Cooperative Extension Service

WEEKLY OUTLOOK

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HOG INDUSTRY IN POSITION FOR A BIG MONEY YEAR

The hog production industry is in line to have the best period of profits since 1990. All the pieces of the puzzle have come together at one time. The industry will have small pork supplies, declining beef supplies, strong domestic and export demand, stable and moderately low interest rates, and sharply lower cost of production.

The USDA's September *Hogs and Pigs* report indicated that the number of hogs in the country were down by about 4 percent. The breeding herd was down 2 percent, while the market herd was down 4 percent. The inventory of hogs weighing 180 pounds or more was down 2 percent, which is very close to the actual decline in the September slaughter. This provides the first clue that this report may be fairly accurate. The number of market animals for October slaughter was down 4 percent, while those for November slaughter were down 5 percent. Animals weighing under 60 pounds, which will come to market in the winter, were down about 4 percent.

Farrowing intentions for this fall were about unchanged from those of a year-ago, and winter farrowings are anticipated to be down about 1 percent. These numbers appear to be consistent with the size of the breeding herd and market expectations.

The declines in the breeding herd were greatest in the traditional family hog farm states, with 10 to 12 percent reductions in the breeding herds of Nebraska, Iowa, Illinois, Wisconsin, Indiana, and Ohio. Added to these uniform declines was a surprising drop of 32 percent in the breeding herd in South Dakota and 23 percent in Kentucky. Major production states that expanded their herds were Kansas (28 percent), Missouri (16 percent), North Carolina (11 percent), and Oklahoma (10 percent). The states that are not in the largest 17 states had breeding herds up an estimated 28 percent. Most of this expansion is likely to be in Texas, Colorado, and Utah.

An important question for the future structure of the industry is, "Will traditional family farms return in the coming year?" Individual state farrowing intentions indicate they probably will not return. As an example, farrowing intentions for Iowa are down 11 percent and 14 percent for the next two quarters, respectively. In Nebraska, the numbers are down 11 percent and 9 percent. The pattern toward continued decreases in farrowings also holds true for South Dakota, Wisconsin, Illinois, Indiana, and Kentucky. Also supporting the argument that many family farms will not return is the age of operators, and the fact that corn prices are sufficiently high to generate favorable incomes without hogs.

On the other hand, a surprising number of family farms may come back into the hog business. The profit potential is strong in the coming year. Family operations with 100 sows can generate an anticipated $40,000 to $50,000 of net income above all costs from a farrow-to-finish enterprise. The corn crop is large in the western Corn Belt, and prices are sharply lower. Corn fed to hogs in a farrow-to-finish operation can generate near $5 per bushel rather than around $3 from selling off-farm. Finally, many of the families have little or no debt on buildings and equipment. They can come back into the industry with the thought of leaving in a few years with little down side risk to their financial position.

Pork supplies are expected to be down about 4 percent over the next 5 months. By spring and summer of 1997, supplies will rise by about 2 to 3 percent, but will still be small by historic standards. Expansion will begin with increased sow farrowings in the spring quarter, resulting in sharper increases in supplies by the fall of 1997. Continued build-up in the breeding herd can be expected into the middle of 1998.

Prices for live hogs at terminals are expected to average in the middle $50 this fall and mid-to-upper $50s in the winter. Some moderation should be expected in the spring, with prices falling at times to the lower $50s. A return to some $60 prices can be expected by summer 1997. For the fall of 1997, prices could finally drop back to the higher $40s or low $50s.

Cost of production for the coming 12 months is expected to average in the $45 to $47 range, given current corn and protein prices. Terminal prices averaging near $56, means around $9 to $10 of potential profit per hundredweight for many producers.

What can put this potential profit stream in jeopardy? The first may still be a frost which trims the size of the 1996 corn crop, but this is less likely with each passing day. Next are protein prices. I expect a robust expansion of feeding of livestock and poultry because of more abundant feedgrain stocks. This means strong demand for protein meals. In addition, if the South American soybean crop should have any difficulty, meal could move sharply higher. Consider locking in meal prices at harvest for use through next spring.

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