



WEEKLY OUTLOOK



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LOW GRAIN PRICES-THE HOG INDUSTRY RESPONDS

Last spring, high grain prices were telling end users they needed to “hit the brakes” on usage. Now, low grain prices are telling end-users to “stomp on the accelerator.” What is the reaction time to move from slow-down to speed-up? The answer, of course, depends on the sector.

Live cattle weights have moved up from about 1,230 pounds per head in March, to 1,265 pounds in the past few weeks. Today, cattle are being marketed 4 percent heavier than one year ago. The broiler industry can also respond quickly, and is expected to increase production by 3 to 4 percent in 2005.

What about the hog sector? Traditionally, cheap corn has meant an expansion of the breeding herd in the fall, after harvest is complete. That is likely this year as well, but not just due to the dramatic drop in corn and soybean meal prices, but also to the extraordinary demand for pork that is stimulating high hog prices as well.

In the just released September *Hogs and Pigs* report, the USDA indicated that producers are already expanding. The breeding herd has increased by 1 percent and farrowing intentions for this fall and winter are up 1 percent as well. In past years, the herd expansion was often led by the major corn producing states. However, with changes in location of production and with an industrialized production sector, that is less true this time. While Iowa producers reported a 3 percent expansion of their breeding herds, North Carolina is up 5 percent, Colorado is up 8 percent, and Texas is up 16 percent. Illinois, with very good corn and soybean crops, has had a 2 percent reduction in their breeding herd. Minnesota, with below average crops, also reports a 2 percent reduction. Other Midwestern states with reductions are Nebraska (down 4 percent) and Wisconsin (down 17 percent). Indiana’s breeding herd was reported as unchanged.

Pork supplies will be somewhat higher in 2005 than previously expected. So what? The real issue is the strength of demand. Price forecasts are highly dependent on whether demand will hold into 2005. As an example of the impact of demand, pork supplies in September have been about 6 percent higher compared to September 2003,

but lean carcass prices are one-third higher, and live prices are nearly \$15 per hundredweight higher.

What are the sources of demand strength? Pork exports are up about 26 percent for the year, while pork imports are down nearly 8 percent. This is partially related to the near elimination of beef exports due to BSE-USA. Secondly, consumers have turned to high-protein diets in record numbers this year which has enhanced demand. Finally, it appears that retailers have heavily featured pork as a lower-priced alternative to record high beef prices, which are expected to average near \$4.10 per retail pound this year compared to pork's \$2.75.

Pork producers have shown an initial response to the reversal in grain prices, but there is more to come. While feedlot managers are already adding much more weight to cattle, hog weights have not yet responded. The reason is hog prices are very high and pork producers don't believe these prices can last. They are selling hogs as soon as they are market ready. The extreme immediate need for hogs to be sold sooner rather than later is reflected in the sharply inverted lean hog futures market. Hog weights will increase markedly when the demand forces that are creating these inverses go away. Secondly, more expansion should be expected because feed prices are going to be lower than was anticipated around September 1 when the USDA surveyed pork producers. Third, profits this fall will be huge as costs fall into the \$36 to \$38 per live hundredweight range. Some of these retained earnings will go back into additional expansion.

The hog price outlook is a difficult call. Pork supplies will be nearly unchanged this fall before rising by 3 percent in the winter and spring. By next summer supplies could be up by 4 percent, and finish 2005 with a robust 5 to 8 percent increase in the final quarter. Expectations are for prices to average in the very high \$40s this fall, near \$50 in the winter, and low \$50s next spring and summer. The growing breeding herd expansion this winter should begin the downward spiral of hog prices in late summer of 2005. Price weakness may extend from the fall of 2005 through 2006.

Hog producers will do their part in expanding usage of this fall's large crops. However, that help will not show up with much force until next spring and summer and will not get to full force for another year.

Issued by Chris Hurt
Extension Economist
Purdue University