HOG PRODUCER PANIC REAPS BENEFITS

The panic selling of sows and light weight market hogs in July and August appears to have a silver lining as the breeding herd has shifted into liquidation and market hog numbers will begin to decline later this fall. As a result, the fears of insufficient slaughter capacity and horribly depressed prices this fall have eased. Hog producers will still have losses to face in coming months, but they will not be nearly as large as was feared.

The source of the better news was USDA’s September Quarterly Hogs and Pigs report. The breeding herd was reported to be down 1.7 percent as of September 1, following a slightly higher inventory in June. The decline can be attributed to rapid liquidation of sows in July (up 20 percent), August (up 17 percent), and September (up 12 percent). During these three months, a total of 120,000 more sows were slaughtered as compared to the same period last year. Looking back to the spring, sow slaughter in the months of April, May, and June was also 5 percent larger than during the same period last year, representing an additional 40,000 sows.

Fewer sows meant that farrowings this past summer were much lower than anticipated. In the June quarterly report, producers indicated they would farrow 2 percent more sows in the June-August period, but actually reduced farrowings by 1.5 percent. As a result of the smaller summer farrowings, the inventory of market hogs was also much smaller than anticipated. The number of pigs that weighed 120 to 179 pounds, representing the bulk of October slaughter, were up 3 percent. But slaughter of market animals should begin to drop below year earlier levels in November, as the 60 to 119 pound inventory was down modestly. The number of pigs that will come to market in roughly December to February were down 1 percent.

Producers indicated that they intend to continue to reduce sow farrowings and thus market hog supplies into 2003. Fall farrowing intentions were down 2.5 percent and winter farrowing intentions were down 1 percent.

Marketing weights have also come down sharply and are expected to help moderate pork supplies during the next 12 months. The reason is high feed prices and low hog prices. The transition to lower weights occurred in August. At the start of the month, slaughter weights were nearly 1 percent above the weights of the previous year, but dropped below year-ago weights by the end of the month. Weights have moderated further in September, dropping as much as 2 percent below last year, likely because of advance marketings of market hogs. For the fall, weights are expected to remain slightly under those of last year, but can be expected to increase with higher hog prices into the winter. For the next 12 months, weights may be up only about .4 percent.

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The hog price tone should improve immediately with prospects for less pork than had been anticipated. Still, pork production in the fourth quarter of 2002 and first quarter of 2003 will likely be nearly unchanged from production in the respective quarters in the previous year. However, by the spring and summer, supplies are expected to drop by about 2 to 3 percent. For all of 2003, pork production should be down about 2 percent.

Fall prices for 51 to 52 percent lean hogs are now expected to average in the $30 to $34 range. This is a substantial improvement over mid-to-higher-$20 discussed before the report. Prices should improve to the higher $30s in the winter and keep marching higher into the spring, when they are expected to average in the low $40s. Summer 2003 prices may reach the low-to-mid $40.

Because of the rapid liquidation, financial losses are not expected to be nearly as large as feared prior to the report. Total costs are currently estimated in the $39 to $41 range and have declined somewhat with moderation in corn and meal prices since the September 12 USDA grain updates. Losses in the third quarter just completed are estimated at about $20 per head, but are expected to be somewhat larger for the last quarter of the year, at $22 per head. However, by winter, losses should be reduced to about $5 per head. There is potential for a return to breakeven by the spring and some profits by summer. Lower feed prices by the fall of 2003 could drop costs back into the higher $30s.

Producers are breathing a sigh of relief. Losses are still going to accumulate this fall and early winter, but they are not going to be nearly as severe as had been anticipated. A return to breakeven can be anticipated by early spring, with some positive returns by late spring and summer. If additional sow liquidation occurs this fall and winter, hog prices should be strong in the last-half of 2003 and into 2004. For now, producers should calculate their variable or “out-of-pocket costs” and continue to produce hogs this fall as long as they anticipate they can recover those variable costs. In general, most will continue to keep animals in inventory, but they should trim their least productive animals, keep market weights moderate, and continue to evaluate their longer-term strategies in this changing industry.

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