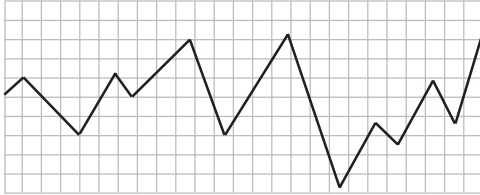




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DID 9-11 CUT FALL HOG PRICES?

One of the continuing question this fall has been, "How have the events and aftermath of 9-11 affected the hog industry? The USDA's September *Quarterly Hogs and Pigs* survey was completed around September 1, a few days prior to the fateful terrorists acts. Have producers' attitudes changed? Of course, the way hog producers view their businesses have been altered somewhat, and the latest data from the USDA's *Monthly Hogs and Pigs* survey is showing that expansion plans will likely be cut somewhat from the pre-9-11 position.

In September, farrowings for the fall quarter were expected to be up by 1.4 percent. Now, with data available for the first two months of the quarter, farrowings are up just .4 percent, perhaps indicating some moderate reduction from September intentions. In a similar fashion, farrowing intentions for the winter quarter were up 3.2 percent in the September survey. Data gleaned from the monthly report are showing females bred to farrow in the first quarter up only 1.5 percent, again pointing to a somewhat slower build-up than had been anticipated in September.

Given the increased uncertainty as a result of 9-11 events, and the lower than expected fall prices, some reduction in the rate of herd build-up would seem logical. But what was the source of the depressed fall prices? At the start of September, hog prices were expected to average between \$42 and \$43 for the final quarter of 2001. This price is the live equivalent of the national base lean price for 51-52 percent lean animals. At the start of the last month of the quarter, it now looks like prices may average between \$37 and \$38. With prices about \$5 per live hundredweight lower than expected, it is appropriate to seek the reasons why.

Most of the answer seems to lie in three categories. The first is larger supplies than had been expected, the second is the reduction in exports to Asia, and the remainder falls to a category best described as the weakened economy and consumption changes after 9-11. Examining how each has reduced prices will provide some insight into winter hog price prospects.

At the start of the fall, pork supplies were expected to be unchanged from the supplies of the last quarter of 2000. With two of the three months now complete, last quarter supplies are about two percent higher. Both the number of animals slaughtered and weights are about one percent higher. Higher weights are explained by producers holding hogs somewhat longer when prices dropped below expectations. Larger pork supplies explain about \$2 of the lower prices.

Exports to Asia began to fall when the Japanese pork import safeguard was triggered in August. Pork exports to Japan in August and September dropped by one-third compared to the average of the previous three months. This drop accounts for a reduction of about \$1.50 per live hundredweight for U.S. hog prices.

This leaves the impact of 9-11 and its aftermath contributing an additional \$1.50 to \$2.00 to lower prices. Much of this impact seems to actually come from the beef sector. With the recognition of slow growing U.S. and world economies, as well as general uncertainty, beef demand was reduced. Travel, convention, and vacation related beef sales were also negatively impacted, dropping the use of high value beef cuts in that industry by about 11 percent in October. In addition, beef exports to Japan were cut with the discovery of Mad Cow disease there. So, most of the lower live hog prices seem to be related to the increased competition from beef when higher value cuts had to be moved through U.S. grocery stores rather than into the export and restaurant trade.

What do these factors mean for prices into 2002? First, pork supplies are expected to remain about unchanged in the first quarter, before rising about two percent in the spring and summer. Current indications are that winter farrowings may be up only one percent compared to the expectation of three percent, keeping summer 2002 supplies moderate. Second, the Japanese import safeguard remains in place through the end of March, but larger export volumes can be expected after that. Finally, beef demand appears to be slowly recovering in the U.S., but may not totally recover until the last-half of 2002 when economic recovery may be well underway.

The year of 2002 still appears promising for pork producers. Look for live hog prices to recover into the low \$40s in the winter. Springtime should bring an additional price increase, with prices back to the mid to higher \$40s. Summer prices may be a couple of dollars lower. Prices in the last quarter of 2002 are expected to return to the very high \$30s. The best guess now is that 2002 prices will average around \$43, compared to \$46 this year.

The trauma of 9-11 has contributed to depressed hog prices this fall. The positive side for producers is that it has also likely cut expansion plans somewhat, which will help maintain profitable prices for a longer period into 2002.

Issued by Chris Hurt
Extension Economist
Purdue University

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820