



WEEKLY OUTLOOK



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HOG PRODUCERS SAY ADON=T ROCK THE BOAT@

Pork producers must like making money, because they sure are not willing to rock the boat by expanding. The USDA's September *Hogs and Pigs* report says that pork producers are content keeping numbers about where they have been. In fact, the breeding herd has changed less than one percent in each of the last five quarterly reports, the longest period ever with such small changes. However, the trend may be broken as producers are finally hinting at some expansion in the distant future.

The size of the nation's breeding herd and market herd remain unchanged from the level of a year ago. Slaughter numbers are expected to be up only one percent in October and November and nearly unchanged in December, January, and February. The number of sows farrowed this summer was unchanged, but the number of pigs per litter was up one percent. For the fall, producers intend to keep farrowings unchanged. The hint toward expansion shows up in the winter, when farrowings are expected to increase, but just by one percent.

The size of the breeding herds in individual states was pretty stab, with the exceptions of Illinois which was up five percent and Iowa which was up four percent. Notable declines occurred in Minnesota with a two percent reduction and in Indiana with a three per cent reduction. Pork supplies are expected to be up about one percent this fall and winter and up about two percent next spring and summer. However, with increasing population and strong exports, the available supply per person will be little changed from year-previous levels.

Pork trade continues to be the featured story, along with lack of expansion. Data through July show exports to be up 26 percent from the same period one year ago. This year, pork exports have represented a record 13 percent of U.S. production. Imports are down by about ten percent, so the net effect is that pork available to U.S. consumers is actually down around three percent so far this year. No wonder prices have remained strong!

Hog prices, on a liveweight basis, are expected to average in the very high \$40s over the coming 12 months. In the last three months of this year, prices are expected to average in the \$45 to \$49 range, although daily fall lows could drop to around \$45 in late October and early November.

Prices in the winter are expected to be about \$1 higher. Second quarter 2006 prices are expected to be in the very high \$40s with summer prices in the very high \$40s to low \$50s.

With current corn and soybean meal prices, cost of production for farrow-to-finish production is estimated to be near \$40 per live hundredweight for the next 12 months. This means that margins will be about \$7 to \$9 per hundredweight, which is about \$2 better than estimates from late summer.

The current period of profitability began in the second quarter of 2004 and is now expected to continue at least through the summer of 2006, resulting in at least 10 consecutive quarters of positive margins. The last time that occurred was from 1985 to 1988 when the hog market registered 12 consecutive quarters of margins in the black. The current long run period of profitable prices is a market signal that the world would like U.S. producers to loosen up a bit and get some expansion underway. Of course U.S. producers are hesitant because Canada is where the sow expansion has been since 1998, and there remains uncertainty regarding how long pork export strength will remain if the BSE beef testing issue is resolved with Japan. There is additional uncertainty about the costs of production with rising building costs, rising interest rates, and rising and unpredictable energy prices.

In summary, the market is asking U.S. producers to expand, but so far the response has been, NO! Are U.S. producers also sending the signal that they would rather have producers in other countries expand, or has there just been too much uncertainty to make the first move? Producers need to make up their minds in the next six months, and my expectation is that U.S. producers will vote for greater expansion.

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