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HOG PRICES TO GET BETTER!

The USDA’s February monthly Hogs and Pigs report provides an opportunity to check the progress of winter farrowings two-thirds of the way through the winter. In the quarterly report last December, hog producers reported they would increase farrowings by 3.4 percent this winter. The monthly reports indicate that December farrowings were up only 1.8 percent and that January farrowings were up only 2.5 percent. If these numbers are correct, February farrowings would have to expand nearly 6 percent to reach the winter estimate, which is not likely. It now appears that the winter farrowings will be closer to 2.4 percent higher rather than 3.4 percent.

Before concluding that the winter pig crop will be smaller, a glance at the impacts of the mild winter is in order. The number of pigs per litter for December and January were estimated to be 8.8 compared to year-ago numbers, which were 8.66 in December and 8.71 in January. It was forecast that the winter pig crop would be up by 3.8 percent, but now that can be revised down slightly to 3.4 percent. This, of course, means that summer supplies may be modestly smaller than earlier projected.

Perhaps the most important conclusion from the recent monthly report is that farrowings, and the size of the breeding herd, are tracking fairly close to earlier anticipations. The number of sows and gilts in the breeding herd as of February 1 is down 1 percent, with the herd holding almost constant over the past several months. This, of course, indicates that little new expansion, or liquidation, is occurring at the present time. In terms of the number of sows and gilts bred this winter for spring farrowings, numbers are also on-track with anticipations. The number bred in December and January for farrowing in approximately April and May was up about .9 percent, very close to the 1.2 percent increase reported as spring farrowing intentions in the last quarterly report.

How have supplies and prices been tracking so far this winter? Pork production this calendar year has been down 2.5 percent, which is a smaller supply than anticipated, and given the mild weather and favorable rates of gain, indicates that the overall hog supply was smaller than previously thought. Prices on the other hand, have been weaker than expected, even with the smaller pork supplies. The year-to-date prices for 51 to 52 percent national base lean hogs has been about $40.50 on a live weight basis. This is about $2 per live hundredweight lower than expectations. The sources of these lower prices is still somewhat unclear, as we are just a bit over half-way through the first quarter. The first suspect is large beef supplies. Year-to-date beef supplies are up over 3 percent. Slaughtered is down 1 percent and weights are up about 4 percent. Heavy weights are a carryover problem from cattle held on-feed for longer periods after September 11. In addition, the continued slow down in travel, vacations, and convention trade has cut into high-value
beef demand, with those beef cuts pushed back into grocery stores. Perhaps a second culprit is the slow growth in consumer incomes and the related “bad news” from Wall Street related to such news stories as Enron and K-Mart’s bankruptcy. This hypothesis is that consumers are watching their expenditures more closely, and that meat purchases are one of the items that is more highly affected. How will these events influence hog prices for the spring and summer? First, the somewhat smaller supplies this winter and smaller than expected winter pig crop should be supportive to hog prices. Second, economic recovery appears to be on more solid footing, with anticipation for substantial income growth for the last-half of the year. Third, the excess weight problems of the beef industry should be under control by the end of the first quarter, and sharply smaller beef supplies are anticipated for the last-half of the year. Fourth, over time there is a slow, but steady, improvement in travel activity. Finally, the Japanese pork import safeguard (raises import pork prices) is due to be removed by early April.

In sum, there is considerable room for improvement in hog prices this spring and early summer. Also, there is currently no sign of further expansion plans. Live prices for 51 to 52 percent lean animals are expected to remain in the very low $40s for the rest of the winter. Seasonal strength in prices is expected after mid-April with prices moving toward the mid-to-higher $40s. Highs in the $47 to $49 area in late May and early June appear possible. It is anticipated that summer prices will ease back toward the mid-$40s, with fall prices struggling in the higher $30s.

Forward pricing hogs should be considered during May and June. Historically, futures prices have tended to offer some of the best pricing opportunities at the same time cash prices are making their highs. Given the fact that the maximum production on a four year hog cycle is expected in late 2002 and into 2003, watching for forward pricing opportunities during the coming late-spring and early-summer period is prudent.

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