce the breeding herd only 1 percent. Third, early weaning technology and the higher sow turnover that is implied could also be impacting this ratio, but it is difficult to provide an estimate of this potential impact. As a conclusion, it is perhaps prudent to believe that the farrowings will in fact be down at least 2 to 3 percent this fall and winter.

Currently hog prices are also supported by lower marketing weights. During the last 4 weeks, ho weights have been lower than last year by 2 or 3 pounds. Lower weights now are a result of slowe rates of gain this summer, higher corn prices, and producers marketing somewhat ahead of normal due to the very strong hog prices. However, later this fall and winter weights are expected to be fairly close to last year's levels, even with much higher corn and meal prices. The impact of higher feed prices will be to keep weights about the same rather than trending higher, as would have been the case with more normal prices.

Hog prices are expected to move lower this fall, even with greater processing capacity and lower pork supplies. Cash prices are expected to move into the lower $40's in late October and early November. Winter time prices may trade in the lower to mid-$40's, with spring lows expected to be near $40 in April. Assuming farrowings are down 2 to 3 percent this fall and winter, prices for late next spring and summer would be in the high $40s.

With higher production costs due primarily to higher feed prices, this price outlook suggests there will be some periods of profits, and some of modest loss. Given the latest USDA report, some hedging of hog futures should likely take place. Price levels are such that profits can be established for the next year.

Hog producers should also carefully evaluate their feed needs for the coming year. If the corn crop is further reduced from current USDA estimates, it is likely that further cut-backs in hog numbers wi be required this fall and winter. This likely means some combination of higher corn prices and lowe hog prices to discourage production.

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

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