



# WEEKLY OUTLOOK



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## **HOG PRODUCERS SAY NO EXPANSION YET**

Hog producers across the country say they have not expanded the breeding herd yet, and that they will keep farrowings at about a constant level in coming months. The latest *Hogs and Pigs* report from USDA revealed that the breeding herd in the U.S. was down slightly from a year earlier, and that farrowing intentions for this winter and coming spring would be about unchanged as well.

The seeming unwillingness of pork producers to make fundamental changes in the sizes of their herds has continued for a number of years. Since 2000, annual farrowings have been nearly steady at 11.4 or 11.5 million sows. The current numbers were a surprise to market participants that felt the very good profits since the spring of 2004 would begin to show up as breeding herd expansion.

There are several reasons why expansion is not yet being demonstrated. First is that some producers likely used the much improved hog prices in 2004 as an opportunity to finally leave the industry. Breeding herd numbers were down by 3 percent in Indiana, Ohio, North Dakota, and South Dakota, and by 4 percent in Nebraska. They were also lower in some of the states in the mid-south and southeast with Georgia (-12 percent); Kentucky (-11 percent); and Tennessee (-8 percent). These declines were largely offset by higher breeding herd numbers in Iowa (+1 percent) and Illinois (+2 percent), with several major production states being unchanged (North Carolina, Minnesota, and Missouri).

A second reason that expansion is not yet showing up is that it remains very early in the profit cycle for expansion. The return to profit did not occur until the second quarter of 2004, so this would mean the spring of 2005 before farrowings would begin to increase. In addition, some of the strength in 2004 hog prices was related to improved pork exports that were positively affected by restricted U.S. beef exports. Producers are aware that a return of beef exports this year could have a negative impact on hog prices. Finally, U.S. producers have been hesitant to expand in the face of rapid breeding herd expansion over the past five years in Canada with most of those pigs being shipped to the U.S. The breeding herd expansion in Canada since the start of the decade is equivalent to about a 6 percent expansion of the U.S. breeding herd.

So what does this mean for pork prices? Limited expansion means that 2005 pork supplies will only be about 1 percent higher. Most of this increase will come from higher marketing weights which are expected to be up by .7 percent. The \$52.63 per live hundredweight average prices for 2004 came largely because of strong demand, so the most important question for 2005 prices is, "will demand be as strong in 2005?"

Demand is expected to be very good in 2005, but not as strong as last year. Pork trade may not be as favorable, since beef exports are expected to resume at some point. Marketing margins for pork (packer and retail) were very narrow in 2004, and are expected to widen to more normal levels in 2005 which will cause some lowering of farm prices. Finally, high protein diets received a great deal of media attention in 2004 which helped stimulate demand. This may not be repeated to the same extent in 2005.

Even with some leveling off of demand, 2005 looks extremely positive for pork producers. Prices for 51 to 52 percent lean hogs on a liveweight basis are expected to average in the low \$50s for the year. Prices in the first quarter are expected to be in the very high \$40s on average, followed by prices moving into the mid-\$50s for potential yearly high prices in May and June. Summer prices are expected to average in the very low \$50s with the final quarter of 2005 still holding price averages near \$50.

More importantly, there will likely be lots of income with costs of production in the higher \$30s. My current estimates are for profits of nearly \$13 per live hundredweight above all costs, which will exceed the nearly \$10 of profit in 2004. This could be the most profitable hog year since 1990.

The last statement brings up the issue of whether producers can resist expansion in the face of this robust profit outlook. Probably not. My guess is that it is reasonable to expect more pork to begin showing up by late in the summer with prices in the final quarter lower than those currently stated. But even with that possibility, 2005 may still feel like "Hog Heaven."

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