



UNIVERSITY OF ILLINOIS  
EXTENSION



# WEEKLY OUTLOOK



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## HOG PRICES GET A BOOST

The USDA had a pleasant surprise for hog producers on September 28, when they reported that market hog supplies would be about 2 percent lower this fall and winter. The report will likely force traders to increase their price expectations. Producers once again reported that they are going to increase farrowings in the next two quarters. However, for the past several quarterly reports, producers have indicated intentions to increase farrowings, but they have not followed through. So, the market has to doubt whether they will expand this time as well.

Looking back to the summer quarter, pork supplies were expected to be up about 2 percent, but actual supplies were down nearly 2 percent. This was because USDA reports had over-estimated the size of last winter's pig crop. As a result, data for the size of previous pig crops was revised downward in the September report. As an example, the pig crop of last winter was revised downward by 3.3 percent and the pig crop of last spring was revised downward by 1.5 percent. This means that the breeding herd was probably never as large as indicated last winter.

On September 1, the breeding herd was down a little more than 1 percent. With the revisions mentioned above, farrowings have been contracting since the final quarter of 1998. Contraction now spans 11 quarters, which is a very long period as compared to previous hog cycles.

The market herd on September 1 was down 1 percent, with the number of pigs available for market in October down about 1 percent and the number available for market in the winter down more than 2 percent. Farrowing intentions are 1 percent higher for the fall and up over 3 percent for this coming winter.

The number of pigs per litter seems to have reached a plateau for now. This past spring, litter size was 8.85, compared to 8.86 in the previous year. In the summer, litter size was 8.82, compared with 8.84 the previous year. Of course, the number of pigs saved per litter had been on a sharp upward trend prior to this year.

The continued decline in the breeding herd is concentrated in four states. The breeding herd was down by 40,000 animals in Iowa, 30,000 in Colorado and Indiana, and 20,000 in Nebraska. Expansion of the herd was noted in the northern tier of states, with South Dakota, Minnesota, and Wisconsin each adding 10,000 animals. Kansas, Texas, and Pennsylvania also added 10,000 animals each.

Given the numbers in the *Quarterly Hogs and Pigs* report, pork supplies are expected to be nearly unchanged this fall, down 1 to 2 percent in the winter, up about 2 percent next spring, and up by nearly 5 percent next summer.

Domestic pork demand has remained favorable in 2001. Retail pork prices have been at record high levels with pork production nearly unchanged. Higher prices with little change in supply generally signals better demand. Exports were moving at a record pace through July, but the triggering of the Japanese import safeguard in August has likely slowed the pace to our largest customer. The recent discovery of mad cow disease in Japan, however, will bolster Japanese pork imports as consumers there shift away from beef consumption and substitute both pork and poultry.

Hog prices this fall are now expected to average in the mid-\$40 for live prices and in the lower \$60s for carcass based prices. Seasonally, hog prices can be expected to dip into the lower \$40s in late October and early November, but it is now much less likely that some daily prices will be in the higher \$30s.

Winter prices may not be much different that those in the fall, at least for averages, with the spring rally returning prices to the higher \$40s for live prices and mid-\$60s for carcass prices. If producers finally do expand the breeding herd, as they are once more saying, summer prices will be down \$4 to \$5 from this past summer when live prices averaged \$51. This would mean that next summer prices could average in the mid to higher \$40s for liveweight prices and low \$60s for carcass prices.

The overall outlook continues to indicate that hog producers will operate in the black for the next year, extending through the summer of 2002. Prices over the next year are expected to average in the \$45 to \$48 price range on a live basis, with costs in the higher \$30s. Producers will be favored with lower fuel costs, lower interest rates, and lower soybean meal prices. These will be offset by higher costs for corn and labor.

Moderation in expansion plans remains the key to maintaining profitable prices in the longer run. Concerns about a slow growing economy in the U.S. and Asia will only have modest price lowering impacts on hog prices as pork consumers alter their pork consumption very modestly as incomes move up and down.

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