Cooperative Extension Service

# WEEKLY OUTLOOK

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September 28, 1998

## NEW HOG INDUSTRY STUCK ON EXPANSION

While much of the traditional hog production industry in the Midwest reduced their herds in reaction to losses, the newer industry in the Southwest continues to expand. The results as shown in the USDA's September *Hogs and Pigs* report are an unchanged breeding herd, a 3 percent larger market herd, and a 2 to 3 percent increase in farrowing intentions for this fall and winter. These numbers would assure continuing increases in pork supplies through the first three quarters of 1999.

In the 11 Midwestern states from Ohio to South Dakota, the number of sows in the breeding herd is down 145,000 animals, or 3 percent. The Midwest remains dominated by more traditional producers who follow profit and loss signals, and poor profit prospects have already stimulated reductions. Only three states in this region recorded increased breeding herds. These were Illinois 2 percent, Minnesota 3 percent, and Ohio 5 percent. Declines included Missouri 3 percent, Iowa and Nebraska 4 percent, Kansas 8 percent, Michigan 14 percent, South Dakota 19 percent, and Wisconsin 21 percent.

Offsetting the breeding herd declines in the Midwest was the continuation of rapid expansion in North Carolina and the Southwest. The breeding herd was up 5 percent in North Carolina, and up 35 percent in Oklahoma. In addition, expansion of the breeding herd in "other states" was up 8 percent. These are states not listed individually in the 17 primary states and are likely most influenced by expansions in Texas, Colorado, and Utah.

The record levels of pork production will continue well into 1999. For this fall, pork supplies will up about 4 percent. Winter supplies are expected to be up about 3 percent, reflecting 2 percent more pigs in the under 60 pound weight bracket on September 1, and about 1 percent higher weights.

Supplies for next spring and summer will come from farrowings this fall and winter. Producers have indicated intentions for 2 percent greater farrowings this fall and 3percent this winter. With larger litter sizes and heavier weights, pork supplies will be up by about 4percent next spring and 3percent next summer. A harsh winter could reduce the weaning averages this winter and therefore supplies next summer. La Nina winters tend to be cold with heavy precipitation in the Midwest. If this weather pattern develops, smaller litter sizes will result.

The price outlook is discouraging for the long-run. If producers follow through on farrowing intentions, increases in pork production above the record level of this year will be the result. This turns the price outlook toward losses for as far as the report gives numbers -- through the summer of 1999.

Prices this fall and winter are likely to average in the very low $30 at terminal markets. Prices at times in the higher $20s could be common. Moderate improvement can be anticipated for the spring, with prices back near the mid $30s. Summer prices could reach the higher $30s for averages. Further improvement in the fall of 1999 will be dependent upon a cut back in farrowings by next spring, which remains likely.

Two additional factors tend to be negative for price prospects. The world economy continues to weaken, which will make pork exports more difficult and imports easier. As an example, the strength of the U.S. dollar is making it more beneficial for Canadian producers to sell hogs in the U.S. This is resulting in a record number of Canadian hogs being sold in the U.S. In addition, packing capacity will be tight this fall and winter in relationship to the number of hogs begin slaughtered. On a positive note, retail pork prices will likely drop into 1999 as beef prices begin to rise. Lower retail prices will help move the large pork supplies.

Producer losses will be tempered by low feed prices in the coming year. With corn at $1.75 per bushel, costs of production will be in the $34 to $36 range for farrow to finish operations this fall, but higher through the winter and spring. With carcass premiums, some producers may be able to generate revenues which approach costs of production over the next 12 months, but the reality is that most will have to operate at a loss and seek alternative means for making up the financial losses.

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