WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

APRIL 6, 2009

HAVE HOG PRODUCERS MADE IT THROUGH THE SHADOWY VALLEY?

There has been some recent good news for the hog industry, but some bad news as well. When it all shakes out, both 2009 and 2010 may be about breakeven years. But breakeven covers all costs, including full capital replacement and family labor costs. After a year and one-half of losses, average cost hog producers should finally make money this spring and summer.

The best of the news is that hog prices should soon begin a strong increase related to the normal seasonal pattern. Hog prices tend to move higher from mid-April into the spring. In the last five years, as an example, live hog prices have increased an average of about $10 per hundredweight from the second week of April to mid-May. Participants in futures markets expect a similar increase this year. As of this writing, the May lean hog futures price is $9.60 per live hundredweight higher than the April futures price.

This expected rally would take live hog prices from the current low $40s into the low $50s over the next four weeks or so. These higher prices tend to be maintained through August and would be expected to be in a range from about $50 to the mid $50s, depending on the week. Second quarter prices are expected to average $51 with costs around $49. This small quarterly profit would be the first after six consecutive quarters of losses dating back to the fourth quarter of 2007.

There are a few other positives as well. The size of the U.S. breeding herd and upcoming farrowings are somewhat smaller than had been expected. The March inventory from USDA indicated the breeding herd is now down three percent and that farrowings will be down three percent in the spring and four percent in the summer. Also adding to a smaller U.S. slaughter supply this year will be 2.3 million fewer hogs coming from Canada as the breeding herd there has dropped sharply under heavy financial losses.

Offsetting these positive attributes are the prospects for higher feed prices and weak pork export demand. The tone toward higher corn and meal prices came from smaller than expected planted acres and March 1 stocks. Since the release of those reports on March 31, higher corn and soybean meal prices have added to costs of hog production by $1.25 to $1.50 per live hundredweight. Those costs are estimated in the very high $40 for 2009 and about $50 for 2010.

Reduced pork exports from the U.S. are the other major factor keeping the industry from registering better profits. Pork exports are expected to be down 14% this year from last year when China was an enormous buyer. This means there will be almost 700 million pounds less pork shipped out of the country, and that will have to be absorbed by domestic consumers.

In summarizing the positive and negative factors, there will be about two percent less domestic pork produced in 2009, but the per capita supplies will be nearly unchanged from last year due to reduced exports. This means that 2009 average hog prices probably will not be much different than last year's level around $48 live. The difference in profitability, then, is due to expected lower feed costs this year with total estimated costs at $48.50 versus $54 in 2008.

Hog prices are expected to exceed costs in the second and third quarter this year before returning to modest losses in the fourth quarter and first quarter of 2010. Some further reduction in the size of the U.S. and Canadian breeding herds is expected into 2010 and this, along with recovery in the world economy, may provide a slightly more positive tone for hog prices in 2010.

Unfortunately, an improving world economy would also increase grain and soybean utilization and likely strengthen feed prices as well. This suggests that the hog industry must continue to cut the herd size somewhat to elevate hog prices to parity with costs of production in 2010.

Feed prices remain a concern for 2009. Tighter than expected corn and soybean inventories mean that harmful growing weather this spring and summer would force higher prices and rationing of short supplies. However, it is not likely that corn and meal prices would have the upward potential experienced in the spring of 2008. The world is much different today with a stronger U.S. dollar, a less robust U.S. ethanol industry, and reduced world incomes.

Issued by Chris Hurt
Extension Economist
Purdue University