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HOGS LOOK PROFITABLE FOR THE NEXT 6 MONTHS

With the second issue of the USDA's new *Monthly Hogs and Pigs* report freshly printed, markets are still treating this new governmental effort as an information lightweight. The reason is not so much because the information is not useful, but rather because there is not much historical foundation for a solid market position, at least not yet. The quarterly reports will still be the heavyweight match that everyone will look forward to for the next year or so.

In the December 2000 quarterly report, hog producers said they would farrow 3.9 percent more sows during the December-February quarter. The January monthly report showed that December farrowings were only up 2 percent and provided anticipation that the winter farrowings would not reach the 3.9 percent benchmark. However, January farrowings were up 4 percent, which puts the industry right on track to achieve the nearly 4 percent increase suggested in the last quarterly report.

The most "newsworthy" information in the current monthly report is that the weaning rate has been higher than expected. The weaning rate increased by 1.4 percent in December, and by 2.1 percent in January. These compare with the trend of slightly over 1 percent increase per year during the 1990's. While this level of improvement is not outside the realm of possibility, it does bring into question the level of errors associated with the monthly reports. At this early stage, the USDA simply does not have a track record to make judgements about the potential errors in the monthly reports. This is another reason to take the information with a "grain of salt," and await confirmation in the next quarterly report that will be out on March 24.

How does this report change the overall outlook for the rest of 2001? The answer is, "not much." So far this year, hog slaughter has been down 1.7 percent, about as expected. Weights have been up 1.4 percent, so pork production is down 0.3 percent. Prices have averaged near $38 for 51 percent to 52 percent lean hogs, slightly higher than expected.

Second quarter pork supplies are expected to be up about 3 percent as a result of a larger pig crop last fall and heavier market weights. This level of increase, however, will not keep prices from being profitable. Prices are expected to strengthen into the spring. March prices may be able to average in the very low $40s, with April near the mid-$40s, and May pushing even higher, perhaps into the $45 to $46 range as an average. Highs are expected to come in late May and June. At this point, it appears that June prices could average $1 or so higher than May prices.

The monthly reports now are indicating that the break in hog prices would begin in very late June or July. July prices could drop around $3 from the June average price. This might put July prices near $43 to $44. August prices might average in the very low $40s. The best news for pork producers, and their lenders, is that the next six months appears to be a period of positive cash flows. Hog prices may average about $43.50 with costs closer to $37 or $38.

What will happen after August? Of course the quarterly report says that producers will moderate their rate of farrowing expansion to just a 1 percent increase in the spring, down from the nearly 4 percent rate of increase in the winter. There is some question of whether farrowings will be this small. Once the herd starts into expansion, it tends to stay in that direction for a longer period of time than is currently indicated. At this point, my projection is that hog prices will drop to the breakeven level of $36 to $38 for the fall. These prices are not as pessimistic as my forecast of a few months ago.

The greatest value of the *Monthly Hogs and Pigs* report will likely be in helping to determine the change in the hog cycle more quickly. It has always been difficult to measure the "turning points" when the herd was actually moving into expansion or into contraction. Even with early indications, the market had to wait another three months to get a confirmation of the change in the trend. Now, that confirmation can come with a much shorter lag. The monthly reports also will become more valuable when a larger historical data base is built from which to make market judgements.

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