WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

JUNE 1, 2004

WILL LUCK HOLD FOR HOG PRODUCERS?

Every once in a while something good happens to hog producers. Facing a potential feed cost crisis in the early spring, financial relief came in the form of sharply lower feed prices and surging cash hog prices since early April. Now the question, will this good fortune continue?

Hog prices deserve attention first. What a year so far! Pork production is up more than 4 percent in 2004, yet hog prices are up 28 percent. At an average of $47.50 so far for the year, the average price is more than $10 per live hundredweight above the average for the January through May period of 2003.

The more important issue is why. There are three reasons. First, pork exports have been remarkable. In the first quarter of the year, pork exports rose by 27 percent as some world buyer''s heavily substituted pork for restricted beef and broiler imports. Mexico increased pork purchases by 88 percent in the first quarter as beef purchases from the U.S. dropped by 86 percent. Canadian purchases of pork increased by 31 percent as beef purchases dropped by 95 percent. The Japanese, on the other hand, purchased only seven percent more pork. Pork export prospects continue to be strong as restrictions on beef exports are now expected to remain in place for much of the year.

The second factor driving much higher hog prices is the robust U.S. economy and diet trends. Disposable personal income rose by six percent in the first quarter of the year. Real GDP growth was a healthy 4.4 percent. Strong consumer demand, driven by purchasing power and high protein diets, has resulted in wholesale pork prices being sharply higher in the first five months of the year. Pork belly prices were up 18 percent higher; loin prices were up 22 percent higher, and ham prices were 28 percent higher than in the same period in 2003. Forecast for the U.S. economy remain optimistic, with a 4.5 percent expected real growth in GDP this year and around four percent for 2005.

Finally, producers have been getting a larger share of retail pork expenditures. So far this year, producers have received 29 percent of the retail dollar spent on pork compared to only 24 percent last year during the same period. Marketing margins have narrowed for both packers and retailers.

Will each of these factors remain positive for the remainder of the year? The best answer now appears to be yes. Movement to open export markets for beef and broilers remains slow. World and U.S. economic growth appears to remain favorable and producers'' share of the retail pork dollar should remain strong.

The negative side remains supply. Pork production will be at a record 20.6 billion pounds, a 3 percent increase from production of a year ago. However, extraodinary demand has won the battle so far, and pork supplies should begin to moderate in September and move lower than year-earlier levels in the winter.

Prices for 51 to 52 percent lean carcasses on a liveweight basis are expected to average in the very high $40s this summer before moving to the low $40s this fall. Winter prices are expected to be in the mid $40s. Lean hog futures prices are well ahead of these forecasts for the this summer and appear to offer excellent hedging opportunities.

Everyone knows that feed prices will be volatile for the next couple of months. After a tremendous start to the planting season, the remainder of the soybean crop will be late-seeded, and excess moisture may have reduced the yield advantages of the early start for corn. Futures prices for lean hogs, corn, and soybean meal provide profit opportunities for hog producers this summer, and roughly breakeven opportunities for the fall and winter.

Most hog producers feel they got a bit of luck with much higher hog prices than expected and a major break in corn and meal prices, but now they need to ask if luck will hold for the rest of the year. As the old saying goes, ""Those who think the rabbit''s foot brings good luck should remember it wasn''t so lucky for the rabbit.""

Issued by Chris Hurt
Extension Economist
Purdue University