WEEKLY OUTLOOK

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.

JANUARY 9, 2006

PORK INDUSTRY LOOKS FOR THIRD PROFITABLE YEAR

Pork producers are going for a threepeat in 2006. That means a third consecutive year of profits for an industry that could hardly find a positive tilt from 1998 through 2003. The financial tide finally turned to black in the spring of 2004 and has been on a winning streak ever since. Profits in 2004 averaged about $9 per live hundredweight for farrow-to-finish production. That number was near $10 in 2005 and the forecast for 2006 is for profits to be around $6.

The U.S. inventory of hogs continues to be very stable according to the latest inventory update from USDA. Total inventory numbers in the December report were up only .4 percent with the number in the breeding herd up .7 percent and the market inventory up only .3 percent. Overall, the U.S. breeding herd has been trending lower as a result of the sow herd shifting to Canada and as a result of higher productivity. The U.S. breeding herd dropped from near 7 million head in 1998 to about 6 million head by 2002. Since then, the breeding herd has been in a narrow range from 5.9 to 6.1 million head. The current .7 percent increase in the breeding herd is extremely small by historical standards, but is the largest annual increase since 2000. The 2005 expansion was an increase of 42,000 head.

Where were those 42,000 added sows? The evidence points surprisingly to the Eastern Corn Belt (ECB). The region had an increase of 35,000 head, and four of the five states in the ECB had an increase as well. These were: Indiana (20,000), Illinois (10,000), Ohio (10,000), and Wisconsin (5,000). Only Michigan had a reduction of 10,000. Perhaps this is signaling a reversal of the longer-run trend of the breeding herd moving away from the ECB. In 1990, 27 percent of the U.S. breeding herd was in the ECB. That portion declined steadily to a low of only 17.2 percent in 2004. So, is the ECB coming back? It is too early to tell from the data, but it will be interesting to watch in coming years.

Pork production is expected to increase by about 2 percent in 2006. The number of head available for slaughter is expected to reach record highs in 2006 at 105.4 million head, an increase of 1.8 percent from last year. This is a combination of a small increase in U.S. sows farrowed, increased number of pigs per litter, and some increase in the number of pigs from Canada. Weights are also expected to be up by about .3 percent in 2006. In the first-half of

the year, production is expected to be up by just 1 percent. However, production in the last-half of 2006 may rise by about 3 percent. This likely will mean that the prices will come in the first-half of the year with weaker prices in the last-half.
Prices on a live basis for 51 to 52 percent lean carcasses averaged near $50 in 2005. With larger production, slowing pork export growth, rising Canadian live hog imports, and widening U.S. marketing margins, hog prices are expected to drop to an average closer to $46 in 2006. Prices are expected to average in the mid-$40 during the winter and move into the higher $40s for the spring quarter. Summer prices may be a bit discouraging this year having averaged above $50 for the past two years. For the third quarter, prices are expected to begin near $50 per live hundredweight in July, but weaken to below $45 at the close of September. Fall prices are expected to drop further, and average in the $42 to $45 range. With costs of production anticipated to be slightly under $40, producers can look forward to about $6 of profit per live hundredweight for the year.

If the threepeat is successful in 2006, accumulated retained earnings for hog producers are going to be large enough to encourage further expansion. This may make the years 2007 and 2008 more financially vulnerable, but before starting to worry about the future, let us first celebrate the three year winning streak.

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