



# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**APRIL 7, 1997**

## **SLOW EXPANSION AND INCREASED EXPORTS MEAN RECORD HOG PRICES**

Hog producers have been slow to expand the hog herd. The breeding herd is currently about the same size as last year and farrowing intentions for this spring are little changed. However, by summer producers intend to increase farrowings by about 3 percent.

Of equal importance to the latest inventory report is the recent announcement of foot-and-mouth disease in Taiwan herds. Pork exports from Taiwan have been banned and the U.S. is expected to gain the majority of the Taiwanese export business which goes primarily to Japan and Korea. This will have a very positive impact on U.S. prices. As a result of these two factors, record highs are expected for the average annual hog price and for retail pork prices in 1997.

The breeding herd has been leaving the Midwest, but this report brought signs of recovery for at least part of the region. The March report shows a continuation of the out-migration from the eastern corn belt, most pointedly in Michigan, Ohio, and Kentucky where percentage decreases were at double digit levels. Decreases also continued in Illinois, Indiana, and Wisconsin. Taken in total, these 6 states had a decrease of 120,000 breeding herd animals over the last year. The growth states of North Carolina, Oklahoma, and Kansas had an increase of 155,000 breeding animals this past year, with 115,000 of these in North Carolina.

The report brought the first signs of the potential end to the breeding herd erosion in the western corn belt. Particular noteworthy were increases in Minnesota (9 percent), Iowa (2 percent), and Nebraska (2 percent). Increases are likely related to some grain-hog farms which returned to production, especially in Nebraska and Iowa where anti-corporate farm laws tend to discourage larger units. The favorable corn yields in the western corn belt also likely helped encourage some producers to either return to hogs or to increase production.

Data on Taiwan is somewhat sketchy, but the Taiwan pork industry produces about 13 to 14 million hogs per year, roughly the size of Illinois and Indiana combined. Their domestic pork consumption is large, and mostly consumed as fresh pork. They exported around 650 million pounds of pork last year, mostly to Japan and Korea. (U.S. exports in 1996 were 950 million pounds). The U.S. has the potential to gain a considerable portion of Taiwan's export business because of our ability to ship fresh chilled pork. Given the large pork consumption in Taiwan, it is possible they will even be forced to import pork for their own population.



While it is still too early to make accurate estimates of the impact on the U.S. pork industry, it is clear that the magnitude can be quite large. An illustration of the magnitude may be helpful. If the U.S. is able to gain 55 percent of Taiwan pork exports, this would increase U.S. exports in the range of 30 percent over the next year. U.S. prices for live hogs would move higher by an estimated \$2.30 per live hundredweight, or about \$6 per hog. With expected production at 91.5 million head, this would mean more than \$500 million higher returns to the U.S. industry over the next year. The impact could be even larger if Taiwan is forced to import pork.

Pork production is expected to rise by about one-half of a percent in 1997. However, there is a shift from lower production in the first quarter to higher production for the last three quarters when production will be up from 1 percent to 3 percent. By the first quarter of 1998, pork production is expected to up 5 percent.

Prices at terminal markets are expected to average about \$56 for 1997, breaking the old record of \$55.44 in 1982. Prices are expected to move from the \$50 range in the early spring to above \$60 by the end of spring. Daily highs in June and July should achieve the low \$60s. Last year's top in the mid \$60s could be a possibility this summer. Prices are expected to be in the mid-to-lower \$50s for the fall and the first quarter of 1998. Retail prices are also expected to reach record levels at \$2.40 per pound. The high retail price is expected to encourage more poultry and beef substitution.

Hog producer profits will be very strong over the next year. Costs are expected to be in the mid-to-higher \$40s this spring and summer before moving to the lower \$40s in the fall. Profits are expected to average about \$10 per hundredweight over the next 12 months. The unusually strong profits should stimulate additional production expansion in mid-to-late 1998.



Issued by Chris Hurt  
Extension Economist  
Purdue University

CES Newsletter Service  
University of Illinois  
at Urbana-Champaign  
69 Mumford Hall  
1301 West Gregory Drive  
Urbana IL 61801

FIRST CLASS