WEEKLY OUTLOOK

UNIVERSITY OF ILLINOIS EXTENSION

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

JUNE 28, 2004

SUNSHINE REPLACES GLOOM IN PORK OUTLOOK

How things change. It was just three months ago that the outlook for the pork industry was full of doom and gloom. Not only was the hog price outlook discouraging, but prospects for high corn and soybean meal price had everyone on edge. Just like the passing storms of spring, sunshine has returned to the pork industry.

The U.S. breeding herd continues to shrink, but pork supplies continue to grow as sow productivity is on the rise and imports of live hogs from Canada continue to expand. In the latest *Quarterly Hogs and Pigs* report, USDA said the breeding herd was down again, this time by about 1.5 percent. However, the number of market pigs was up by 1 percent.

Since June 1998, U.S. producers have decreased the size of the breeding herd by an amazing 15 percent, shedding more than one million animals, to an inventory of only 5.9 million today. In fact, the breeding herd has been down in 19 of the past 24 quarters as producers have only had a few short periods of profitable returns to provide any incentives to expand.

Fewer sows and more pigs are the result of a return to a record number of pigs per litter and more SEW pigs from Canada. Pigs per litter reached record highs in the first-half of the year after several years when it appeared the U.S. farrowing rate had reached a plateau. The rate is at 8.9 pigs per litter this year compared to 8.8 to 8.85 over the previous four years. SEW pigs from Canada totaled about 2.5 million head in the first five months of this year, an increase of 26 percent over the same period last year. This number of young pigs is now accounting for nearly 6 percent of the U.S. inventory and the added imports of young pigs this year compared to last year adds about 1.2 percent to inventory.

By state, the declines in the breeding herd sound familiar, coming from the heart of the traditional hog-corn belt: Iowa (-1%); Ohio (-3%); Michigan and Nebraska (-5%); and Indiana and Missouri (-6%). Producers say they will farrow one percent fewer sows this summer and will have unchanged farrowings this fall.

Pork supplies will continue to be large through the rest of the summer, at about 3 percent above the supply of last summer. By fall, there should be some moderation to about one percent larger supplies. The outlook for the winter and spring of 2005 is for pork supplies to be unchanged to 1 percent higher.

We can throw out the supply numbers anyway because it is all about pork demand right now. Pork demand will likely receive added benefit from continued concerns regarding BSE in the U.S. beef herd. The much larger number of cattle being screened may well result in more animals that are suspect, keeping BSE news in the headlines, and also keeping foreign governments (particularly Japan and South Korea) unwilling to move quickly on a beef trade resolution. Pork demand can be enhanced both domestically and in foreign markets.

Prices for live hogs are expected to average in the low-$50 this summer, mid-$40s in the fall, and mid-to-higher $40 in the first-half of 2005. For the year of 2004, live hog prices may average about $48, the highest prices since $51.30 in 1997.

Cost prospects are also dropping with declining feed costs. Estimated costs are now in the mid-$40s this summer and are expected to drop into the low-$40s this fall. This means that the next year provides prospects of profits of an average of about $3 to $4 per hundredweight.

The pork industry's profit outlook has made an 180 degree turn in the past three months when hog prices were expected to be much lower and feed prices much higher. This is a a welcome turn for hog producers.

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