HOG PROFITS REMAIN ELUSIVE

Since U.S. hog producers have been cutting back on the size of the breeding herd for five consecutive quarters, they hoped to be operating with solid profits by this time. However, several market factors have gotten in the way, and now the outlook is for modest losses this fall and winter, with some very small profits next spring and summer. The negative market factors include the increased flow of hogs and pork from Canada due to the restriction of beef imports and higher corn and soybean meal prices than had been anticipated a few months ago.

Hog numbers and pork supplies will be somewhat higher than had previously been anticipated, according to the September Hogs and Pigs inventory report from USDA. While the breeding herd is 3 percent smaller than last year’s herd, there are indications that farrowings will not be down as much. The summer pig crop was only down by 2 percent, while fall farrowing intentions are down only 1 percent, and winter intentions are unchanged. The breeding herd has been in a reduction phase after financial losses in the last-half of 2002. Normally, one would expect the herd to stay below year-earlier levels for about 6 to 8 quarters.

The market herd as of September 1 was down 2 percent, but the number of pigs available for marketing this fall and winter will be about 1 percent lower. Marketing weights will likely be somewhat higher, so total pork production this fall and winter may be unchanged to down modestly. For the spring and summer of 2004, supplies are expected to begin to climb by about 1 percent. More pork is not what hog producers want to see, as prices may be below cost of production for portions of this fall and winter.

The breeding herd was lower in most major production states. In percentage terms, Indiana had the largest breeding herd decline at 9 percent, Iowa’s herd was down 7 percent, Missouri was down 6 percent, Ohio down 3 percent, and Illinois’ breeding herd dropped by 2 percent. Major states with unchanged or increasing numbers included North Carolina as unchanged; Minnesota with a 2 percent increase, and Nebraska with a 4 percent increase.
This summer’s hog prices have been influenced by a large increase in hogs and pork coming from Canada, as the North American beef and pork markets adjust to restricted beef flows from Canada due to BSE there. Hog imports from Canada include both young pigs that are fed-out in the U.S. and slaughter hogs. Last year, the total live imports were 5.9 percent of total U.S. slaughter. That number will be closer to 6.5 percent this year. However, total live imports this summer were over 8 percent of U.S. slaughter. USDA reports that processed pork imports have been up as well. In June and July, pork imports from Canada were higher by 14 percent over the same months in 2002, and are up 16 percent for the year.

The flow of Canadian hogs and pork should diminish in coming months. The USDA has approved importation of muscle beef cuts from cattle under 30 months of age, and has a permit process in place to allow more beef to enter the U.S. In addition, the value of the Canadian dollar has increased by 14 percent in 2003, which will make shipments from Canada to the U.S. less favorable over time.

Fall hog prices are expected to average in the $36 to $40 range on a liveweight basis. Winter prices are expected to be about $1 higher. Spring and summer 2004 prices are expected to average in the $39 to $44 range. Cost of production is estimated at $39 to $41 per live hundredweight over the next year. Operating returns are expected to show a $1 to $2 loss in the fall and winter, but a similar level of profits next spring and summer.

Issued by Chris Hurt
Extension Economist
Purdue University