



WEEKLY OUTLOOK



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HOG PRODUCERS KEEP STEADY HAND ON REINS

Hog producers are breathing a bit easier now that corn prices have moderated, providing growing hope for adequate corn supplies for ethanol and for livestock. While the breeding herd continues to grow modestly, profit prospects over the next year appear to be near breakeven, averting the looming financial disaster from high feed costs some had feared.

The nation's breeding herd continues its modest increase, with the June USDA *Hogs and Pigs* report indicating that the breeding herd had expanded by almost one percent. This is the 10th quarterly report showing the breeding herd has been growing. There is no one geographic region that is experiencing more expansion. The slow increase is in keeping with the growth in demand for pork in the domestic and the export market.

The number of pigs per litter continues to set new records as March-May farrowings averaged 9.15 pigs per litter. Reflecting a few more sows and higher weaning rates, the market herd number was estimated to be up by 1.8 percent. Producers say they intend to farrow 2.5 percent more sows this summer and then 0.4 percent more in the September to November quarter.

Some upward revisions in pig crops and larger farrowing intentions for the summer will contribute to greater pork production than had been anticipated. In addition, corn prices have dropped as of this writing, which if continued, will result in rising weights as well. This all means that pork supplies will move up somewhat more than had been forecast prior to the report. Pork production is expected to rise by about 3 percent over the next four quarters compared to the average of the last four quarters. Some of this increase will be absorbed by larger exports, however, per capita pork availability in the domestic market is still expected to rise by nearly two percent in the coming 12 months.

Competitive meat supplies will play a role in prices of hogs and pork. Broiler production is

expected to rise by 2.5 percent and turkey production by more than one percent. However, beef production is expected to be down a bit. If corn prices do stay as low as they are in early July it is likely that production of other species will increase even more. Production of broilers and turkeys can respond quickly to lower feed prices. Cattle on-feed numbers will also increase along with higher market weights for all species.

Prices of live hogs are expected to average about \$48.50 per live hundredweight over the next 12 months based on 51% to 52% lean carcasses. Prices for the third quarter are expected to average in the \$50 to \$54 range. Last quarter prices are expected to drop to \$43 to \$47. Winter prices may improve to \$45 to \$49, with second quarter 2008 prices once again back up to \$48 to \$50.

Near breakeven is the outlook for farrow-to-finish returns over the next 12 months. Breakeven is not so bad because it means all costs are covered, including family labor and full depreciation. Even though the hog price outlook has weakened somewhat with the latest inventory report, lower corn price prospects have compensated. Over the next 12 months, we are forecasting a slight profit of about \$.50 per hundredweight. However, that will mostly come this summer with estimated profits near \$5.00 per hundredweight, followed by losses this fall and winter of about \$1 to \$2, and near breakeven next spring. Corn and soybean meal prices could still be dynamic over the next few weeks until the size of this summer's crops become clearer. Each \$1 change in corn prices impacts national hog production costs by roughly \$5 per live hundredweight. The estimated corn breakeven prices over the next year, given current futures price estimates for soybean meal, are \$4.18 per bushel this summer, followed by \$2.85 in the fourth quarter, and \$3.06 and \$3.77 for the first two quarters of 2008, respectively.

Even with wide swings in anticipated feed prices, pork producers have maintained a steady hand on the reins. They have continued a modest expansion to supply a growing world demand for their pork products in the face of greater financial risks and uncertainties to themselves.

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