Cooperative Extension Service

WEEKLY OUTLOOK

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STRONG PORK DEMAND ENABLES INDUSTRY TO DODGE FINANCIAL CRUNCH

The pork industry spent the winter worrying about a financial crunch this spring if corn prices moved sharply higher and hog prices crashed. As it is playing out now, only one-half of their fears are being realized — rocketing corn prices. To producers' relief, hog prices have been able to move higher with corn prices. Since January, live hog prices have moved up from near $42 per hundredweight to near $50.

Strong demand for pork products, both domestically and in export markets, as well as smaller-than-expected supplies have kept the industry from a financial "train wreck". Further reductions in supply can be anticipated due to a fairly rapid liquidation of sows occurring this spring. This summer, the pork industry will be in a mad scramble with all other end users for corn stocks and producers will not rest comfortably until corn stocks are replenished, hopefully this fall.

The USDA's March *Hogs and Pigs* report provided signs of further reduction in the herd. The breeding herd inventory dropped by 1 percent from the level of a year ago. Significant declines in breeding herds occurred in South Dakota — 19 percent; Wisconsin — 14 percent; Illinois — 10 percent; Nebraska — 8 percent; and Missouri — 5 percent. Missouri had been growing rapidly in the past three years, so declines there may be signaling changes in expansion plans for some of the mega-producers. New growth states continued their expansions: Oklahoma — +33 percent; North Carolina — +17 percent; and Arkansas up 5 percent. Indiana and Iowa had the same size of breeding herds as a year ago; Minnesota was up 4 percent; and Ohio surged with a 19 percent increase. However, since the survey was taken, sow slaughter has increased, signaling an even greater liquidation of the breeding herd. In addition, the number of hogs slaughtered in March was down about 5 percent, more than the 1 percent reduction suggested by the March report. The reduction is being attributed to breeding problems associated with last summer's excessive heat. Also contributing to reduced pork production are reduced market weights. Producers had not adjusted weights until corn futures prices approached the $4 mark in early March. In recent weeks, however, live weights have been about 4 pounds lower than a year ago, which means about 1.5 percent less pork.

Production so far in 1996 has been down 2.3 percent, but demand seems to be leading prices higher. Demand for bacon has been very strong this year with the addition of bacon to several fast-food menu items. In early April, 12 to 14 pound bellies were trading near 70 cents per pound, about double the price of a year ago. Bellies are accounting for almost $3 per hundredweight higher hog prices. Higher loin values have added about $4 per hundredweight. Exports also remain an encouraging factor. For 1995, pork exports rose by 45 percent, while import volume was down 11 percent, making 1995 the year that pork trade returned to a positive balance. Exports have remained strong in 1996.

Surprisingly, marketing margins have also remained wide in 1996. This means that packers and retailers are successfully passing higher hog prices on to retail customers. Retail prices are currently at their highest level since 1991, which was the last time live hog prices reached the mid-$50 range. This is a surprise given record supplies of poultry and large supplies of beef.

Futures markets for live hogs are reflecting much higher prices than supply data from the March report would suggest. Using traditional computer price forecasts, live hog prices would be expected to be in the $47 range this spring and move up to average near $50 for the summer quarter. Futures prices on the other hand are currently in the low $50s for spring and mid-$50s for summer. The contrast seems to be related to the market belief that supplies will drop more than indicated in the report, and that demand will continue to be outstanding. I see little reason to doubt the "wisdom" of the marketplace at this time, given the smaller-than-expected hog slaughter in March and heavier sow slaughter.

Can the pork industry get through this spring and summer, without a period of severe financial stress to force more feeding cut back? The answer now seems to be yes. Feeding cutbacks are already occurring in the industry in the form of much more efficient use of feed, in lower weights, in feed ingredient substitution, and in some sow slaughter. In addition, expect some grain-livestock producers to look upon high summer hog prices as an opportunity to sell the breeding herd.

While it is increasingly likely that the industry will avoid a financial "train wreck", producers must remember that the next 3 to 5 months will remain a period of great uncertainty, and they will want to manage risk accordingly.

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