



WEEKLY OUTLOOK



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PORK PRODUCERS MAY FACE WORST YEAR EVER IN 2008

All you have to say to a pork producer is “1998” and the most jovial fellow will turn red with rage, or drop his shoulders in a feeling of helplessness. Unfortunately, those emotions may be relived as 2008 may replace 1998 as the worst financial year for pork producers in modern history.

The number one culprit is high feed costs and the second is too many hogs. The current unrelenting climb of corn and soybean meal prices may drive 2008 costs to the highest annual level ever. In addition, there continues to be more slaughter hogs than accounted for in USDA inventory reports, with no signs of moderation.

First, there are too many unexplained hogs. Forecast slaughter at the beginning of the fourth quarter of 2007 was about 4.5 percent higher. Actual slaughter was up almost 9 percent. Where did the extra hogs come from? USDA increased last spring's farrowings somewhat, but there were still nearly 3 percent unexplained slaughter hogs. The great worry is that there may still be more hogs than USDA has counted in the December update. The December USDA inventory count indicated that slaughter would rise by about 4 percent for the first five months of the year. If USDA has undercounted, slaughter could be 6 to 7 percent higher. USDA indicated that the breeding herd was up by just 1 percent and that winter farrowings would rise by 2 percent and spring farrowings by 1 percent.

Pork supplies are expected to expand by 3 to 5 percent in each of the first three quarters of the year. By the final quarter, production may be about the same as the final quarter of 2007, but that was too much pork. Annual production in 2008 will rise by about 3 percent, too much to sell at profitable prices.

Live hog prices for 2008 are forecast at \$46.30, down from \$47.10 in 2007. These are based on live weight prices for 51 percent to 52 percent lean carcasses. Prices are expected to average in the very low \$40s in the first quarter of the year, rise to the high \$40s for the second and third quarters and finish the last quarter with mid-\$40s averages. Average prices for 2008 are expected to be the lowest in five years.

Corn and soybean meal futures prices indicate a record high price year. This will mean a record high annual costs for pork producers. Both corn and soybean meal have had higher prices than current levels, but those were spikes that soon moderated. While live hog prices are expected to average \$46.30 for the year, costs of production are estimated at \$55.60 based on futures prices for corn and soybean meal on January 4, 2008 and adjusted to cash purchase levels. These estimates suggest a loss of about \$9.30 per hundredweight, or nearly \$25 per head on average for the year. This would exceed the previous worst year in modern history, 1998, with an estimated loss of \$6.78 per live hundredweight. Costs prospects for 2008 at \$55.60 are extraordinary. Estimated costs average for the previous ten years was \$40.64 per live hundredweight. The previous record annual estimated high costs were \$48.93 in 1996. The largest losses are expected in the first quarter of the year, when they could reach \$36 per head, and then be around \$20 per head for the rest of the year.

How do producers get out of this one? Nothing is going to come easy. Producers may want to base their strategies on a "survival mode" for 2008. If they can get through 2008, hog prices will likely recover in the spring or summer of 2009.

The industry needs to quickly work on demand stimulation. Retail pork prices have continued to move upward. Retailers need to be encouraged to lower pork prices by being reassured that wholesale pork prices will remain low in coming months. Foreign buyers also need to be encouraged to increase purchases at this time of low priced wholesale cuts. A special effort needs to move forward with China to resolve issues that may be constraining their purchases.

On the supply side, producers can, and will, cut weights to optimum levels. A re-examination of feed efficiency, starting with feeder adjustment, should be undertaken. Low feed efficient animals should be rapidly culled. Finally, the breeding herd must be cut, maybe in the range of 3 to 5 percent. That process is likely beginning now and will continue through the first-half of the year.

They say it is always darkest before the dawn, but the dawn will not be in sight until pork producers reduce production to better align with this new high costs era.

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