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HOG PRODUCERS IN DESPERATE NEED OF A SPRING PRICE RALLY

Hog prices have been depressed since September 11, 2001, when live hog prices were at $45 per hundredweight. Prices had a strong run, averaging over $51 in the six months prior to that fateful day. Today is a different story. Hog prices are mired at their lowest levels since 1999 and have averaged a bare breakeven price of $38 in the six months after September 11.

Depressed prices are rooted in both larger than expected supplies and in weak demand. On September 11th, supplies for the last quarter of 2001 were expected to be unchanged, a stark contrast to the nearly 5 percent larger supplies that eventually came to market. Prices naturally were lower than expected, but the extra supplies explained most of the decrease. The first quarter of 2002 provided a different story. Supplies were close to expectations, yet prices fell $3 below the expected level, indicating a greater likelihood of weak demand.

The low prices of this past winter cast a long shadow on the anxiously anticipated spring and summer hog price rally. Futures prices collapsed when the spring rally could not get underway. The April lean futures contract traded near $63 in early February. By the first week of April, hope had faded to despair, and the price of that contract dropped below $46. Pork cold storage stocks have increased to the highest level since 1999, a further indicator that processors are having some difficulty moving pork products to consumers.

There is still hope for the spring rally. In fact, it normally does not get underway until after the first week of April. A glance at historical seasonal price patterns show that the price tends to move up by more than $6 per live hundredweight between the first week of April and the end of May. In fact, in about 30 percent of the years, live prices have moved up by $10 or more to reach the late spring and summer highs. The current low prices seem to give higher odds of this being one of those years.

The March USDA *Hogs and Pigs* report provided no supply surprises. The market herd inventory shows that supplies will be up about 2 percent this spring and up about 3 percent in the summer. Weights will add roughly a percent, so pork production will be up 3 percent in the spring and 4 percent in the summer. While these sound like relatively large increases, supplies were small in the base period that these are being compared to. Fall and winter supplies will be up about 2 percent, based upon producers' intentions to farrow 1 percent more pigs this spring and summer.

So the big question remains, can hog prices get a rally started? The answer is undoubtedly, yes, but the related questions are from what level and by how much will they rally? Live hog prices may still be able to average around $44 for the spring quarter. This, of course, means that prices will begin to move upward quickly. Summer prices are expected to be $1 to $2 lower, averaging in the $42 to $44 range. If so, there will be a return to profitability for the next six months and producers will want to use these positive cash flows to prepare for another price crunch this fall and winter when prices could once again be pushed into the mid-to-lower $30s.

The U.S. breeding herd has been stable since 1999. Of course, there was a major drop in the herd in 1999 in response to devastatingly low prices. The growth in the North American breeding herd is occurring in Canada and to some extent in Mexico. As an example, since 1995, U.S. pork production has grown by 7 percent, Mexican production is up 14 percent, and Canadian production is up 38 percent. In 2001, the U. S. imported 5.3 million hogs from Canada, totaling 5.4 percent of U.S. production. In 2002, USDA expects the number of hogs imported to grow to about 5.8 million.

During the past year, the breeding herd has been up in Nebraska (+8 percent) and Illinois (+2 percent); unchanged in North Carolina and Iowa; and down in Indiana (-6 percent), Minnesota (-3 percent), and Missouri (-3 percent).

This remains a period of extreme caution for hog producers. Much lower than expected prices since September 11th have been discouraging, as have increasing supplies of live hog imports from Canada. The spring rally should soon be underway, with a return to some profits. However, what many had hoped would be six months of favorable profits this spring and summer, now seems to be one of just getting back into the black before the next loss period comes next fall and winter.

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