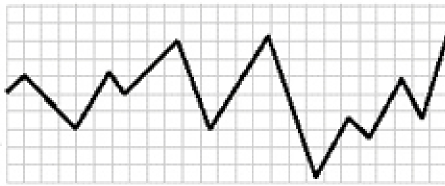

WEEKLY OUTLOOK

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MORE PORK PRODUCED, BUT LESS AVAILABLE FOR U.S. CONSUMERS

What a remarkable year for the U.S. pork industry! Saddled with extraordinary feed and energy prices and producing 10 percent more pork in the first-half, profits seemed a distant dream. But salvation has come in the form of international trade as cheap U.S. pork, subsidized with producer losses, and the weak dollar have made pork trade more important than exports are for the corn market.

What does "more pork production, but less available for U.S. consumers" mean? Pork exports grew by 68 percent in the first-half of the year and imports fell by 15 percent meaning that 1.1 billion pounds less pork was available for domestic consumers. By the second quarter, U.S. pork production was 9 percent higher, but U.S. consumers had 6 percent less pork available to purchase.

Pork exports have become more important than corn exports. Corn exports are a key factor in determining corn prices and now pork trade is the single most important pork price factor. Comparisons of export percentages for corn and pork are startling. For the 2007-08 marketing year, corn exports represented 19 percent of total corn use. For 2008/09, current USDA forecasts are for exports to represent only 16 percent of total use. Pork exports, in contrast, are forecast by USDA to represent 23 percent of U.S. production in 2008 and 22 percent in 2009.

Anticipated favorable pork trade and potential for declining U.S. pork production into 2009 provide a bullish tilt on pork and live hog prices. Per capita supplies available for U.S. consumers are expected to be down by 8 percent in the current quarter and down 10 percent in the fourth quarter. For all of 2008, per capita pork supplies available to U.S consumers will be down about 5 percent. Supplies will drop an additional 2 to 3 percent in 2009, making pork available to U.S. consumers relatively tight over the next 18 months.

While trade has been the salvation of the pork industry in 2008, it also presents vulnerabilities as the U.S. industry has become dependent on these trade impacts to continue. What might go wrong? The export surge has been led by China which in the past has had some unpredictable trade patterns. In the first-half of 2008, the increased pork shipments to China and Hong Kong represented 50 percent of the

increased pork sales.

There are at least three concerns with regard to China. First, their internal pork production has been down due to "blue ear" disease and to this year's earthquake. Estimates are that pork production has been down about 8 to 9 percent as a result. Pork price inflation was rapid in the winter and spring and gave their government strong incentives to buy cheap U.S. pork. The second uncertainty might be called the "Olympics Effect." China had strong incentives to import a large amount of pork in the months prior to the Olympics not only to keep consumer food price protest to a minimum, but also to have sufficient availability for their Olympic guests. If so, their pork purchases might be reduced in the post-Olympic period. The final concern is that this period of rapid purchases will not last because China is attempting to restore their own production. To the question of "Who Will Feed China?" the Chinese government has generally responded with, "We Will Feed Ourselves." China has primarily had a policy of self-sufficiency in food production in the last decade with the exception of soybeans and soy products. The question of whether China is making a fundamental shift away from self-sufficiency and toward some dependency on imported pork could have profound implications for the U.S. pork industry.

Another concern with regard to continued strong pork trade is Russia, which accounted for 13 percent of the increased pork exports in the first-half of the year. Russia tends to be a "value shopper," looking for the lowest priced source of animal protein. As the price of U.S. pork rises, the attraction for Russia will be reduced.

There has never been this large of influence on price from international trade, so there is little historical experience for evaluating the impact on hog prices. As a result, the futures market rather than a computer model is used to forecast prices for 51 to 52 percent lean carcasses. Prices drop from their current low $60s into the very high $50s into September. The final quarter of the year will average in the mid-$50s with recovery into the higher $50s for the first quarter of 2009. The highest prices will be in the spring and summer of 2009, with averages in the mid $60s. Prices then drop seasonally into the higher $50s for the final quarter of the year. This would provide 2008 price averages of about $51.50, the highest yearly average since 2004. In 2009, all price records would fall with an average in the low $60s for the year and record high prices for each quarter.

Can hog producers compete for high corn prices? Yes, if these hog price forecasts hold, then hog producers will be able to pay about $6.25 per bushel for corn in 2009 and still breakeven compared with only $4.00 in calendar years 2007 and 2008. But to get to this strong competitive position three conditions must occur: pork producers must continue to reduce farrowings somewhat; our foreign customers must continue to buy U.S. pork, and crude oil prices need to stay under $140 per barrel in order to compete with ethanol processors for corn.

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