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TIS THE SEASON FOR HOG PRICES TO RISE

Will Santa help hog producers with a bullish market this winter? Just like the "good" girls and boys who are hopeful of a loaded Christmas stocking, the odds suggests that hog prices are headed upward.

The hog market has had a rugged year through November. Pork production has been up 2.6 percent on 2.2 percent higher slaughter numbers. Prices through November have averaged $35 compared to nearly $46 for 2001, and costs have escalated by about $3 per live hundredweight since the summer's drought.

Bullish indicators, however, now greatly outnumber bearish arguments. The first friendly indicator is an expectation for lower pork supplies in December and through the winter. USDA inventory numbers indicate a 1 percent smaller December slaughter, followed by a drop of 2 to 3 percent through the winter. Secondly, with higher corn prices this fall and the depressed hog prices, marketing weights have come down. October and November weights were down about 2 pounds per carcass, or around 1 percent. Weights will likely continue to be moderate in the coming year.

The bullish arguments continue. Sow slaughter remains high since producers began liquidating breeding herds at the height of last summer's drought and resulting elevated feed prices. The rate of sow slaughter began to rise in April and reached it's peak in July, when it stood at 20 percent greater than the same month in the previous year. But even since last summer, the rate of sow slaughter has averaged 12 percent higher. This means that the breeding herd will continue to shrink into 2003. Another factor is that excess pork in cold storage will likely continue to be reduced. In August, cold storage stocks were 39 percent greater than the previous year. Today they are down to 14 percent greater.

The bullish arguments can be extended to include an improving U.S. and world economy and a bullish cattle market that will ultimately result in some consumer substitution of pork for beef. Based on the USDA's *Monthly Hogs and Pigs* report, the number of sows and gilts bred dropped under year earlier levels beginning in June of 2002. These smaller farrowings will start to show up as smaller slaughter in the month of December, just in time for the Christmas season. Canadian imports, which were up sharply in the first-half of 2002, have moderated some in the past two months, dropping by 8 percent compared to the same period in 2001.

And finally, traders in the lean hog futures market are optimistic that prices are ready to recover. On November 29, February futures suggested live hog prices near $40 for February, $44 by May, and $48 by June.

My price projections for 51 percent to 52 percent lean carcasses on a live weight basis are similar. I expect the mid-$30's by the end of the year, then improving to the upper $30s for a first quarter average, the low $40s for a second quarter average, and the low-to-mid $40s for the summer quarter.

If you doubt that prices can recover as much as suggested, keep in mind that hog prices have been surprisingly responsive to small supply changes in the past several years. As an example, in 2002, pork supplies will finish the year about 2.5 percent higher, yet prices will be down about 23 percent. For 2003, pork supplies will move downward and a sharp price response to the upside can be expected. In addition, it is likely that the breeding herd will continue to move lower through at least the first-half of 2003, with strong prices continuing into late 2003 and early 2004.

It's been another year of endurance for pork producers, but considerable improvement should soon be on the way.

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