Cooperative Extension Service

WEEKLY OUTLOOK

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HOG EXPANSION IS EITHER HERE, OR ON ITS WAY!

The USDA's June *Hogs and Pigs* report left room for varying interpretations regarding herd expansion. The nation's breeding herd was reported to be up only 1 percent, suggesting that producers were not expanding. On the other hand, farrowing intentions for the summer and fall quarters were up 5 percent and 6 percent, respectively. The ultimate dilemma is deciding which numbers to believe.

The implications of using the breeding herd inventory or farrowing intentions are substantial. Breeding herd numbers indicate that little expansion has occurred and that only small increases in pork production should be expected. The farrowing intentions, on the other hand, say that the expansion is well underwayand that large increases in pork supplies can be expected as early as the new year.

An examination of the yearly change in the breeding herd by state reveals the emergence of the western Corn Belt as a "comeback area." This area includes South Dakota (+18 percent), Minnesota (+11 percent), and Iowa (+3 percent). Continued growth was shown in Oklahoma (+31 percent), North Carolina (+11 percent), and Arkansas (+5 percent).

The eastern Corn Belt, seemingly, has yet to turn the corner on a long-eroding breeding herd drain with Illinois (-3 percent), Indiana (-4 percent), Ohio (unchanged), and Kentucky (-12 percent). Reluctance in this region to expand the herd may be related to population pressures, environmental concerns, high feed prices relative to the western Corn Belt, and low crop yields last fall providing fewer incentives for expansion than in the west.

Pork supplies are expected to grow through the last half of 1997 and into 1998. In the last half of 1997, supplies are expected to up by about 3 percent due to a 1 percent increase in slaughter numbers and nearly 2 percent higher weights. Increasing farrowings, higher weaning rates, and heavier market weights will all contribute to substantially increased supplies in the first half of 1998, when supplies should reach 8 percent to 10 percent above previous years' levels. Supply increases in the 4 percent to 6 percent range may be possible if farrowing intentions are overstated.

Live hog prices are expected to remain around the $60 mark this summer. Prices as high as the low to mid $60s are possible if Japan becomes a major buyer during this period. By fall, some erosion of prices into the mid to upper $50s can be expected , with a fourth quarter average terminal price of about $56.50. If producers follow through on their farrowing intentions, much lower hog prices will occur in the first half of 1998. Prices can be expected to drop under $50s after the first of the year, making spring lows in the lower $40s.

Profits in hog production will be at their peak this summer and fall and could average near $17 per hundredweight over the last half of 1997. For all of 1997, estimated profits could total about $13 per hundredweight.

Costs are expected to decline into the $38 to $40 range by fall with corn prices moving to the lower $2 level. These low costs will be similar to those from the record 1994 corn harvest. Profits will fade into the first-half of 1998, but remain around $5 to $7 per hundredweight.

Producers will want to use the strong profits in 1997 to upgrade their technology and prepare for much lower returns in late 1998 and early 1999. Looking back at hog cycles over the last 25 years, it has been a surprisingly short period from maximum profits to losses. Over this long period, the transition from maximum profits to losses has averaged about 11 months, with the greatest losses hitting at 16 months after the greatest profits. With peak profits this summer and early fall, producers need to consider the strong possibility that losses could come in the late summer or fall of 1998, with the largest losses in the late fall of 1998 and winter of 1999.

Pork producers will want to watch lean hog future selling opportunities especially for the April, October, and December 1998 contracts. In addition, be alert to ownership opportunities for corn. If the large crop does develop this summer, producers may have the opportunity to own corn in the $2 cash range. With the national loan at $1.89, the downside risk of ownership is tiny. In addition, watch December 1998 corn prices for ownership opportunities, using the strategy of locking in a modest level of hog profits in late 1998 and early 1999.

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