UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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NO WAY OUT OF HOG PRICE PROBLEMS FOR MANY

The USDA's June *Hogs and Pigs* report was a shocker. The lowest prices of the century still have not convinced enough producers to reduce supplies. In addition, low feed prices will increase market weights. As a result, the industry will not return to profitable price levels over the next year as had been anticipated prior to the report. Pork supplies are expected to be down a meager 2 percent over the next 12 months, not enough to spur higher prices.

The report indicated that the market herd on June 1 was down only 2 percent from year-ago levels, and that the breeding herd was down 6 percent. While these numbers are headed in the right direction, they do not reflect an aggressive enough liquidation of the herd.

The number of hogs available for market this summer was estimated to be down 3 percent. However, with market weights expected to be up by 2 percent, this means only a slight reduction in pork supplies. In addition, there is concern that USDA had too few hogs in their count for this summer. The number of hogs weighing over 180 pounds on June 1 was reported as up 2 percent.This is the pool of hogs for June processing, and those numbers have actually been up about 5 percent.

It was fall and winter supplies that devastated hog prices last year, and prospects are for only modest reductions this year. Pigs weighing under 60 pounds on June 1 were reported as down 5 percent, but with 2 percent higher weights this fall, pork supplies will only be 3 percent lower than the records last fall. Winter supplies will come from the summer farrowings, which are reported to be down 4 percent. With 1 percent more pigs per litter and 2 percent heavier weights, pork supplies this winter may only be down 1 percent to 2 percent from this past winter.

Many of the traditional family farms of the Midwest have given up, but too many larger hog corporations have not reduced production, or have even continued to expand. The hog industries of some states have been gutted. Illinois, as an example, had a 21 percent reduction in the size of its breeding herd. The breeding herds were down sharply in Georgia (30 percent), Wisconsin (20 percent), Kansas (16 percent), Indiana (13 percent), Ohio(9 percent), Iowa (8 percent), and Michigan (8 percent).

However, Oklahoma continued to see sharp expansion, adding 50,000 animals to the breeding herd. In addition, the "other states" not individually reported were only down 3 percent. This means that expansion has continued on the southwest and western fringe of the corn belt.

The supply problems the industry faces cannot be overstated. If favorable growing conditions continue to push feed prices lower, market weights could become an even larger concern than mentioned above. Record supplies of frozen pork also loom over the market. The current inventory report means that supplies will be sufficient to keep frozen stocks at record levels over the next year. There is just no window of opportunity to bring some of that pork out of the freezers. Everyone will look to last year's price disaster in November and December and wonder how we can get through this fall and winter given only modest reductions in pork supplies and full freezers.

Prices of hogs on a live weight basis for terminal markets are expected to average only about $34 over the next 12 months. This summer's prices are expected to average about $35, but trade in a range from $32 to $38. The higher prices could come near the end of the summer. Fall and winter prices are expected to be in the low $30s, averaging about $32. Concerns over packer capacity and freezer space will once again be front-page news. Hog prices could easily dip into the higher $20s at times. Movement back toward the higher $30s would be expected for the spring of 2000.

At this point, the best hope for many producers is that feed prices will continue to drop. Most producers with quality genetics receive premiums of a least $2 per live hundredweight above terminal prices. This means that revenues could average about $36 for many produces. With $2 corn and $140 meal prices, estimated costs are about $35 per live hundredweight. Corn at $1.50 and meal at $100, drops costs to about $32.

Unfortunately, average costs can be misleading. Those who have recently expanded and are capitalizing new facilities may have costs in the $39 to $42 range. In addition, some have been forced to increase their debt load over the last year in order to meet cash flow needs. The outlook for these producers is not good, as the industry must now go through further erosion of net worth and asset values. Many pork producers will say, "We can go through one disastrous price period, but we can't take two." The news from the June *Hogs and Pigs* report is that the second wave is on its way.

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