UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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WHEN WILL HOG PRODUCERS THOUGHTS TURN TO EXPANSION?

Fewer market hogs and producers hesitant to expand the breeding herd are providing an environment where profitable production is expected through the next 12 months. But, prospects of an extended period of profits will likely begin turning producer thoughts toward expansion. The reason for the smaller-than-expected number of market hogs is a revision in the farrowings from last winter. The USDA reduced that estimate by nearly one percent in the June *Quarterly Hogs and Pigs* report. In addition, the number of pigs per litter has also leveled off at about 8.9 pigs.

The lack of expansion is not a major surprise. Producers still remember the $8 per live hundredweight price in December of 1998. The memories of such a traumatic financial event have faded slowly. The losses were so large during late 1998 and 1999, that many producers just recovered financially by the spring of 2001. Another important reason for lack of expansion in the face of very favorable profits was the concern over foot and mouth disease (FMD) this past spring. While FMD in Europe actually added to U.S. exports, the concern that the disease might come to the U.S. made producers cautious. Prices could have dropped as much as $12 per hundredweight with an outbreak here. A large drop in prices would have resulted from the inability to export pork, which is about 7 percent of total utilization.

Another apparent change is the decline in the breeding herd in some “high growth” western states. Leading the decline was Colorado, which had a 19 percent (40,000 head) decline in the breeding herd. Colorado, with its sparse hog populations and wide open spaces, had become a haven for large sow units. Expansion began in earnest in the early 1990's. Breeding herd populations mushroomed from about 40,000 animals to 210,000 by 2000. The other state demonstrating possible expansion exhaustion is Oklahoma, which grew from a mere 35,000 animals in 1990 to 340,000 by 2000. The breeding herd there is down by 10,000 animals, or 3 percent, this year. While this is not as significant as the decline in Colorado, it is the first time that the Oklahoma breeding herd inventory has been down since 1991.

Iowa is the other state where major reductions in the size of the breeding herd occurred. The herd is down by 40,000, or three percent. However, this decline was entirely offset by modest expansion in three neighboring states: South Dakota, Minnesota, and Missouri. In the eastern corn belt, producers kept the overall size of the breeding herd the same as one year ago.

In the first-half of 2001, pork production was up by 1.7 percent, yet hog prices were about four percent higher, at $47.50 per live hundredweight. When supplies and prices are both higher, we often look to demand for an explanation. Improved pork trade should receive much of the credit for improved demand. In the first-half of 2001, pork exports were up about 18 percent, while pork imports were down seven percent. For the first-half of the year, the trade improvement added 1.6 percent to aggregate demand and resulted in prices being about $1.25 per live hundredweight higher. The positive benefits from trade were assisted by FMD in Europe, where exports were blocked by much of the world, including the U.S. and Asia. Since May, restrictions on Danish trade have been lifted, so the positive benefits will be reduced.

Pork supplies are expected to be about two percent higher this summer, compared to the supplies of last summer, and roughly unchanged in the fall. Supplies will rise two percent in the winter and three to four percent in the spring.

Prices have been very profitable and positive margins are expected to continue for the next 12 months. Liveweight prices are expected to edge lower as the summer progresses, reaching the mid-$40s in September. Fall prices may average in the $40 to $44 range. Lows in late October and early November could drop toward the $40 mark. Winter prices should improve somewhat, with an average price near $43, and spring 2002 prices are expected to return to near the $50 level for an average, with May and June prices even higher.

Conditions would now seem to be right for producers to begin expansion plans. The losses of 1998 have been covered and producers are now earning large positive cash flows; the threat of FMD, while not over, is receiving less media attention; and the long-term outlook now appears positive. International trade may not be as positive for hog prices in the last-half of the year, but with sow productivity growth now leveling off, some small sow expansion could now take place. However, this expansion needs to remain at only one to two percent per year. Keeping a controlled expansion in place has never been easy for the pork industry.

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