UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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PORK INDUSTRY: GET READY FOR NEXT BLAST

After disappointing prices during the first-half of 2002, the pork industry may still not have seen the worst, as losses are expected to mount this fall and winter. During the last-half of 2002 and the first half of 2003, pork supplies are expected to be nearly 3 percent larger than during the same period a year earlier. Large supplies will keep hog prices depressed, while rising feed prices will increase costs. The period of losses is expected to span from this fall until the late spring of 2003.

The USDA's June inventory report indicated that the nation's breeding herd was only slightly larger than one year ago, but the market herd was up 2 percent. The largest numbers of market hogs were at heavier weights. For example, the number of pigs which will be ready for market in July were 4 percent greater, but those that will be ready for market from August to November were only 1 percent greater. The recent large rate of increase in slaughter numbers should taper off into August, but market weights are expected to continue to rise about 1 percent over the next year.

The breeding herd seems to have grown in the past year in some traditional family farm states, while shrinking in some more corporate oriented states. The breeding herd was up a surprising 10 percent in Nebraska, 7 percent in Illinois, 6 percent in Ohio, and 1 percent in Iowa. However, some Midwestern states had decreases, including: Indiana down 6 percent, Missouri down 3 percent, and Minnesota down 2 percent. Two corporate oriented states reported fewer sow numbers. Colorado, which has seen sow depopulations in recent reports, was down 12 percent and Oklahoma producers took a break from expansion, posting a 3 percent decrease in their breeding herd. Texas remained in strong expansion, with an 11 percent breeding herd rise.

The larger than expected number of hogs to come to market this year is a result of a larger expansion in the breeding herd last year. Pork producers responded to a period of strong profits spanning from the spring of 2000 through the summer of 2001. During this period, estimated profits averaged over $10 per live hundredweight, or about $27 per head. Producers report a 2 percent increase in sow farrowing intentions this summer and a 1 percent increase for this fall.

Live hog prices are expected to average in the higher $30s this summer, with a plunge to the lower $30s as a fourth quarter average. Lows could reach the higher $20s during some weeks, most likely from mid-October through November. Prices are expected to average in a range of $31 to $35 in the first quarter of 2003 and in the mid-$30s during the second quarter.

Based on these hog price projections and current futures prices for corn and soybean meal, losses are expected to average about $20 per head this fall, $17 per head in the winter, and $12 in the spring quarter of 2003. Unfortunately, there is a possibility that losses could be larger.

The increases in corn and soybean meal prices this summer have already added about $2 per live hundredweight to the costs of production, with current estimates of about $39 per live hundredweight. Weather over the next two months will largely determine whether feed prices continue to move higher or abate. If the crop is severely damaged by dry conditions this summer, hog production costs will be driven sharply higher. With $3.00 per bushel corn futures and $240 per ton soybean meal futures, cost of production would be pushed to $44 per hundredweight. Under this situation, losses this fall would be extreme, averaging an estimated $34 per head Losses of this magnitude would cause some additional liquidation of the breeding herd, further depressing hog prices from current projections. Of course, weather could also be benevolent and provide yields that approach normal.

Pork producers are currently in the most vulnerable market circumstance they have faced since 1998. Hog prices are likely to be below costs of production for an extended period this fall, winter, and through the spring of 2003. Feed prices are also vulnerable to wide fluctuations as weather determines the size of U.S. crops in coming months.

Producers should consider the possibility of sharply higher feed costs and evaluate the use of call options for upside price protection. There are no opportunities to lock in profitable hog returns at the current time, so most will want to take a wait and see attitude with regard to forward pricing hogs. Low hog prices for this fall and winter have been well anticipated by the futures market, and sometimes this means that prices will not be as low as anticipated. Those who cannot withstand, or are unwilling to undertake, a 9 month period of losses should evaluate the alternative of starting to liquidate or reduce their herd size now.

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