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.

JUNE 29, 1998

HOG INDUSTRY HEADED IN THE WRONG DIRECTION

Its time for pork producers to shift goals. Seemingly, their most recent objective has been to "find sites for more sows." Now they must shift their focus to "cash flowing for survival." The outlook theme for the next year appears to be record pork production with enormous animal protein competition and uncertain export demand. Some extended periods of loss can be anticipated for producers this fall and winter even if the 1998 crops provide low production costs. Unfavorable growing season weather, which could send corn and meal prices higher, would cause severe financial difficulty for pork producers.

The numbers are simply scary. A breeding herd that continues to expand; large increases in farrowings; large increases in pigs weaned per litter; and increased market weights. It means record pork production of 18.7 billion pounds in 1998 surging to over 19 billion pounds in 1999. It also means large losses for pork producers and financial failure for some. Smaller producers will drop out of the industry even more rapidly than in the past few years, and larger operations will go through a period of consolidation as the financially stronger firms acquire weaker ones.

The pattern of expansion is occurring in some familiar states. Oklahoma's breeding herd is up 28 percent; North Carolina is up 5 percent (a moratorium is in place there-yet expansion continues?); Minnesota continued their impressive expansion with a 3 percent increase; and "other states" increased by 10 percent (the largest growth is likely in Texas and Colorado). Surprisingly, the USDA continues to indicate breeding herd expansion in Illinois (+4 percent) and for the first time for this expansion in Indiana (+7 percent). Notable state declines in the size of the breeding herd include Missouri (-10 percent); Wisconsin (-13 percent); Michigan (-13 percent); South Dakota (-12 percent) and Iowa (-3 percent).

The nervousness is not so much in the 1 percent increase in the size of the breeding herd, but in the intentions to increase farrowings. This summer's farrowings are expected to be up by 3 percent with fall farrowings up 4 percent. Given the industries ability to increase pigs per litter by about 1 percent per year and to market at higher weights, pork supplies will shoot up by 5 percent to 6 percent in the first-half of 1999, establishing new production records each month. Pork supplies for the last-half of 1998, on the other hand, were close to expectations and will result in about 7 percent greater tonnage. While these are still record high levels, the market has been braced for these levels.

Hog prices are expected to average about $41 on a liveweight basis this summer, before moving to the higher $30s for the fall. It is likely that fall lows in late October and early November could once again be in the mid-$30s. However, if summer farrowings increase as suggested in the report, hog

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prices will once again weaken to the lower $30 at times in the winter, although average terminal prices for the 1st quarter of 1999 may be near the mid-$30s. A few dollars of improvement could be expected in the 2nd quarter of 1999 with prices averaging about $35 to $38. Over the next 12 month period, average terminal prices are expected to be around $37 to $38. The lowest prices will likely come in the October 1998 to April 1999 time period.

The salvation of the industry may be lower costs. Costs of production of course will be dependent upon the size of the fall crops and ultimate prices for corn and soybean meal. This fall's costs, given cash corn prices are $2.25 per bushel and high-protein meal at $165 per ton Decatur, will be in the $37 to $39 range for average costs producers. Many can hold their operations together with these relationships. On the other hand if corn prices were $2.75 and meal $220 per ton, costs would skyrocket to $43, and the financial pressure would become intense for many.

The breeding herd began to move toward liquidation this past March and April. However, live hog prices moved above $40 in early May, and sharp drops in corn and meal prices made the hog outlook suddenly look better and the liquidation stopped. Now the question is when will it begin once more. The best answer seems to be with the next period of loss. The odds favor losses this fall and winter. If so, farrowings would finally start to drop in the spring of 1999, but pork supplies would not drop until the fall of 1999. This means severe price pressure for the next 15 months. Consider using hedging opportunities which will cover costs especially during the October 1998 to April 1999 period.

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