UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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HOPE SHINES FROM HOG REPORT

The December hog inventory report from USDA suggests that the huge, price depressing slaughter rates will soon begin to let up. This is welcome news for hog producers suffering the worst financial period since the great depression of the 1930s. The industry had trimmed the size of the breeding herd on December 1 by 4 percent, and even greater liquidation is expected this winter. This will drive pork supplies down by the fall of 1999.

The depression era prices are the immediate concern. Numbers from the report indicate some improvement in prices over the next several weeks. The weight breakdowns from the report indicate that the number of pigs weighing 180 pounds and over were up 8 percent. Since the survey was completed around December 1, most of those hogs were slaughtered in December or early January. The good news is that the 120 to 179 pound weight category was up only 4 percent, indicating that the excessively high slaughter rates should moderate by no later than mid-January. February slaughter should be up only about 2 percent, and slaughter for March, April, and May could finally be down by 1 percent.

Declines in the breeding herd were noted throughout the Midwest. The herd was down 5 percent in Minnesota, 7 percent in Iowa, 9 percent in Missouri, 4 percent in Illinois, 2 percent in Indiana, and 5 percent in Ohio. Unfortunately, the western and southwestern states continue to show increases in the breeding herd, primarily because of sow units built earlier this year. Oklahoma's herd was up 17 percent, Colorado up 13 percent, Texas up 7 percent, and Utah up 9 percent.

Producers intend further cutbacks in farrowings. Winter farrowing intentions were down 1 percent and spring intentions were down 7 percent. If producers follow these plans, pork supplies will begin to drop in the late summer and fall.

There is a concern that the report did not fully account for the huge slaughter in November and December. USDA raised the size of last spring's pig crop, but not nearly enough to justify the November-December slaughter. The concern is that more sows were in the herd last spring than USDA has accounted for. If so, the USDA could still be getting an undercount on the breeding herd. The validity of this report will last only as long as the slaughter supplies match the report numbers. If the rate of increase in slaughter does not begin to slow by mid-January, the market will be forced to reject the data as "another bad inventory count." The consequences are that hog prices could remain in the teens for several months.

The wholesale value of pork has been high enough to have kept hog prices in the low to mid-$10 even in December. The dilemma was that supplies exceeded effective slaughter capacity and packers did not have to bid for hogs. There were so many hogs coming to market that packers could about name the price they would pay. If January supplies do drop to only 4 percent above year-ago levels, packers will need to begin to compete for the hog supply. This means that prices could quickly rebound to the lower to mid-$20. February hog prices could push toward the higher $20s with prices reaching the low $30s by March. First quarter average prices at terminal markets may be near $29 per hundredweight. Prices can continue to improve as the year progresses. Second quarter prices are expected to average about $36, with prices in June in the high $30s. Summer prices are also expected to average in the higher $30s, with low $40s expected for the fourth quarter.

Prospects for improved prices are welcome, but most producers still have at least four more months of losses before they get back to breakeven. This means their financial situation will continue to erode. Given the unimaginable losses of $50 to $70 per head in the past two months, cash flow is the number one priority for many. Most producers will ask their lender for larger credit lines to accommodate losses. Lenders in turn will ask for additional collateral to be pledged against these larger credit lines. Some grain-hog farms will have land to back larger loans, but others will not. This could lead to what is called a "liquidity crunch," a period when lenders tighten their requirements for loans at the same time producers need greater borrowing capacity. In these situations, lenders will make credit decisions on an individual basis. Most of those who cannot garner greater borrowing capacity will be forced to liquidate all, or a portion, of their herds.

The longer-term price prospects remain optimistic. The breeding herd will likely continue to drop through much of 1999, providing sharply smaller pork supplies in 2000. World pork supplies will also be reduced, resulting in smaller imports of live hogs from Canada and better export prospects. In addition, retail prices will have been lowered with more product moving.

Generally, the more severe the loses experienced during a hog cycle, the stronger the profit period in the next cycle. The severity of the current losses will discourage expansion for years and may actually provide a longer period of sustained profits in 2000 and 2001.

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