Cooperative Extension Service

WEEKLY OUTLOOK

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DID HOG PRODUCERS MISREAD ECONOMIC TEA LEAVES?

In the aftermath of the December USDA *Hog Inventory* report, the industry is wondering how producers could have missed reading the profit signals being flashed at them in big bold print. The headlines read: "Lots of Corn-Moderate Prices," "Small Hog Supplies -- Great Hog Prices," and "Big Profits in Sight for Hog Industry." Rather than expanding production, the industry responded by further reducing the breeding herd by nearly 3 percent.

Without question, the report was a major bullish surprise, but it won't be until the March report is released that it can be said the industry is in a non-response mode. This simply means that there just has not been enough time yet to get a true reading on expansion. Keep in mind that the corn harvest extended well into November last fall and the hog survey was completed around December 1. Many producers have been very bullish about corn price causing them to wait before deciding to feed corn rather than sell it for cash.

Past history would suggest that the industry cannot respond overnight. From the time the industry turns back to profits, it is nearly one year before farrowings increase. Hog profits did not arrive until the spring of 1996, so normal lags mean that farrowing increases should not arrive until this coming spring. Farrowings this winter are expected to be up 1 percent, about as expected, but it was the 2 percent lower spring farrowing intentions that was the real shocker. This implies that producers will continue to liquidate the breeding herd this winter, and that is not likely. By the time spring rolls around, look for farrowings to up 3 to 4 percent, with more expansion to follow throughout 1997 and early 1998.

But even making this major adjustment, the industry will only produce about 17.4 billion pounds of pork in 1997. By the time you increase domestic population and account for the improvement expected in export sales, we will end up with somewhat less pork available per person, and slightly better prices than last year.

This means live hog prices at terminals could average in the $54 to $55 range for the year. That will be up from the $53.30 average of 1996, and could make a run at the all-time high yearly average at $55.50 in 1982. Prices should be in the low-to-mid $50s through the winter, but move to around the $60 area in June. Some weakness can be expected in the late summer before ending the year in the lower $50 range.

Producers look fondly on these hog prices, especially when combined with the moderate cost of feed. Total costs of production are expected to average about $43 for 1997. Profits may exceed $10 per live hundredweight this year, the best profit year since 1990. In fact, returns will be so high that producers will want to consider income tax management strategies soon. As an example, a 100 sow herd could generate about $50,000 of income from the hog operation this year, while a 500 sow operation could be looking at income of one-quarter of a million dollars.

The coming year is also expected to continue the transition to a much different industry. The direction of change can be illustrated by some of the changes from last year. In 1996, about 24,000 farms dropped out of hog production. This was 13 percent of all hog farms and followed a 12 percent reduction the previous year. Most of the farms leaving were smaller operations, in fact almost 90 percent of the farms leaving the industry had less than 500 head of inventory. But even the farm inventory category of 1,000 to 1,999 head had farms leave.

Another trend highlighted in 1996 is the shifting of the breeding herd out of the traditional corn-hog belt to the south and southwest. The primary production states from Ohio to Nebraska had a reduction in breeding herd numbers of about 300,000. The increases were in North Carolina, which added 110,000 animals, and in a region broadly from Wyoming to Texas, including Utah, Colorado, Arizona, Kansas, and Oklahoma, which added about 100,000 animals.

The new year is also expected to bring additional environmental regulations. In 1995-96, these issues moved from the "farm page to the front page." This front page news has mostly been negative involving water and air contamination issues, as well as questioning of the industrialized model's acceptability for society in general. It has become popular for local community groups dustry growth, especially since this type of opposition has often succeeded in keeping units out ,hborhoods. This has created anxiety for hog producers who may have wanted to expand their fa..., .arms and has clearly restricted growth of the industrialized type of production throughout the Midwest. It now appears that environmental issues will be a much more important determinant of where the industry will locate with the net results being both a slowing of the movement to the more industrialized type of industry and a shifting away from the higher human population regions in the Midwest.

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