UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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HOG PRICES: PASS THE HAM PLEASE

Pork producers are more than ready for consumers to finish off the Thanksgiving turkey and start thinking about the Christmas ham. During Thanksgiving week, hog prices made new lows for the year, and average prices for the month of November were the lowest in 22 months.

Low prices do not seem to be related to increased supplies, which are up only .4 percent this year. The same can be said for the more recent period of October and November when supplies have only been up about 1 percent. Yet, with such a modest change in supply, prices are dramatically lower this fall. In November 2004, hog prices averaged about $56 on a liveweight basis for 51percent to 52 percent lean hogs. This November that average was below $45.

Demand led hog prices higher starting in May of 2004. From that point through this past summer, prices were generally higher than would have been anticipated given the level of supply. This was attributed to extremely strong demand, led by exports. Trade data lags several months, and at this writing there was no sign of slack export demand. Through August, this year's pork exports represented a record 13 percent of production. When reduced imports are entered into the calculation, net trade was improved the equivalent of adding about 3 percent of annual production so far this year. This is in addition to over 2 percent added in 2004. Trade has contributed more than 5 percent to aggregate demand in the past two years.

On the domestic side, some have argued that pork demand weakened recently. One does not have to look any further than Katrina and Rita to find a potential culprit. Those events caused immediate erosion in consumer confidence, increased unemployment, and resulted in a few months of surging inflation. However, the longer-term impacts on the national economy appear to be modest as inflation is already cooling and the nation's consumers seemingly are returning to what they do best, and that is consume. In addition, it is hard to argue that domestic meat demand is weak when cattle and beef prices are currently much higher than year-ago with larger supplies. The reasons for the current depressed hog prices are a bit elusive. Some of it may be related to the anticipation that beef exports to Asia will be reinstated in coming months. Since pork exports have led hog prices higher, it is logical to be concerned that this strength could wane as U.S. beef is reintroduced to Japan and Korea.

The most likely source of depressed hog prices, however, is that retail prices have been slow to drop this fall as farmer prices fell. Once retailers are convinced that wholesale prices will continue to be lower, they will also lower their retail prices and sell more pork just in time for a nice hog price rally headed into the Christmas ham season. Hog prices are expected to improve in December to the $45 to $47 range for the liveweight equivalent for 51 percent to 52 percent lean carcasses. Further strength is expected in the winter, with prices averaging near $47 in the first quarter, $48 in the second quarter, and $49 in the third quarter.

Lean hog futures traders are also confident of cash hog price recovery. Futures prices through next August provide hedging opportunities that are currently higher than projected cash prices. In addition, with corn and soybean meal prices now looking weak, costs of production through next summer are expected to be about $38 to $39 per live hundredweight. This means a hedging profit potential of $10 to $12 per live hundredweight.

These hedging profits should be strongly considered given the possible opening of beef trade to Asia. In addition, the December 28th release of the *Hogs and Pigs* report by USDA is expected to show winter farrowings up 2 percent and the beginning of a U.S. breeding herd expansion of perhaps 1 to 2 percent. Any greater buildup in these numbers may make current hedging returns glow with missed profit opportunities.

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