Cooperative Extension Service

WEEKLY OUTLOOK

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NO LET UP IN PORK SUPPLIES IN 1998

The USDA's March *Hogs and Pigs* report confirmed that pork supplies are going to remain at record high levels through the first quarter of 1999. While the breeding herd was somewhat smaller than anticipated, producers indicated that farrowings would continue to be above year-ago levels through this summer.

The numbers indicated that the market herd was up 8 percent while the breeding herd was up only 2 percent. Farrowing intentions for this spring were up 3 percent with summer intentions up 1 percent. Even though these are relatively small farrowing increases, more pigs weaned per litter and heavier market weights add another 2 percent to pork production above the farrowing increases. The 3 percent increase in summer farrowings will result in pork supplies being up about 5 percent in the fall and about 3 percent for the first quarter of 1999. Pork supplies this spring and summer should rise by about 10 percent over year-earlier levels, providing consumers with abundant and low priced pork.

In the first quarter of 1998, hog slaughter was up about 10 percent from the slaughter of a year ago. The December *Hogs and Pigs* report suggested it would be up around 7 percent. The USDA revised estimates of last December's market herd by raising the numbers nearly 2 percent. This was accomplished by increasing last summer's farrowings by a similar amount. However, the revisions did not increase the size of the breeding herd. In essence, the official adjustment simply said additional sows farrowed although no sows were added to the herd. While this seems somewhat unreasonable, it is how the USDA accounted for the extra slaughter in early 1998.

Nationwide, the breeding herd was up by 2 percent, or 144,000 animals, on March 1, 1998. Most of this increase came in three areas. The largest was in Oklahoma, which increased by 70,000 animals. The second was North Carolina, which increased by 50,000 animals. The third area was "other states", which were up 44,000 animals. These "other states" likely include Texas, Colorado, and Utah where expansion continued as companies were anxious to develop sites before changes in state or local government regulations occurred. It is also interesting to note that North Carolina increased the number of animals in the breeding herd by 5 percent (50,000 animals) when there was a moratorium on new hog buildings in place. Some explanation of how this occurred would be interesting.

In the more traditional hog states, the breeding herd tended to decline somewhat. The breeding herd declined 9 percent in Wisconsin, 6 percent in South Dakota, 4 percent in Nebraska, and 2 percent in Missouri. Iowa and Illinois were unchanged, Minnesota was up 3 percent, and Indiana was up 4 percent. However, the buildup in the breeding herd over a year ago in key midwest states kept the market herds relatively high. As an example, the market breeding herds were up 17 percent in Iowa, 10 percent in Minnesota, and 8 percent in Illinois. Indiana had a surprising increase of 11 percent in their market inventory when the breeding herd had been decreasing in 1997. Either these Indiana numbers are wrong, or many more North Carolina origin pigs are being brought in for finishing than has been the case in recent years.

Even with the continued forecast for record pork supplies over the next 12 months, there are some signs that hog prices may be near their lows. Canadian imports of live hogs for slaughter in the U.S. have dropped off sharply and packers have larger Saturday kill capacity in place. Retail pork prices have been slow to move down as sharply as will be needed in order to move the huge pork supply. This report provides more evidence that retailers can be confident of continued large supplies and low prices. Lower retail prices will help move more pork and enhance the portion of the consumer's expenditures that are returned to producers. Beef supplies are expected to drop into the spring, providing a better demand tone for pork. The Asian situation is not expected to worsen and may provide at least a base from which Asian pork exports can grow this year. Finally, there is a strong seasonal tendency for hog prices to reach their lows by mid-April and to make sharp increases into June.

Hog prices are expected to move higher from mid-April into early summer. Terminal market prices are expected to move back to around \$40, with some days in the low \$40s. Summer prices will probably average near the \$40 mark. Late summer and fall prices will continue to face severe supply pressures with prices in the high \$30. Price levels could dip back into the mid-\$30s at times for seasonal lows late in the year. For all of 1998, terminal prices are expected to average in the \$37 to \$39 range. Cost of production, given the current grain price outlook, could average in the \$41 to \$43 range. Average losses will be about \$3 to \$5 per hundredweight for the year.

When do financial prospects improve? Obviously, \$40 per hundredweight will be much better for producers this summer, but the overall improvement in hog prices due to reduced pork supplies will not come until early spring of 1999. It may actually be the September 1998 *Hogs and Pigs* report before a smaller breeding herd and pig crop are confirmed. This means it will be spring of 1999 before pork supplies begin to decline.

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