

# Livestock Price OUTLOOK

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## PORK INDUSTRY HEADS FOR HIGHER PRODUCTION

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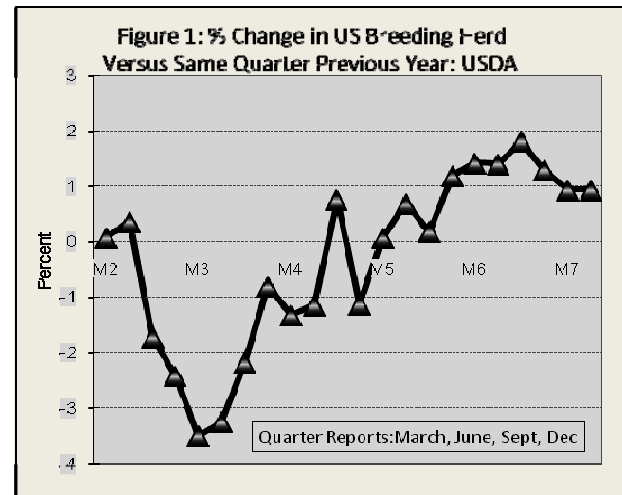
Thank goodness corn prices have now moved lower since pork producers have decided to stay on the course of moderate expansion. Higher pork production will result in somewhat lower hog prices, but anticipated costs of production have dropped sufficiently to offset these lower hog prices.

Price levels for corn and soybean meal remain one of the large uncertainties for the next 12 months. The size of the corn crop will come into better focus over the next several weeks and by mid to late-August for soybeans.

### The Numbers

The nation's breeding herd continues a modest increase. In the June report, the USDA reported that the breeding herd had expanded by almost 1 percent. This is now the 10<sup>th</sup> quarterly report showing that the breeding herd has been larger (Figure 1). There is no one geographic region that is experiencing more expansion. The slow increase is in keeping with the growth in demand for pork in the domestic and the export market.

The number of pigs per litter continues to set new records (Table 1). March-May litters averaged 9.15 pigs per litter, a new record. Reflecting a few more sows and higher weaning rates, the market herd number was estimated to be up by 1.8



percent. Producers say they intend to farrow 2.5 percent more sows this summer and then .4 percent more in the September to November quarter.

### Supplies and Prices

Some upward revisions in pig crops and larger than expected farrowing intentions for the summer will contribute to somewhat greater pork production than had been

anticipated. In addition, corn prices have dropped as of this writing, which if continued, means weights will be higher. This all means that pork supplies will move up somewhat more than had been forecast prior to the report.

Pork production is expected to rise by 3.2 percent over the next four quarters compared to the average of the last four quarters. Some of this increase will be absorbed by higher exports; however, per capita pork availability in the domestic market is still expected to rise by nearly 2 percent in the coming 12 months.

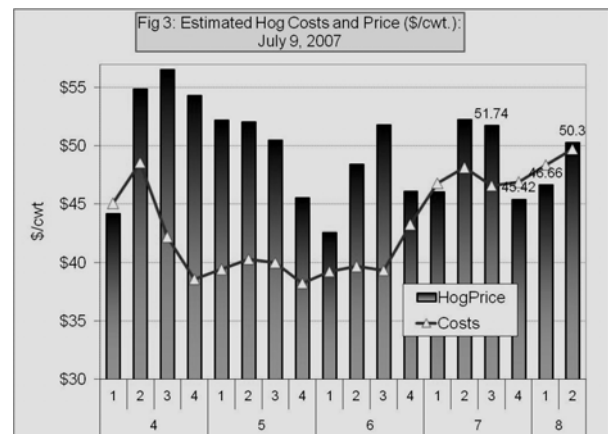
Competitive meat supplies will play a role in prices of hogs and pork in the coming 12 months as well. Broiler production is expected to rise by 2.5 percent and turkey production by over 1 percent. However, beef production is expected to be down a bit. If corn prices do stay as low as they are in early July, it is likely that production of other species will increase even more. Production of broilers and turkeys can respond quickly to lower feed prices. Cattle on-feed numbers can also increase, along with higher market weights for all species.

