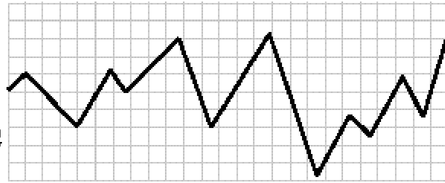

WEEKLY OUTLOOK

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CAN LOFTY PORK PRICES BE MAINTAINED?

Hog and pork markets probably won't be able to maintain the excitement of this spring when live hog prices reached the mid-$60s in early-to-mid-May. Recent concerns over European debt have caused many markets to be more cautious about world economic recovery and consumer demand. The related strengthening of the dollar has also dimmed prospects for meat exports. Last year demonstrated just how critical a recessionary economy was in weakening pork demand. A more cautious world now likely means some moderation in pork prices from recent lofty levels, but prices are not going to fold either.

The best news is that pork supplies are down and will stay down for the rest of the year. Pork production so far this year has been down four percent, and with population growth and expanded trade, per capita availability has been down about five percent. Per capita supplies should be down near eight percent this summer, then down three percent to finish the year. Limited amounts of pork should help maintain very strong prices, especially through the summer.

There is another problem on the horizon, and that is higher retail prices. Data through April shows that U.S. retailers still had not increased the price of pork to consumers. In the first four months of the year, retailers sold pork five cents per pound cheaper than in the same period in 2009. This means that the sharp increase in the farm level prices this spring are primarily being absorbed by much smaller retail margins. That won't last. You can bet that retail prices will soar in coming months.

Just how big is the retail margin absorption? So far this year, the retail margin is down about 26 cents per retail pound, with most of that going back to the producer. That means producers have received 31 percent of the consumers' expenditures on pork this year compared with only 25 percent for the same period last year.

The question remains how pork consumers will respond when they see the true cost of pork this summer. The April retail pork price was $2.92 per pound. That will likely move

to record high levels this summer, close to $3.10. Consumers are expected to remain cautious this summer as the U.S. and world economic recovery remains slow and unemployment high.

Live hog prices are expected to average near $60 for the second quarter. As retail prices move up this summer, consumers will back off pork somewhat, even though availability will be the tightest of the year. This means live hog prices should be expected to drop a few dollars, into the $56 to $60 range, for a third quarter average. Prices will decline seasonally at the end of the summer, especially after mid-September. The final quarter of the year is expected to see live prices average near $50, with the winter 2011 prices slightly higher.

This means 2010 prices would average about $54 per live hundredweight. Expansion in the breeding herd is not expected until the March 2011 *Hogs and Pigs* report. While profitability will be strong in 2010, many producers, and their bankers, want to see balance sheets improve before giving the OK for any expansion.

Moderation in corn and soybean meal costs continues to be an important part of the profit outlook. Our projections of the U.S. average farm price of corn are $3.44 per bushel for calendar year 2010 and $3.65 for 2011. Soybean meal prices are projected at $279 per ton for this year and $258 for 2011. The total costs projections are about $47 per live hundredweight for 2010 and $48 for next year. This compares with $54 in 2008 and $50 in 2009.

Profits are projected at $21 per head for this year and $10 per head for 2011. Losses in 2008 and 2009 were estimated at $17 and $24 per head, respectively. Clearly, it will take profits this year and next just to dig out from under the losses of the past two years.

Hedging margins are much lower now than in early May, due primarily to lower lean hog futures prices, and should probably be avoided right now. Production margins should be strong for the rest of this spring and summer. Most will just want to take these strong cash margins. Some recovery in lean hog futures prices seems likely given the generally strong cash prices expected and the hope for a more stable world economic situation. These may provide hedging margin opportunities for this fall and for 2011 production.

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