



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.

MARCH 28, 2005

HOG PROFITS TO CONTINUE

Hog producers in the U.S. say they have made no movement toward expansion yet, and will actually farrow a few less sows this summer. With little threat of expanding pork supplies, pork demand factors continue to favor highly profitable prices through the summer. The lack of expanded farrowings this spring and summer should also provide incentives for fall and winter futures prices to increase from pre-report levels.

The breeding herd as of March 1, 2005 was reported as unchanged from year-ago levels, while the market herd was up about 1 percent. Farrowing intentions for this spring are the same as last year and producers say they will reduce summer farrowings by nearly 1 percent. If they follow through, this means that pork supplies will increase by only 1 to 2 percent for the rest of 2005. Larger supplies will be as the result of more pigs per litter and heavier marketing weights rather than increases in farrowings.

Two states were distinct in increasing their breeding herds. Iowa increased by 40,000 animals, or 4 percent, and Illinois increased by 20,000 animals, or 5 percent. The only other major state to increase the breeding herd was Oklahoma, which was up 10,000 animals, or 3 percent. States decreasing their breeding herds were led by Texas, Pennsylvania, and Kansas each with a 15,000 head reduction, and North Carolina, Minnesota, and Indiana each with a 10,000 head reduction.

Why have hog producers not responded to the very good profitability over the past year? One hypothesis is that there has not yet been sufficient time. Remember that the hog outlook did not turn favorable until May 2004 as a result of much higher hog prices and declining corn and meal prices. Even in the summer of 2004, many producers did not believe their good fortunes could continue as the pork industry has had limited experiences with demand-led bullish markets. Secondly, most realized that two of the important demand factors could turn sour at any time. These were the increased pork exports as a result of BSE restricted beef trade and the narrow marketing margins at the packer and the retail levels. Finally, U.S. producers have not been in an expansion mood since the terrible financial bust of 1998 and 1999. Since that time, U.S. producers have reduced the breeding herd by 1 million head, or 14 percent, as the growth in

sow numbers was primarily in Canada. Whatever the reasons for the lack of expansion, the U.S. industry likely needs to evaluate the market's need for more pork in the next five years.

Since pork supplies do not appear to be a threat to hog prices for the rest of the year, pork demand will again be the primary feature of discussion for 2005. In 2004 pork demand led markets to average about \$52.50 per live hundredweight based upon 51% to 52% lean hog carcasses. This was about \$13 per live hundredweight higher than in 2003. Improved pork trade accounted for about \$3 of the \$13 higher prices. The other \$10 was a result of improved retail pork demand, which accounted for about \$5 higher prices, and narrow marketing margins, which were also about \$5.

Hog prices are expected to provide strong profits this spring and summer. Second quarter prices on a liveweight basis are expected to average in the low-to-mid \$50s. Peak prices would be expected in May and June. Some price moderation is anticipated later in the summer, especially by September. Prices for the third quarter are expected to average in the low \$50s. Prices are expected to be in the mid-to-higher \$40s in the fall and in the mid-\$40s for the winter of 2006. Given current expected feed prices, these price levels will provide extremely profitable margins over the next six months and good margins for the following six months.

Issued by Chris Hurt
Extension Economist
Purdue University