WEEKLY OUTLOOK

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PORK PRODUCERS' LUCK MAY BE IMPROVING

The breeding herd is not dropping fast enough to bring pork production back to profitability. However, falling corn prices and prospects for lower soybean meal prices this fall are allowing producers to begin to feel like there may be some rays of hope.

The breeding herd on June 1 was reported by USDA to be down about three percent. Producers' farrowing intentions are down three percent this summer and down two percent this fall. While smaller farrowings would seem to signal similar reductions in pork supply, that will not be the case because of more pigs per litter and somewhat higher marketing weights as corn prices are expected to be lower.

As producers reduce sow numbers, they tend to cull the least productive sows. This means the highest productive sows remain and the number of pigs per litter increases more rapidly. As an example, in the first-half of 2009, the number of pigs per litter increased by 2.5 percent. This compares with an average of just 0.8 percent annual rate over the past decade. The critical point is that pork supplies will not change much even with the smaller breeding herd. Weights will likely be higher in the coming 12 months as feed prices drop, reflecting the larger anticipated size of corn and soybean production. Pork production is expected to drop only about one percent over the coming 12 months. This small supply reduction will not boost prices back to profitability in 2009.

The loss of demand due to H1N1 has likely been the single most significant factor in causing the failure of a spring pork price rally. It is most likely the loss of exports rather than loss of domestic demand that has caused the price weakness. The May trade data will be released on July 10 and will give the first picture of how much damage there was to export volumes. Unfortunately, about five percent of the U.S. pork production may have been diverted from the foreign market to domestic consumers.

H1N1 may have longer lasting impacts. Flu will be in the news again this fall as medical experts around the world caution against the second wave of H1N1. It was the second wave of the 1918 "Spanish Flu" in the fall of 1918 that had the highest human fatality rates. Even though H1N1 in humans is not related to pork consumption, simply having flu in the news likely means there will be some continued loss of pork export demand.

While producers couldn't get a break in the past two months, their luck may have shifted. Summer weather is more favorable and yield prospects are rebounding. On April 24th when news of H1N1 broke, July corn futures were $3.86. They reached a high of $4.50 in early June and now have dropped closer to $3.40 per bushel. July soybean meal was $318 per ton on April 24th reached $433, and has now moderated a bit toward $400 at this writing.

Estimated cost of production has come down with the recent sharp drop, especially in corn prices. Estimated production costs are now near $48 per live hundredweight for this summer and drop closer to $46 this fall. Given current feed price expectations based on futures markets, estimated costs in 2010 would average about $46 to $47 per live hundredweight.

What about hog prices? Prices are expected to average in the higher $40s this summer and mid $40s in the final quarter of 2009. Prices should once again trade in the mid-to-higher $40's this winter, move into the lower $50s for the spring, and low-to-mid $50s in the summer of 2010, especially if the impacts of H1N1 are negligible by that time.

These prices and costs would mean the producers would continue to operate with losses of about $5 to $7 per head for the second-half of 2009. This is at least an improvement over an estimated loss of $20 per head in the first-half of 2009. Profitability could return as early as late-winter 2010.

Corn prices are lower right now than many had anticipated. Ownership of corn for the coming year's feeding needs should be considered. Soybean meal prices should also collapse as we near the more abundant new crop supplies, and as markets this winter look to the restoration of the Southern hemisphere crop. Waiting to cover meal needs seems prudent at this point.

Maybe the luck has shifted for pork prices as well. Lean hog futures have been so depressed a sizable rally would not be out of the question. If producers feel that luck is finally shifting their way, then waiting for further recovery in pork prices seems prudent as well.

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