



WEEKLY OUTLOOK



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PORK PRODUCERS NEED A BAILOUT TOO

Who is going to bail out the pork industry? The Federal Reserve Bank of the United States has recently been in the news helping to assure that a well-known investment bank would remain liquid. The Congress of the United States is considering potential assistance for home owners caught up in sub-prime mortgage problems. Farm state politicians in the upper Great Plains hope to add billions of dollars for disaster assistance in the next farm bill, even before there is a disaster. Perhaps they need only look to the pork industry to see a financial disaster in progress. Industry wide losses may total \$3.5 billion in 2008, a devastating amount that represents about 25 percent of the total value of production.

There is plenty of blame to go around, including producers who over expanded production. USDA reports that the hog breeding herd on March 1 was unchanged from the year earlier level. Producers intend to farrow the same number of sows in the spring quarter as one year ago and 2 percent fewer in the summer quarter. The problem is that no change in farrowings continues to provide too much pork given current costs of production.

Market hog supplies for the spring quarter are expected to increase by 7 percent followed by a 7 percent increase in the summer. Pork supplies will increase by about 7 to 8 percent in the second and third quarter. Fall production can be expected to rise by about 1 percent, followed by a decrease of 2 percent next winter.

Hog prices averaged only \$39.50 on a live weight basis in the first quarter of the year. Given the 10 percent increase in production, that price may be higher than would have been expected. Prices are going to improve seasonally in coming weeks, but they will remain disappointing for all of 2008. Second quarter prices are expected to average only \$47, with third quarter at about \$48, several dollars lower than had been expected. Fourth quarter prices may average near \$45, with winter prices moving up about two dollars.

For the entire year of 2008, prices may average about \$45 which is the lowest level since 2003. Unfortunately, there has not been enough sow liquidation yet. In the first quarter, sow slaughter was up about 8 percent from year-ago, but this was only enough to drop the size of the breeding herd by less than 1 percent as of March 1. Producers do indicate further cuts in the herd this spring, but that will just modestly reduce farrowings this summer. A much more aggressive liquidation will be needed. The magnitude of that liquidation can be debated, but likely needs to be on the order of at least 6 to 8 percent. The sooner that gets underway the better.

Feed costs are to blame as well. With hog prices averaging a mere \$45 this year, costs are expected to be near \$57 per live hundredweight. While soybean meal prices have dropped nearly \$50 per ton from their highs in early March, corn prices have risen more than \$.30 per bushel and largely offset the advantage of lower meal prices. Prospects for 2008 losses now are near \$30 per head.

Futures markets have not provided any comfort for pork hedgers as basis has been weak. In the first quarter, basis levels averaged \$7.65 per carcass hundredweight under the nearby futures. This compares with \$4.00 under for the first quarter average over the last five years. This means that producers who used futures to hedge their hog production have received about \$3.65 per carcass hundredweight less this year than they might have expected from the historical record.

Ultimately, there will be no bailout for hog producers. Maybe their losses will not create a financial panic as was the concern if Bear Stearns were to fail. Maybe they do not represent enough votes in an election year as do those with mortgage problems. In addition the pork industry is no longer dominated by millions of small independent family farmers as it once was.

The pork industry must take responsibility for its own problems. That means an aggressive liquidation, most likely based on financial attrition. That is not a pretty solution, but it is the market solution, and markets can be brutal. As those producers go down one-by-one, many of them may lament the crazy times they were caught up in as the biofuels era and the unusual macroeconomic events changed agricultural market relationships in 2008.

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