



WEEKLY OUTLOOK



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HOG INDUSTRY MAY RETURN TO MODEST PROFITS

The pork industry has been in a sustained period of losses since the fall of 2007 when cost soared with rising feed prices. As a result, the U.S. breeding herd has been in a period of reduction during the last-half of 2008. Prospects for a return to profits are based upon some moderation in feed prices from record levels in 2008 and to somewhat higher hog prices as pork production drops about 1 to 2 percent in 2009.

Hog producers continued to reduce the size of the breeding and market herd by 2 percent according to USDA's December inventory report. The breeding herd has been below year-previous levels since June 2008. More importantly, fall farrowings were down 6 percent and winter and spring intentions are reduced 2 to 3 percent. The related pig crops are not down as much because the number of pigs per litter continues to set new records. Pigs per litter for 2008 increased to 9.4, or by 2 percent, the largest annual increase since 1996. As a result, the pig crop for the past fall was only down 4 percent.

Slaughter supplies are expected to be down about 2 percent in 2009, with the largest percentage drop of 4 percent coming in the second quarter. Total pork production is expected to be down 1 to 2 percent due to somewhat heavier weights in 2009 resulting from higher hog prices and lower feed costs.

Trade prospects are not expected to be as robust in 2009. Net trade (exports minus imports) represented 18 percent of U.S. production in 2008. That figure is expected to decline to about 16 percent in 2009. Fewer exports mean that about 1 percent more pork will be available domestically, but this will be offset by a similar increase in population so that domestic per capita availability will be unchanged in 2009.

In 2008, the average live hog price for 51 to 52 percent carcasses was about \$48. If domestic pork availability is unchanged, does this mean the weakened consumer demand

will take pork and hog prices lower in 2009? The answer is “no” as hog prices are expected to be somewhat higher in 2009 as the U.S. recession is not expected to have a measurable impact on pork demand. This is because pork is a lower priced meat than beef and some consumers seem to be shifting away from the higher priced beef and toward pork.

Live hog prices are expected to average about \$51 in 2009 compared to \$48 last year. Prices should rise sharply from the first of the year into the spring. Prices are expected to average about \$47 in the first quarter and then move to the low-to-mid \$50s in the second and third quarters. The final quarter of the year is expected to see live hog prices in the higher \$40's.

Costs of production in 2009 will again hold an important key to whether the industry has profits or losses. Using corn and soybean meal futures prices on January 5 and adjusting them to expected cash prices, suggests that costs of production may decline by \$3 to \$4 per live hundredweight in 2009. This assumes that 2009 corn prices are down about \$.60 per bushels and soybean meal is about \$25 per ton lower.

In 2008, estimated cost for average farrow-to-finish producers was near \$53 per live hundredweight with prices about \$48, resulting in losses of about \$5 per hundredweight or near \$15 per head. For 2009, costs are expected to be near \$50 with prices about \$51, for profits of \$1 per live hundredweight or about \$3 per head.

The industry has had six consecutive quarters of losses from the final quarter of 2007 through the first quarter of 2009. The return to profits sometime this winter is predicated on controlling corn and soybean meal costs and keeping the size of the breeding herd down. While producers have some optimism of getting back in the black, they do not want to turn any optimism into breeding herd expansion.

The year of 2009 holds continued uncertainties as the pork industry is caught up in both feed price adjustments and a world economic slowdown.

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