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.

JUNE 28, 2010

$60 HOGS: RARER THAN A BLUE MOON

In May 2010, live hog prices averaged about $63 per live hundredweight. It is rare for a monthly average hog price to exceed $60. Since 1970, that has occurred only 13 times. There have been more blue moons since 1970, a total of 15 (defined as two full moons in the same calendar month at a rate of once every 2.7 years according to Wikipedia.org).

The outlook is for strong and profitable prices to continue for some time, although with prices generally below the rare $60 mark. USDA's quarterly June survey of hog producers found the breeding herd remains down three percent from year-ago levels, a decline of 180,000 sows. The North Carolina herd accounted for 110,000 of the smaller total and the Texas herd for 40,000. These two states primarily represent downward adjustments in the herds of large hog production corporations, or bankruptcies. These adjustments came last fall and winter.

The breeding herd was at a peak in September 2007, when losses began to set in due to high feed prices and collapsing hog prices. Losses continued through February of 2010, finally shifting to profitability in March of this year.

The extraordinary profits this spring have some asking if producers will quickly expand. Losses eroded much of the equity of many producers, so they and their lenders want a period of profits to stabilize their financial position. As mentioned already, the extremely high May hog prices were a short-term aberration. Retail pork prices will continue to move higher this summer and will slow pork consumption. Retail pork prices already reached record highs in May at $3.04 per retail pound and the climb will continue into the summer. The economic recovery is slow and unemployment will remain high, contributing to overall weak retail demand and more moderate live hog prices.

Pork supplies will be down about four percent for the last-half of 2010, reflecting almost four percent fewer pigs in the market herd. Given the expectation of lower feed costs, weights are expected to rise in the last-half of the year after being down fractionally in the first-half.

Farrowing intentions are down two percent for this summer, but only one percent for the fall. This means that pork supplies will rise slightly in the first-quarter of 2011 and by about two percent in the second quarter. Some additional increases in production should be expected for the last-half of 2011 with perhaps three to four percent more pork. This would increase 2011 annual production by two to three percent over 2010.

Live hog prices are expected to be in the higher $50s for the rest of the summer and then begin a seasonal decrease in September. Third quarter prices are expected to average in the $56 to $59 range. For the final quarter of 2010, the average price is expected to fall in a range from $50 to $53 with winter prices slightly lower. For 2011, prices may average around $55 in the spring quarter and around $53 in the summer. Further build- up of pork production by the fall of 2011 might pressure prices back into a range from $45 to $50 for the final quarter of 2011.

Feed costs for the coming 12 months now appear to be the lowest since 2007. That will drop total costs per live hundredweight into an estimated range of $46 to $48 per live hundredweight over the coming 12 months. This compares with estimated costs of $54 in 2008 and $50 in 2009.

Profit levels in the second quarter of 2010 were estimated to be near $33 per head and are projected to be $29 per head in the third quarter and about $15 in the final quarter. If so, this means 2010 profit per head would be near $21 compared to $24 of loss in 2009 and $17 of loss in 2008. The profit outlook for 2011 is positive, especially through the summer of 2011. By the fall, prices could fall closer to costs of production. Yield uncertainty for the 2011 crops could also greatly impact feed prices. Early projections for 2011 are for $11 per head of profits, but all coming in the first three quarters.

Over the past two years the pork industry has been forced to adjust production downward to accommodate corn prices at $4.00 per bushel or higher. Now corn (and meal) prices are lower. Those who believe corn prices will generally move back to $4.00 or higher would not want to expand hog production. Alternatively those who believe corn will be under $3.50 might elect some moderate expansion in the range of three to five percent. Only time will tell who is correct.

Issued by Chris Hurt
Extension Economist
Purdue University