WEEKLY OUTLOOK

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TOO MUCH PORK; TOO HIGH COSTS

There's going to be a bit more pork in the marketplace this fall, and that's just enough to tip the scales toward lower prices, especially given concerns about slaughter capacity. Unfortunately, high costs will likely depress margins into the red this fall where they may remain through 2008.

The higher than expected slaughter numbers were released in the latest *Hogs and Pigs* report from USDA. Fall slaughter is now expected to be up about 3 percent which was just a bit higher than expected. However, slaughter capacity will be near maximum and has generated some discussion of the similarities to the disastrous fall of 1998 and casting a bearish tint to price expectations. Compounding the slaughter capacity issue this fall will be continuing record live hog imports from Canada. Canadian live imports are up 11 percent so far in 2007, composed of 19 percent more slaughter hogs and 6 percent more SEW pigs. Live imports from Canada will represent more than 9 percent of total U.S. slaughter this year, a new record.

In addition to a few more market hogs than anticipated, the USDA's quarterly inventory report found a few more sows than expected. The sow inventory was up about 1 percent, but represented about 0.3 percent more than anticipated. This demonstrates how the pork industry has continued to expand output even in the face of dramatic increases in costs of production led by feed prices and other inputs.

Growing export demand has enabled the industry to continue expanding in recent years, but that support is giving way this year. From 2000 to 2006, growing pork exports required an average increase in U.S. production of 1.2 percent per year. So far in 2007, exports so far are down 3 percent. The industry continues to expand for the export market, which is weak, at least in 2007.

Pork supplies are expected to be up about 3 percent this fall and winter, and then up about 2 percent next spring and summer. With the slowing growth in export sales, this means that pork availability for U.S. consumers will be about 1 to 2 percent larger. Pork will face some added competition from chicken production in 2008, but beef supplies will remain moderate and generally supportive to domestic pork demand.

Hog prices are expected to be somewhat lower this fall and average in a range from $44 to $47 on a live weight basis for 51-52 percent lean carcasses. Absolute daily lows could move into the lower $40s. Late-October or early-November tend to be the period for seasonal lows. Winter prices are expected to improve about $2 and to average in a range from $45 to $48. Spring and summer prices should be much higher and are expected to average in the very low $50's.

Concerns have grown once more about feed prices in the upcoming year. Using current futures prices for corn and soybean meal and adjusting for the expected basis, costs of production are expected to be above hog prices for most of the next 12 months. Costs during this time period are estimated at $51.50 per live hundredweight and hog prices are forecast to be near $48.50. This means the industry may operate at a loss near $3 per hundredweight over the coming 12 months. The larger losses of about $4 would occur this fall and winter, while smaller losses of about $1 are expected next spring and summer.

The pork industry has escaped making adjustments to higher feed prices so far. However, some downward adjustments in the breeding herd may be needed in the coming year as the industry is forced to respond to both higher feed and other input costs and to the potential slowing of export growth. Pork producers had a great profit run stretching back to early 2004, but that long-run of pleasant financial days appears ready to come to an end.

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