Cooperative Extension Service

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.

JANUARY 5, 1998

RECORD HOG SUPPLIES MEAN DIFFICULT YEAR

The USDA's December *Hogs and Pigs* report confirms that 1998 will be a year of very large pork supplies. Supplies which will reach 18.6 billion pounds, up 8.1 percent from 1997. The record high total production will result from the slaughter of about 99 million head of hogs and from higher weights. The previous record production was in 1995, when 96.3 million head were processed to produce 17.8 billion pounds.

Adding salt to the wound of hog supplies will be record total meat and poultry supplies. Beef supplies will continue to be high, especially during the first quarter of the year due to heavy market weights. Poultry supplies will be record large, up about 5 percent. Total red meat and poultry supplies per capita will stretch to a record 215 pounds, up 3 percent from 208 pounds in 1996.

There are three areas where the breeding herd was in expansion this past year. The least significant of these was North Carolina, where the breeding herd increased by 50,000 animals. All their expansion occurred in the first quarter of 1997, as the moratorium there has brought expansion to a standstill. In fact, the North Carolina breeding herd has been estimated to be steady at 1.05 million head since March 1, 1997.

The primary region of expansion in 1997 was in the Midwest. Minnesota was the first of the Midwest states to begin to rebuild herds in late 1996 and 1997. Iowa joined in mid-1997 and Illinois joined the pack in late 1997. These three states added 230,000 animals to the breeding herd in 1997. Also part of this growth region is South Dakota, but numbers there increased by only 5,000 animals.

The second area of expansion this past year was the southwestern and western fringe of the Corn Belt. The area from the Texas panhandle to Montana increased breeding animals by 116,000. Oklahoma and Colorado accounted for 85,000 of the total as expansion continued to fill slaughter capacity at Seaboard's Guymon, Oklahoma plant. The growth in Utah and Wyoming was single complex expansions.

The number of farms with hogs dropped an additional 11.2 percent in 1997 to 138,690 farms, continuing the long-term trend. The total reduction in farms was 17,560. Most were small farms, as has been the case for many years. A total of 9,900 of the farms leaving the industry had less than 100 head of hogs in inventory; 6,280 fewer farms were recorded in the 100 to 499 head category; and 1,350 fewer in the 500 to 999 head category. The number of large farms grew, with 500 more farms that had 2,000 to 4,999 head and 80 more farms that had 5,000 or more head.

Early in 1998, hog prices have been in the $33 to $34 range. These prices are lower than current supply and demand conditions would seem to suggest. Reasons for these low prices include: very large slaughter runs in late December and early January; mild weather which has brought more hogs to market at higher weights; high retail prices which have not fully reflected the greater pork supplies; and the concerns over the Asian financial crisis.

For all of 1998, prices are expected to average in the very low $40s. Recovery in current depressed prices is expected into mid-February, when prices are expected to be in the lower $40s. Spring prices are expected to average near $40, but drop further into summer, with an average price in the higher $30s. Fourth quarter prices are also expected to be near $40.

The year of 1998 is expected to result in losses for farrow-to-finish producers. The losses will average about $2 per live hundredweight, and may be the greatest in the late summer and fall. Production costs are expected to drop to about $42 for all of 1998, primarily as a result of meal prices dropping from $266 in 1997 to about $200 in 1998 (basis Decatur, Illinois).

Unfortunately for producers, large pork supplies will be around for some time. The breeding herd is expected to continue to be larger than year ago levels until the December 1998 report. Farrowings are not expected to begin to drop, when compared to year-previous numbers, until the first quarter of 1999. This means that pork supplies will not begin dropping until the summer of 1999. Prices are not expected to begin to move higher until the spring or summer of 1999.

The next 18 months are going to be a period of tight cash flow for hog producers. They will want to budget these prospects and work with their lenders to get through this period. Even though current cash prices are in the mid-$30s, lean hog futures provide hedging at prices that should net the low $40s for 1998. Potential for higher feed prices should encourage producers to look at establishing prices on corn and soybean meal this winter. The chance for major increases in feed prices may be somewhat lower than was thought last fall, but the damage to the financial position of hog producers would be all the greater this summer if unfavorable weather should occur.

Chris Hurt

Issued by Chris Hurt
Extension Economist
Purdue University