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HOG BREEDING HERD DECLINE BEING OFFSET BY PRODUCTIVITY GAINS

Hog producers continue to reduce the size of the breeding herd. The September 1 inventory was 8 percent smaller than on the same date last year. However, gains in litter size and heavier market weights will keep pork supplies down by only 2 to 4 percent over the next year. This small supply reduction does not point to any quick return to profitability for pork producers.

In the September *Hogs and Pigs* report, the USDA measured the breeding herd as down 8 percent, but the market herd down only 4 percent. Midwestern states continued to lead the breeding herd liquidation. Dramatic reductions continue in Wisconsin (21 percent), Illinois (20 percent), Nebraska (14 percent), and Kansas (14 percent). Other large declines included Indiana (11 percent), Iowa (11 percent), Ohio (10 percent), and Minnesota (9 percent). The liquidation is widespread, with only Oklahoma showing an increase in the breeding herd (10 percent).

Pork supplies are not dropping as quickly as the size of the breeding herd due to productivity gains. The reason for the gains is threefold. First, the sows that remain in the breeding herd are being weaned earlier and returned to pregnancy more quickly, increasing the number of litters per year. Second, the number of pigs per litter continues to set new records. As an example, the number of pigs per litter reached 8.86 pigs this summer, a 2 percent gain in the past year. Finally, hog weights continue to trend higher. This increasing trend to higher weights along with moderate priced feed will increase weights by an estimated 1 percent over the next year.

The productivity growth means that an 8 percent reduction in the size of the breeding herd may result in only a 3 percent decline in pork production over the next year. The 8 percent smaller breeding herd is expected to result in only a 5 percent reduction in fall farrowings. With an increase of 1 percent in the number of pigs per litter and in market weights, pork supplies will be down only 3 percent next spring
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Perhaps the most disturbing information in the report is that pork producers will reduce winter farrowings by only 3 percent. With more pigs per litter and heavier weights, this means only a 1 percent reduction in pork supplies for summer 2000. If this is an accurate reading, it means that pork producers are not planning to trim the size of the breeding herd much more. Alternatively, since this is a first intention, it may mean that farrowings will be down more this winter than producers have indicated.

Hog prices are expected to go through one more dip this fall and winter before returning to breakeven levels early in the spring of 2000. Pork supplies this fall and winter will be down about 3 percent. Terminal prices (live weight) are expected to drop into the higher $20s for a period in late October and early November. However, the average price for the last quarter of this year

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is expected to be in the low $30s, with costs of production averaging around $35. Prices are expected to improve about $2 per hundredweight this winter, with the first quarter average price in the $31 to $35 range. Higher prices should occur in the spring, with prices finally moving above breakeven levels by late March or early April. Prices for the second quarter of 2000 are expected to be in the high $30s, with some days above $40 in the late spring.

Will prices finally move into the strong profit zone by next summer? The answer is NO, if producers follow their intentions to farrow only 3 percent fewer sows this winter. Pork supplies will be down 1 percent next summer, with prices averaging near $40 per hundredweight.

Cost of production for farrow-to-finish operations is estimated to be in the $35 to $37 range from this fall through next summer, using current futures prices for corn and soybean meal. The higher costs will be next summer, as corn and meal prices increase from harvest lows. This means continued losses for much of the industry through this fall and winter. While few will cover total costs of production, many will cover their out-of-pocket costs and probably will not leave the industry, given prospects for a return to breakeven prices by early next spring.

Based on previous hog cycles, one would expect to see sharply higher hog prices by the summer and fall of 2000. Everyone in the industry knows that producers have been slow to reduce the size of the breeding herd in this cycle as compared to past cycles. However, it is also the nature of the USDA to not identify the full dimensions of herd liquidation in the early stages, with a at least one or more bullish reports to follow. This report did not provide the hoped for bullish turn-around, but the cycle timing is ripe for that to occur in the December or the March 2000 report. This also provides some encouragement for producers to hold on.

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