



WEEKLY OUTLOOK



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PORK PRODUCERS MAY STILL RETURN TO PROFITS

Pork producers may be on the verge of returning to profitability after experiencing losses dating back to October 2007. Hog prices are expected to rise seasonally in coming months and costs for feed continue to drop under the concerns of slowing world economic activity. For the year, hog producers are expected to see an average live price of about \$47.50 per hundredweight, but costs of production are expected to drop to near \$45.50, providing a modest profit.

The crisis in the world economy is having negative impacts on pork demand, but is also helping to lower feed costs as corn and soybean meal prices decline. In fact, yearly average hog prices had very little variation in 2006, 2007, 2008, and now in 2009 when average prices were between \$47 and \$48. Wide fluctuations in costs of production are the primary reason for an estimated profit of \$27 per head in 2006 and an estimated loss of \$17 per head in 2008. Changing prices of corn and soybean meal have been the drivers of returns.

Hog prices will not see much enhancement this year due to reductions in demand, particularly export demand. The robust pace of pork export demand in 2008 is not going to be maintained as USDA anticipates a 14 percent drop. Even though domestic pork production will drop one to two percent in 2009, fewer exports mean that pork supplies available for U.S. consumers will rise modestly for the year, but with some differences by quarter.

Pork available per person is expected to rise modestly in the first quarter and be six percent higher in the second quarter. The large increase in domestic supplies in the second quarter are because of large exports to China in the same quarter a year-ago. More modest Chinese purchases in the second quarter 2009 will leave considerably larger amounts for U.S. consumers. Availability will be about unchanged in the third quarter and down four percent in the final quarter.

Hog prices on a live weight basis are expected to average \$42.50 for 51 to 52 percent lean carcasses in the first quarter of 2009. Prices are expected to begin to rise immediately from the low \$40s currently, to near \$50 by May. Late spring and summer prices are expected to be in the lower \$50's. Seasonal declines are anticipated after

August with prices dropping to the mid-\$40s by year end. By quarter, 2009 prices are expected to average about \$42.50, \$50, \$51, and \$46, respectively.

How much will declining corn and soybean meal prices lower costs of production in 2009? Estimated costs for farrow-to-finish operations increased from about \$37 per live hundredweight in 2006 to a record high of \$54 in 2008. The previous record high estimated annual cost was \$48 in 1996. The current estimated 2009 corn price of \$3.36 is down from \$4.78 last year. High protein meal price this year of \$261 per ton would be down \$70 per ton from 2008. Estimated 2009 prices for corn and soybean meal are based on the actual prices for the first two months and adjusted futures prices as of March 2, 2009.

Given these hog price and costs estimates, pork producers are expected to return to profitability in April of this year. Estimated losses of \$11 per head in the first quarter would give way to profits in the second through fourth quarter of \$12, \$15, and \$6, respectively. For the entire year, profits would be about \$5 to \$6 per head.

Like all sectors of agriculture, pork producers face large uncertainties from the general economic conditions. This means that reductions in the breeding herd will likely continue throughout the year. Smaller pork supplies into 2010 would seem to put a brighter face on profit prospects, but further loss of pork demand in a weakening economy could offset those gains.

The extreme uncertainty of the moment implies that pork producers, like all of agriculture, should be conservative and defensive this year. Perhaps management decisions in 2009 should be focused on increasing odds of survival, rather than looking for big opportunities.

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