



UNIVERSITY OF ILLINOIS  
EXTENSION



# WEEKLY OUTLOOK



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## **HOG PRODUCERS TO EXPAND THEIR PROFITS AWAY**

Hog producers say they will farrow 1 percent more sows this fall, followed by an even larger 3 percent increase this winter. The response is due to profitable hog prices during much of 2000 and to the anticipation of low feed prices. If producers follow through on these plans, pork production is expected to reach a new record in 2001 at 19.6 billion pounds. This would surpass the 1999 record of 19.3 billion pounds. This also means that hog prices could be reduced to breakeven levels by late next summer. Any additional expansion beyond current reported levels will likely mean losses by the fall of 2001.

Producers still have a breeding herd which is slightly smaller than year-ago, but the high productivity rate of the breeding herd means that farrowings will rise this fall and winter. The market herd was down 1 percent from last year, with each of the weight categories also down around 1 percent.

Regional differences in breeding herd numbers have continued. Producers in the eastern corn belt have reduced the breeding herd by 8 percent and the market herd by 4 percent. These declines are led by reductions of the breeding herd in Indiana (10 percent); Ohio (14 percent) and Wisconsin (13 percent). Illinois numbers were down 2 percent. Breeding herd numbers in the western corn belt states of Minnesota, Iowa, and Missouri were nearly unchanged for both the breeding and the market herd. Expansion, on the other hand, was the norm for plains states, with breeding herds expanding in Nebraska (11 percent); Texas (6 percent); South Dakota (4 percent); and Colorado and Oklahoma (3 percent).

Interestingly, the states that have already expanded are in the areas where the corn crop will be most limited due to drought conditions this summer. This is particularly true for Nebraska. On the other hand, expansion is expected for some of the states with excellent corn yields. Indiana, Minnesota, and Iowa all have above 150 bushel per acre corn yield estimates, and their producers are indicating large increases in farrowings by this winter: Indiana (7 percent); Minnesota (8 percent); and Iowa (5 percent). It appears that the large corn crop will stimulate greater retention of gilts this fall and that the breeding herd will show year-over-year increases by the December report.

Pork supplies are now expected to be somewhat higher than previously anticipated. In the last quarter of this year, pork supplies are expected to be down about 1 percent. During the winter, supplies should be nearly unchanged from last-year. Increased farrowings this fall will enable supplies to begin building in the second quarter, when they are expected to be up by 3 percent. Even larger winter farrowings mean summer pork supplies could rise by 5 percent. Assuming further building of the breeding herd this winter, supplies could reach a 6 percent increase by the fall of 2001. Given these anticipated increases, pork supplies would reach a record 19.6 billion pounds in 2001. In addition, fourth quarter 2001 supplies are expected to exceed those of the fourth quarter of 1998 when prices declined to devastating levels.

Hog prices are expected to weaken this fall. Using terminal prices as a benchmark, prices are expected to average near \$40 for the final quarter of this year. This means that price lows could be in the \$36-\$38 range during late-October and early-November. Winter prices are expected to be about \$1 lower, averaging in the \$37 to \$41 range. Spring prices are expected to improve, but with less seasonal upsurge than normal. Second quarter 2001 prices are expected to average in a range from \$40 to \$44. Building supplies into the summer mean prices could struggle, with an estimated average price falling in a range from \$35 to \$39. It is still early to be predicting prices for the fall of 2001, but one would expect very weak prices, perhaps in a range from \$31 to \$37 per hundredweight.

Given these supply and price projections, hog producers can expect to see profitable prices through next spring. However, by mid-to-late summer, hog prices could drop back to near costs of production. In addition, if adverse weather should impact the 2001 crop, higher feed prices could cut into profits more quickly.

Given the information in the September report, expansion appears to be large enough to drive prices back to breakeven by the summer of 2001. Now the question is, "will the expansion get even larger?" Generally, once expansion gets underway, it continues for several quarters. Most likely this will be the case this year, with expansion continuing at least into next spring. If so, a period of losses can be anticipated in the last-half of 2001 and the first-half of 2002.

Clearly the industry must be cautious about building the herd beyond levels already indicated.

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