



# WEEKLY OUTLOOK



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## **HOG REPORT PROVIDES HOPE FOR PRICE RECOVERY**

Pork producers were on a roll for the first three quarters of 2001, when hog prices averaged nearly \$49 per live hundredweight. Then came the final quarter, with supplies increasing by more than 4 percent and prices plunging to an average of only \$37. Some of the mystery of that final quarter was solved in the USDA's December *Quarterly Hogs and Pigs* report. The USDA increased the estimated size of the spring 2001 pig crop by 1.3 percent to account for a portion of the larger than expected supplies. The other factors contributing to the large amount of pork are a 1.1 percent increase in weights and increased imports of hogs from Canada.

Can hog prices mount a winter rally? The USDA report provides evidence that supplies will moderate and prices recover, however, doubts will linger until the actual slaughter rate tapers off. Inventory data from the report indicate that the number of pigs to be slaughtered in January and February should be down 1 percent and that the March through May rate should be unchanged to down slightly from that of last year. If so, prices will likely recover. The alternative is that the USDA has not registered sufficient expansion in last summer's farrowings (down 1.8 percent) and fall farrowings (up only .3 percent). This is especially true since the spring 2001 farrowings were up 1.3 percent. If the farrowings were up that much last spring, one might reason they would continue to grow in the summer and fall and that supplies will be larger than indicated by the current inventory numbers. As always, we will only know as actual slaughter is registered this winter and spring.

There are also some seemingly mixed messages in the farrowing intentions numbers in the report. Producers said they will increase farrowings by a lively 3.4 percent this winter, but by only 1.2 percent in the spring. Again, it is unusual to see the herd in that large of expansion and for the rate of increase to decline that early in the expansion phase.

Live hog imports from Canada also contributed to the lower prices in the final quarter of 2001. Over the past three years, Canada has provided increasing numbers of pigs to the U.S. even in the face of declining sow numbers here. In 2001, the U.S. imported about 5.4 million hogs from Canada, or 5.5 percent of the total slaughter. An increasing portion are SEW pigs, coordinated with nursery and finishing units in the U.S. About 60 percent of the imports last year were of younger pigs as compared to market hogs. While exact trade data lag about two months, it is likely that rising Canadian imports played at least some role in the depressed late-year prices. Forecasts from USDA are for the number of pigs from Canada to rise another 4 percent this year, to 5.6 million head. Canada provides open spaces for health sensitive farrowing, while the Western Corn Belt provides cheap feed, abundant crop land for spreading hog waste, and strong demand from packers.

During the past year, the size of the breeding herd continued to slip in the Eastern Corn Belt, although both

Illinois and Michigan maintained the same size herd. Indiana saw an erosion of 8 percent in the size of the breeding stock, Ohio numbers were down 6 percent, and Wisconsin's breeding herd was down 13 percent. In total, these three states lost 55,000 animals from their breeding herds. The largest growth state in numbers was Texas, which added 15,000 animals to the breeding herd. Arizona added 12,000, as some herds were repopulated there.

Hog farm numbers continued to drop, while the average size of farm grew still larger. The number of farms that had hogs sometime in 2001 decreased 6 percent, to 81,130 farms. Hog farm numbers are now down 52 percent since 1995, and down 70 percent since 1990. The number of farms with less than 1,000 hogs in inventory represented 69 percent of all farms, but only 13.5 percent of all inventory. The very large farms continue to grow in importance, with those having 5,000 or more hogs now representing 52.5 percent of all the hogs. In 1996 these large farms controlled 33 percent of the inventory.

Pork supplies for 2002 will be up about 1 percent if the USDA report is correct. This would range from down 1 percent in the first quarter, up 1 percent in the second and fourth quarters, but up over 4 percent in the summer time, as a result of the large increase in winter farrowings.

Prices for 2001 averaged \$45.78, on a liveweight basis, for 51 to 52 percent lean animals. Prices are expected to drop about \$3 per live hundredweight in 2002, to somewhat under \$43 for an average. Prices are expected to recover to the very low \$40s for a first quarter average. A return to reasonable profits is expected for the second quarter, with prices in the mid-to-upper \$40s. Third quarter prices may fade somewhat, with averages for the quarter expected to be in the \$42 to \$46 range. By the end of 2002, prices may once again dip below costs of production at times, as prices are expected to average between \$35 and \$39 in the final quarter.

The major questions now are just what is the magnitude of the breeding herd expansion? and were farrowings actually larger last summer and fall than are now being reported? If they were, the price recovery will be less vigorous.

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