



WEEKLY OUTLOOK



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PORK PRODUCER MARGINS TO NARROW

Somewhat surprisingly, the pork industry has not made supply adjustments with higher feed prices. In fact, pork producers have been modestly increasing the breeding herd and seem content to continue to do so. There seems to be two explanations. The first is that producers of both beef and poultry were quicker to drop production with rising feed prices such that total meat and poultry supplies have been lower this year. Secondly, hog producers were operating at a profitable margin when higher corn prices hit. Rather than trim the size of the herd, hog producers have largely absorbed higher feed prices in the form of reduced margins.

So far this year, pork prices have been able to stay ahead of the higher feed prices without forcing adjustments to supplies. Production has been up 2 percent, yet farm level prices have also been up as a result of better domestic pork demand. The improved domestic demand probably is related to less competition from other meats and poultry as those industries adjusted to higher feed prices. As corn prices rose dramatically last fall and winter, the beef industry made some sharp adjustments. These included sending many fewer animals to feedlots and reducing market weights. As a result, the availability of beef per person was down nearly 2 percent this spring and summer. Adjustments to high corn prices also came quickly for the broiler sector where production per person was down about 3 percent from last fall through this summer. Egg producers also adjusted quickly dropping available supplies by about 2 percent from late 2006 until the present time.

While per capita pork production was up nearly 1 percent in the first-half of 2007, the declines in beef and broilers actually meant total meat and poultry supplies per capita were down about 1 percent. This resulted in higher farm prices in the first-half of this year with finished steer prices up 10 percent, hogs up 8 percent, broilers up 26 percent, and eggs up 47 percent.

Higher feed prices have resulted in margin compression for the pork industry, but not losses. In the year prior to higher corn prices (fourth quarter of 2006), estimated margins per hundredweight were about \$7.00. In the year following the run up in feed prices, margins dropped to a positive \$2.00 per live hundredweight, with most of the compression resulting from higher feed prices.

The future outlook for the pork industry appears to be one of near breakeven prices overall. Per capita supplies of meat and poultry are expected to begin rising again with pork production to expand by about 3 percent over the next year, with the resurgence of broiler production, and with higher placements and weights in the beef sector. Total meat and poultry supplies are expected to begin rising again in the fourth quarter and continue higher for 2008.

Thus, 51-52 percent lean hogs on a liveweight basis are expected to average about \$46 to \$49 this fall and winter. With current corn and meal prices these prices are expected to be near breakeven to a slight loss. Price prospects for spring and summer of 2008 improve several dollars to the very high \$40s to low \$50s. But with somewhat higher anticipated feed costs, margins will still only be about \$2.00 per hundredweight. The prospects for returns over the next year are about breakeven to \$2.00 of profits.

The pork industry has not been forced to drop production with higher feed prices as has been the case for beef, broiler, and egg producers. However, the positive margins for pork producers have largely been eliminated with higher feed prices. The upcoming 12 months appear to be near breakeven with continuing uncertainties in feed prices and export markets, especially with regard to the potential for more Chinese pork purchases as disease pressure may reduce Chinese production.

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