UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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PORK HERD: IS IT TIME TO TALK CUTBACKS!

If everything had gone as planned, hog producers would not be mired in the largest losses since late in 2002 when they were losing $25 per hog. But, things did not go as planned. The September *Hogs and Pigs* report from USDA indicated that slaughter supplies for October and November would be up about 3 percent. October slaughter was up a remarkable 11 percent and November slaughter so far has been up about 7 to 8 percent. Where have all the hogs come from?

Needless to say they came from sows and gilts that were farrowing in the spring. USDA counted sow farrowings as up by just 1 percent at that time. More pigs per litter added another 1 percent to those supplies, but the clear message now is that there had to be a major undercounting of sow farrowings and pig inventory dating back to last spring.

High slaughter runs, pushing past capacity, have forced some Saturday kills and have depressed hog prices. In September, hog prices averaged about $47 for 51 to 52 percent lean carcasses on a liveweight basis. Those prices have dropped to $35 in recent weeks. Higher corn and meal prices have accelerated costs into the very high $40s and resulted in losses of an estimated $9.00 per hundredweight for average costs farrow-to-finish operations.

Unfortunately, since slaughter supplies have run sharply above USDA numbers for two months now, one conclusion is that that supplies will continue to run higher through the rest of this year and well into the winter. This will keep the losses in the high single-digit range through the winter until the spring and summer seasonal hog price upswing is realized. Given anticipated cash corn prices of near $4.00 next summer and meal price near $300 per ton, costs are expected to be in the low $50s. It is expected that hog prices will not average above $50 for the spring and summer quarters resulting in losses of $4 to $8 per head.

The outlook is for continued large losses this fall and winter, then more moderate losses for spring and summer, before losses grow once more in the fall and winter 2008/2009. Price uncertainty for corn and soybean meal can be added to the grave concerns for hog producers over the coming year. This outlook means the time is finally ripe for breeding herd cutbacks to occur in the first-half of 2008. The last time the industry had to cut back on the breeding herd was in late 2002 and early 2003. In that liquidation, the breeding herd dropped about 4 percent. A similar decline in 2008 may be required to bring the industry back to profitability into 2009. Reductions in the breeding herd may not begin to show up in the USDA inventory reports until June of 2008. This means that reductions in pork supplies will not come to fruition until early in 2009. And that is if some industry liquidation gets underway this winter.

Some may argue that pork demand in 2008 will pull hog prices high enough to avoid an extended period of losses. The argument that has the most credibility is that China will sharply increase purchases of U.S. pork as they attempt to moderate rapid food inflation. Cheap U.S. pork prices and the cheap U.S. dollar add credibility. The China demand could add dollars to market prices quickly, and single handedly reduce 2008 losses. On the other hand, domestic demand has to be suspect as a factor to avoid losses. Leading the argument against a domestic demand bailout are the slow growing and nervous U.S. economy, and larger competitive meat supplies.

There remain many questions. Is this outlook too gloomy? Will hog numbers moderate after this unexplained surge? Will China become the big pork buyer many hope for? Will corn and soybean meal prices moderate with favorable weather in South America and the U.S. in 2008? These are the hopes, but pork producers also need to consider and plan for the consequences of a potentially extended loss period.

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