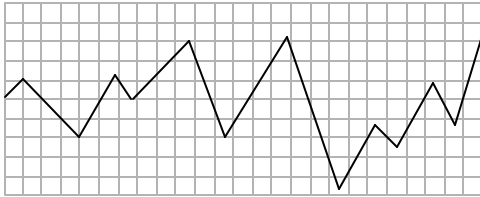
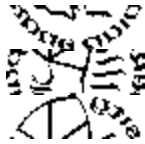




UNIVERSITY OF ILLINOIS  
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# WEEKLY OUTLOOK

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## **SPRING HOG RALLY FIZZLES AND PRODUCER FINANCIAL CONCERNS GROW**

The much anticipated spring hog price rally fizzled. There was a spring rally, it just started from a much lower level than had been anticipated. Live hog prices hit bottom in mid-April in the mid-\$20s. They rallied to the mid \$30s by mid-May, before collapsing once again to the higher \$20's at the end of May. With two-thirds of the second quarter now complete, live prices may average about \$33 to \$34 per hundredweight for the quarter based upon the live equivalent of 51-52 percent lean hogs.

These depressed spring prices are in sharp contrast to the year-previous prices during the spring of 2001 when prices averaged \$52 per hundredweight, and two years ago when they averaged \$50.43. Part of the culprit is larger than expected second quarter supplies that have surged to about 6 percent greater versus the same period last year. But even with the larger supplies, we would have anticipated that prices would have averaged close to \$40.

So we are left with weak demand to explain the single largest portion of the dismal spring prices. It's not hard to find culprits starting with weak pork exports which were down 14 percent in March, record large production of red meats and poultry, and the restrictions of U.S. poultry exports to Russia this spring. But the greatest concern is that retailers have not lowered consumer prices sufficiently to keep from building large stocks of pork in freezers.

Retail pork prices set new high monthly records in each month from January through April of this year (most recent data) while wholesale prices collapsed. During April and May loins were 22 percent lower; bellies down 26 percent; and hams off 39 percent from the same period one-year ago. With record high retail prices and falling wholesale prices, the retail margins have also been record high at \$1.65 per retail pound during the past January to April, versus \$1.49 for the same period last year. Retailers are quick to point out that the data series has some limitations, and that retail prices tend to lag wholesale prices. This hopefully means that retail prices should be coming down to help move large pork supplies.

A further result of larger supplies and weak demand is a buildup in pork storage stocks. As of May 1, pork in cold storage was up 31 percent over last year at the same time. But also compounding the pork situation are large amounts of competing meat and poultry in freezers with beef up 29 percent; and both chicken and turkey up 30 percent.

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Needless to say, pork producers are worried about the current depressed prices and prospects for growing U.S. hog numbers through this year, and also with expanding Canadian live hog imports. The most recent *Monthly Hogs and Pigs* report shows both the March and April pig crops to be up 1 percent, with the number bred also up about 1 percent. These numbers are consistent with the anticipated spring farrowing increases reported by producers in the last quarterly report.

Canadian hog imports are expected to reach near 6 million hogs this year, an increase of 12 percent from 5.3 million in 2001 (USDA). Higher U.S. production and more imported hogs will push 2002 commercial pork production to exceed 19.5 billion pounds, breaking the 1999 record of 19.3 billion pounds.

Price recovery can still occur as retailers reduce prices to consumers and help move large storage stocks through the marketing system. Continued recovery in the U.S. economy should also be positive to prices. But the bitter reality is that the hoped for period of spring and summer profits before fall losses is largely gone. That outlook has now been replaced with the potential to have summer prices in the mid-to-higher \$30's before the hammer drops once more this fall with prices averaging in the lower \$30s.

This means that live hog prices may only average about \$35 to \$36 for the year, a level that implies heavy losses for most producers. Thus, after the years of 2000 and 2001 when hog prices averaged \$45.25 per live hundredweight, they will drop much closer to the financially devastating years of 1998 and 1999 when they averaged only \$33.16.

Little adjustment in producers' production plans for 2002 are anticipated. However, moderate reductions in farrowings could begin by the spring of 2003, with pork supplies beginning to drop in the last-half of 2003. At this point, that looks like a very long time for most producers to await price relief.

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