Cooperative Extension Service

WEEKLY OUTLOOK

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SURGING PORK SUPPLIES IN 1998 WITH FADING PROFITS

Pork supplies in 1998 are expected to surge higher by about 9 percent, leading to record total pork production of about 18.6 billion pounds, far exceeding the previous record of 17.8 billion in 1995. Per capita supplies however, will not be as large as those in 1995 when production equaled 52.5 pounds per person. For next year, production will reach about 51.9 pounds per person. Pork supplies will move about 4 percent higher this fall, but reach about 10 percent higher than year previous levels by next summer. Live hog prices are expected to average about $44 in 1998, compared to $53 for each of 1996 and 1997.

In the latest USDA inventory estimates, the breeding herd was up only 3 percent, yet the number of sows farrowed this past summer was up 5 percent, with the number of pigs per litter up 1.5 percent and the summer pig crop up 6.5 percent. Farrowing intentions are up 6.5 percent for this fall, and 7.6 percent for winter. There had been some question of how the farrowing percentage could be much higher than the percentage increase in the breeding herd this past summer, but the September USDA inventory count seems to confirm this occurrence.

Across the country pork producers have added a total of 250,000 animals to the breeding herd compared to inventories one year ago. The most robust growth has been in the western corn belt states of Iowa, Minnesota, and South Dakota where producers have added 190,000 animals to the breeding herd. Also, growth continued in North Carolina, Arkansas, and Oklahoma where 125,000 breeding animals have been added. The outmigration of sows continued in the eastern corn belt, where Illinois, Indiana, Ohio, and Kentucy had a reduction of 60,000 breeding herd animals.

It seems safe to say that the western corn belt is coming back. This is particularly so in the northwest portion of Iowa, southwest Minnesota, and eastern South Dakota. Part of the growth in that region can be attributed to a rebirth of the pork industry, but also has resulted from the favorable corn crop last year and again this year. The eastern corn belt, on the other hand, had smaller crops last year and again this year, likely making it somewhat less desirable for expansion. In addition, population pressures are likely to be a greater restriction to larger scale units in the eastern corn belt.

The number of hogs which will come to market this fall was up 2 percent to 3 percent, but with heavier marketing weights, pork production is expected to be up about 4 percent. The large increases in slaughter supplies will occur when pigs born this summer reach market this winter.

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Pork production is expected to rise by 7 percent. Given large expected increases in farrowings this fall and winter, pork supplies could be about 10 percent higher by next spring and summer.

Hog prices are expected to average near $50 this fall. It is likely that the Japanese will be larger buyers of pork as they may have been waiting for our traditional seasonal low prices in October and November. In addition, packer margins improved sharply at the end of summer, and there is likely to be some room for more plants to come back on line and for others to increase daily slaughter levels. Both of these factors should help support prices this fall.

Unfortunately for producers, however, the packers have the scent of large hog supplies to come. Live hog prices are expected to average about $45 in the first quarter of 1998, then drop to an average of $44 in the second quarter and $43 in the summer quarter. If the build-up in the breeding herd continues this fall and winter as expected, prices for the last quarter of 1998 would be about $41.

Small profits remain in the outlook for farrow-to-finish producers with average costs. Soybean meal prices are expected to be sharply lower in the next year, providing for an average of about $1 per live hundredweight lower cost at around $42. Given price estimates from this report, a small positive return can be expected above all costs until next summer. However, those who have recently built new buildings, or those who have higher cost operations, may have cash flow concerns as early as the start of 1998.

Producers should be planning for the lowest prices of the current cycle in the fall of 1998 and winter of 1999. Low hog prices one year from now also adds a note of caution regarding the 1998 growing season, and concern about a poor corn harvest next fall. In 1996, when corn prices moved up sharply, hog prices also moved higher. If a poor growing season occurs in 1998, pork producers should expect the more traditional relationship of sharply higher corn prices resulting in even lower hog prices than currently estimated.

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