WEEKLY OUTLOOK

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HOG PRODUCERS SEEING FIRST SIGNS OF DAWNING

Hog producers may be seeing the first signs of the financial dawn. However, before profits are achieved in the spring of 2010, there will be another six months of losses, but the magnitude of those losses should decline over time.

The components of the dawning are coming from both supply and demand factors. On the supply side, the USDA's September 25th *Hogs and Pigs* report revealed slightly larger reductions in the herd than had been expected. The breeding herd was down 3.1 percent over the past year compared to an anticipated 2.5 percent. The number of pigs weighing less than 60 pounds was down 3.7 percent compared to an anticipated 1.5 percent reduction. The market herd was down 0.7 percent more than pre-report guesses.

Unfortunately, the reductions are small relative to expectations and the overall decline in the herd has also been limited given the magnitude of losses in the past two years. The breeding herd has dropped only 5 percent in the past two years and this has been partially offset by higher weaning rates and higher market weights. As a result, production in 2009 dropped only 2 percent with prospects of only a 1 to 2 percent drop in 2010. While these reductions are small, they are at least headed in the right direction.

Improving demand will likely have more positive implications for hog prices than reduced supply. Many economists believe the recession is over. It is widely anticipated that GDP numbers for the third quarter of 2009 will be positive, signaling the end of this long and deep recession. The U.S. estimate will be released on October 29. While the recovery in the U.S. economy will be slow with unemployment staying high, positive growth numbers will tend to help meat consumers "free up" spending somewhat.

Also positive for pork consumption will be the lower pork prices consumers are expected to see this fall. In the first-half of 2009, U.S. pork prices averaged $2.95 per retail pound compared to $2.87 in the first-half of 2008. It was very difficult to sell larger U.S. pork supplies at higher prices early this year. In July and August, retail pork prices finally fell below their year-previous levels. In August, for example, retail pork prices were eight cents lower than in August of 2008 and a similar pattern of lower retail prices is expected through the fall and winter. Lower pork supplies with lower retail prices will strengthen hog prices and result in a higher portion of the retail pork expenditures flowing back to producers.

Exports are expected to strengthen as well. World economic recovery is expected to have more upside potential than the U.S. recovery. In addition, the value of the U.S. dollar is expected to remain weak and will be another reason that foreign pork purchases could increase. Current USDA forecasts are for pork exports to be up 9 percent over the next nine months compared to the same period a year earlier.

With some reduction in domestic production and greater exports, per capita pork availability in the U.S. will be down about 3 to 4 percent in the coming nine months. This, along with lower U.S. retail pork prices, improving incomes, and improving consumer attitudes will provide the basis for strengthening hog prices.

Hog prices are expected to average in the high $30s on a liveweight basis for the final quarter of 2009. Prices are expected to rise to the low $40s this winter and then move into the mid-$40s for second quarter averages. Next summer's prices are expected to rise into the high $40s for an average and the low $50s for weekly highs.

Lower corn, soybean meal, and energy prices will be helpful in reducing losses this fall and winter. Estimated costs for this time period are in the $44 to $46 range. Costs may rise to $45 to $47 for the spring and summer of 2010 using current adjusted corn and soybean meal futures prices.

Given these costs and the hog price outlook, farrow-to-finish producers are expected to lose about $15 per head this fall and $7 per head in the winter. Margins would turn to small profits of about $2 a head in the spring and $12 a head in the summer. For all of 2010, current forecasts are for about $3 per head of profits versus losses of $22 per head in 2009 and $17 of loss in 2008.

Just as the world economic slowdown helped plunge the animal industries into recession more quickly than the crops sector, the world economic recovery may help lift the animal industries out of recession more quickly than the crops sector.

Needless to say, pork producers are eager for the dawn to arrive.

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