UNIVERSITY OF ILLINOIS EXTENSION

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.

MAY 23, 2005

CAN HOG PRICES HOLD ON?

The first crack in the bullish sentiment for hog prices began to reveal itself in the month of May as hog futures prices declined. July lean hog futures, as an example, had a May high of $79.20 on May 2nd, but dropped to a low near $71 on May 20th. Cash hog prices have tumbled as well, from carcass highs near $80 during the first week of May to below $72. Now the question is, "can hog prices hold on?"

First, let's review the supply and price situation so far this year. Pork supplies have been nearly unchanged with about 1 percent fewer hogs coming to market. However, prices have performed admirably, averaging about $52.60 (live weight), 10 percent higher than during the same period last year. Such strong price performance in light of unchanged supplies reveals the continued strength of pork demand. The demand components this year include: strong exports given continued restrictions on U.S. beef exports; record high beef prices which are causing some shift to pork consumption; narrow pork margins; and favorable consumer incomes and attitudes regarding meat consumption.

Pork supplies for the remainder of the year are expected to move above year-previous levels by about 1 percent. While this is not a major deterrent to continued high hog prices, it does cast a possible bearish shadow, at least from the level of $80 summer futures prices. A second supply concern is that more breeding herd expansion is likely to be revealed in the USDA's June *Hogs and Pigs* report to be released June 24th.

The strongest evidence of expansion comes from the low rate of sow slaughter since last December. Slaughter which was down about 8 percent relative to the same time period a year earlier. The March report showed no increase in the breeding herd, but the possibility of a 1 to 2 percent increase appears possible for the June update. Producers had indicated their intentions to farrow 1 percent fewer sows this summer, and signs of expansion in the June report may mean these numbers will be somewhat higher.

From a domestic production standpoint, a very modest increase in supplies may be expected in the last-half of the year relative to expectations a few months ago. What about live hog imports from Canada? So far this year, imports of market hogs are down about 20 percent and imports of pigs for finishing are down around 12 percent. Given the strength of the Canadian dollar, the flow of pigs coming from Canada is expected to remain below year-previous levels. This is another supply fundamental that does not favor a major break in hog prices.

For now, pork demand components remain favorable as well. Little progress is expected in opening the Canadian border to live cattle imports that might lower U.S. retail beef prices, and resumption of beef exports to Asian countries remains mired in uncertainty. Consumers seem to a have strong desire for meat and personal incomes are expected to continue to expand, although at a somewhat slower rate than last year. Finally, pork marketing margins remained narrow in the first quarter of 2005.

It appears that the answer to “Can hog prices hold on” is yes. Summer futures markets probably just got too optimistic. Liveweight prices are expected to average in the mid-$50s during the second quarter, with third quarter prices dropping back into the lower $50s.

Futures markets for the fall currently are suggesting live prices in the low-to-mid-$40s and are likely building in too many bearish uncertainties. A more reasonable forecast is for live prices to be in the mid-to-higher $40s during the fall. In a similar fashion, lean hog futures for early 2006 appear to be under pricing the fundamentals by several dollars per hundredweight.

In conclusion, market fundamentals suggest the continuation of strong hog prices, just not in the higher $50s as many had hoped. On the other hand, some had feared that the recent drop in prices was a sign that the “big break” in hog prices had begun. That is not likely either.

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