Cooperative Extension Service

WEEKLY OUTLOOK

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HOG PRODUCERS WILL BE FORCED INTO CUTBACK

The USDA's December *Hogs and Pigs* report was a shock to both the hog market and the corn market. If hog producers follow through with current intentions, pork production will set new records in 1996. These intentions are directly at odds with what may be record tight supplies of corn. Hogs are the largest consumers of corn for feed use, and feed use must be cut by about 18 percent according to USDA estimates. The bottom line from the report was that corn prices had to go higher and hog prices lower in order to discourage corn feeding to hogs. The ultimate questions are: How much change will have to occur in prices? and When will they occur?

The report indicated that the December 1 total inventory of hogs was up slightly from the year-ago level, but more importantly, that the breeding herd had expanded during the fall to be about 1 percent higher than the year-previous level. Given that the breeding herd was down 5 percent in September, producers seem to have shifted to rapid expansion.

Leading the expansion were a number of the "new growth states." Over the past year, the number of animals in the breeding herd expanded in: North Carolina 110,000; Oklahoma 50,000; Missouri 30,000; Utah 16,000; and Colorado 10,000. The breeding herds in Iowa and Minnesota also increased 20,000 animals. This was a modest recovery from the major sell off of breeding stock which occurred in those states in the fall of 1994. In contrast, the breeding herd in the states of Illinois, Indiana, Michigan, and Wisconsin decreased by a combined total of 120,000.

What stimulated producers to move to aggressive expansion? The answer seems to lie in the $50 cash hog prices last summer and the encouragement provided by hog futures, which suggested that prices would stay near $50 this winter and move to the mid-$50s next summer. These signals indicated to producers that high feed costs could be covered and that a cut-back in production was not necessary.

It now appears that the tightness of the corn situation was not fully appreciated by the hog market and that market signals sent this past fall were in error. What was a profitable 1996 outlook for hog producers must fade quickly to an outlook for sizable losses, especially during the first-half of the year.

Pork production this year could reach about 18.3 billion pounds, up about 2 percent, breaking the 1995 record. Supplies of pork are expected to be 1 percent higher in the first quarter of 1996. Second quarter supplies are expected to be up about 2 percent. Third quarter supplies will come from the winter farrowings, which producers indicate will be up 1 percent. With higher weaning rates, summer pork supplies will grow by about 2 percent. For the final quarter of 1996, supplies will come from the spring farrowings. Producers indicated intentions to farrow 2 percent more sows in the spring, so about 3 percent greater pork supplies are expected.

Given these supplies, live hog prices are expected to be in the lower $40s for much of the winter, with winter highs near $45. In the early spring, prices could dip back into the higher $30s for short periods, particularly in April. Summer prices are expected to average in the mid-$40s, with highs moving into the higher $40s. If farrowings do increase this spring, fall 1996 cash prices are expected to be near $40.

Hog prices have been depressed since 1993. Terminal prices averaged about $39.50 in 1994, around $42 in 1995, and for 1996, terminal hog prices are expected to average $40 to $42. Even though hog prices are only moderately lower this year, higher feed prices mean the cost of production is sharply higher and losses will be more extreme.

Given current corn and protein prices, average cost of production is in the $46 to $50 range for many producers. Given a forecast of hog prices averaging in the very low $40 for the first half of 1996, large losses appear likely. For this reason, the chances for some sow liquidation this winter are increased sharply. Sow liquidation will add to pork supplies and should keep a lid on hog prices through the winter. By spring and early summer, feed prices may have moderated with the prospects of the 1996 crop, and a reduced sow inventory could be encouraging to hog prices in very late 1996 and 1997.

This hope for an improved hog outlook in late 1996 does not deny the fact that the industry will have to experience the pain of substantial losses first. Reduction in hog production must be part of the adjustment to ration a very short corn supply.

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