UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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HOG INDUSTRY TO EMERGE FROM PRICE DEPRESSION

Hog prices will continue to recover from their depression-era depths throughout 1999 and into 2000. Supplies of hogs will begin to drop below year-earlier levels by June, with more dramatic drops expected by the fall. Hog producers can finally expect to see a return to breakeven prices in May, with positive returns evident this summer and fall.

The USDA's March *Hogs and Pigs* report shows that the number of market animals will be up about 2 percent in April, will drop to unchanged in May, and be about 2 percent below year-earlier numbers from June through August. The anticipation of smaller pork supplies should help stimulate a strong spring price rally. Hog prices should move from near $30s per hundredweight in early April to the higher $30s by early summer. With the cost of production expected to be in the $36 to $38 range, the industry will finally get back to breakeven prices sometime during the month of May. If producers have survived to this point, they have likely made it through the price depression.

On the opposite side are those who were not able to withstand the ravages of the winter market. The March report does not provide the number of producers that have dropped out of production, but it does show a huge reduction in breeding herd numbers, as many producers liquidated, or reduced, their breeding herds.

Perhaps the most encouraging indication in the current report is that hog producers are responding in a traditional manner to economic losses. Many felt that the industry is now dominated by larger producers who would hesitate to reduce production when times were difficult. If so, downward adjustment in the size of the breeding herd would be slow, if it occurred at all. In essence, this line of reasoning suggested there is no longer a hog cycle, meaning the industry would have difficulty returning to profitability, and a long and pervasive period of losses would ensue. This report provides solid evidence that the hog production cycle is still alive.

The decline in breeding herd numbers is especially vivid when viewed in terms of individual states. Of the 17 major reporting states, numbers were unchanged or down in 16 states. Only Oklahoma, where Seaboard continues to build, had any increase in the breeding herd. The razing of breeding herds was particularly noticeable in the Midwest, where six of the 17 major states had double-digit declines in breeding herds, including: Wisconsin (19 percent); Illinois, Kansas, and Michigan (15 percent); South Dakota (13 percent); and Indiana (11 percent). Also with large reductions in breeding herds were Ohio and Kentucky (7 percent); Iowa and

Minnesota (6 percent); and North Carolina (5 percent). The smaller breeding herd in North Carolina was the first year-over-year decline this decade.

A declining breeding herd inventory means smaller farrowings this year. Producers reported that their intentions were to farrow 7 percent fewer sows this spring and summer. If this liquidation follows a traditional cycle, the breeding herd can be expected to continue to drop over the next year, reaching its lowest level in March 2000. This would mean that hog prices would continue to improve throughout 1999 and reach their highest levels on this cycle in the summer or early fall of 2000. Hog prices should move from near $30s in early April, to the mid $30s by the end of the month, and to the higher $30s by June 1. Summer prices are expected to be in the very high $30s, with some daily tops over $40s per hundredweight. Supplies will continue to drop more sharply into the fourth quarter, when prices are expected to average in the low $40s. Continuation of smaller supplies appears to be likely for the first quarter of 2000, when prices should be able to maintain the lower $40s. Summer 2000 prices could move sharply higher, at least into the higher $40s, with chances for hog prices to stretch above $50s for the first time since August 1997.

The first order of business for most hog producers is to stabilize their financial condition. The industry has experienced losses since December of 1997. By the end of April 1999, cumulative losses will have amounted to an estimated $400 per sow, or $40,000 for a 100 sow operation, and around $200,000 for a 500 sow operation. Secondly, most will want to avoid major new investments in the industry until the total implications of the fallout are evident. This means waiting until at least mid-2000 to see if hog prices can recover to profitable levels, and to see if large corporate operations continue their appetite for expansion. The greatest fear now for many family hog farm owners is that very large hog producers will continue to expand production in order to gain market share for the longer run. If so, a period of pervasive low prices could result.

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