



WEEKLY OUTLOOK



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HOG PRODUCERS KEEP LID ON EXPANSION

Hog producers are keeping the lid on expansion plans according to the latest USDA numbers. After a year of profitability, the expectation was that some expansion was underway. However, the June *Hogs and Pigs* report showed the U.S. breeding herd is expanding less than 1 percent and producers indicated that summer and fall farrowings will be unchanged from last year's level.

Pork supplies will, however, be larger in the next 12 months as a result of a higher weaning rate and a modest increase in weights. Supplies are expected to increase only about 1 percent, which means the amount of pork per person will be nearly unchanged. Demand will be more important to prices than supply in the coming year. Demand will be led by exports, which are expected to remain strong. U.S. consumer demand may not be as strong as in the past year.

Exports grew by 27 percent in 2004 and current USDA forecasts are for an increase of 17 percent in 2005. Currently, about one out of every eight pounds of U.S. pork production is consumed in a foreign country. Continued strong pork exports will be supported by delays in opening the U.S. beef export market after the June 24th announcement of the second U.S. BSE cow.

On the domestic front, pork demand is not expected to be as robust in the coming 12 months and is the primary reason for lower hog price forecasts. Pork and other meats rode the crest of the high-protein diet wave in 2004. While those diets are still popular, there is not as much media attention as in 2004. More importantly, packer and retail margins were narrow in 2004 resulting in higher producer hog prices. This year, marketing margins are likely to increase to more normal levels which will have a negative impact on prices received by producers.

Hog prices are expected to move from an average near \$50 in July and early August to the mid \$40s in September. Further erosion in prices is expected into the fall, when fourth quarter prices are expected to average somewhat under \$45. This means that October and early November lows could reach the low \$40s. Prices in the first quarter of 2006 are

forecast to average in the \$44 to \$48 range, and improve to near \$50 for the second quarter of 2006.

Will producers cover their costs over the next 12 months? Hog prices are expected to average around \$47 over this time period. Current dry conditions, especially in the eastern Corn Belt, have added anxiety to the feed cost outlook. Using futures prices for corn and soybean meal on June 27 (\$2.40 December corn futures and \$220 soybean meal futures), estimated costs of production for the coming 12 month period would be around \$42.50 per hundredweight. Given the current outlook, producers would expect favorable returns this summer and next spring, but have only modest profits in the fall and winter. The size of the 2005 crops will have a large impact on expected costs of production.

Returns over the past 12 months have helped stabilize producers' financial conditions. Estimated returns have been \$13.50 per hundredweight, or about \$36 per head. This turn to strong returns was welcomed after the industry operated at a loss in 2002 and 2003. With little expansion in the U.S., pork producers can look forward to modest profits over the next 12 months. They also realize the vulnerability of those profits as they watch the weather forecasts and hope for more rain in the eastern Corn Belt.

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