Prices of live hogs are expected to average about \$48.50 per live hundredweight over the next 12 months based on 51 percent to 52 percent lean carcasses. Prices for the third quarter are expected to average in the \$50 to \$54 range. Last quarter prices are expected to drop to \$43 to \$47. Winter prices may improve some to \$45 to \$49, with second quarter 2008 prices back up to \$48 to \$50.

### Estimated Returns Near Breakeven

Near breakeven is the outlook for farrow-to-finish returns over the next 12 months. Breakeven is not so bad because it means all costs are covered, including family labor

and full depreciation. Even though the hog price outlook has weakened somewhat with the latest inventory report, lower corn price prospects have compensated. Over the next 12 months, we are estimating a slight profit of about \$.50 per hundredweight. However, that will mostly come this summer with estimated profits near \$5.00 per hundredweight, followed by losses this fall and winter of about \$1 to \$2, and near breakeven next spring. Corn and soybean meal prices could still be dynamic over the next few weeks until the size of this summer's crops become clearer. Each \$1 change in corn prices impact national hog production costs roughly \$5 per live hundredweight.



The estimated corn breakeven prices over the next year given current futures price estimates for soybean meal are \$4.18 per bushel this summer, followed by \$2.85 in the fourth quarter, and \$3.06 and \$3.77 for the first two quarters of 2008, respectively.

Even with wide swings in anticipated feed prices, pork producers have maintained a steady hand on the reins. They have continued a modest expansion to supply a growing world demand for their pork products in the face of greater financial risks and uncertainties to themselves.

### Implication for the Industry

The industry has just experienced large shifts in the price prospects of primary feed ingredients. Yet, the industry has stayed on the same course. This is a reflection of the greater stability of the production sector today, and to the commitment pork producers have to their product. While profits are expected to be negative this fall and winter, we cannot foresee a period of losses that would result in a liquidation of the breeding herd.

The odds seem to favor continued wide swings in feed ingredient prices. This means that price risk management on feed purchasing takes on added significance. It is likely that feed prices may add nearly as much to financial risks in the future as hog price uncertainty.

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<b>PRODUCTION</b>		Production	Percent Change vs. Year-ago
Year	Quarter	Million#s	
2005	I	5,136	0.1%
	II	5,022	2.6%
	III	4,999	-0.9%
	IV	5,525	1.7%
	Year	<b>20,682</b>	<b>0.8%</b>
2006	I	5,335	3.9%
	II	5,008	-0.3%
	III	5,087	1.8%
	IV	5,625	1.8%
	Year	<b>21,055</b>	<b>1.8%</b>
2007	I	5,396	1.1%
	II	5,140	2.6%
	III	5,253	3.3%
	IV	5,853	4.0%
	Year	<b>21,642</b>	<b>2.8%</b>
2008	I	5,517	2.2%
	II	5,314	3.4%

<b>PRICES</b>		Liveweight Price	Percent Change vs. Year-ago
Year	Quarter	\$/cwt.	
2005	I	\$52.24	18.2%
	II	\$52.09	-5.1%
	III	\$50.51	-10.7%
	IV	\$45.54	-16.2%
	Year	<b>\$50.10</b>	<b>-4.6%</b>
2006	I	\$42.63	-18.4%
	II	\$48.45	-7.0%
	III	\$51.83	2.6%
	IV	\$46.13	1.3%
	Year	<b>\$47.26</b>	<b>-5.7%</b>
2007	I	\$46.04	8.0%
	II	\$52.28	7.9%
	III	\$51.74	-0.2%
	IV	\$45.42	-1.5%
	Year	<b>\$48.87</b>	<b>3.4%</b>
2008	I	\$46.66	1.3%
	II	\$50.30	-3.8%

Table 1. Hogs and Pigs in the United States, June 1

	2006	2007	2007 as % of 2006
		thousand head	percent
<i>Inventory</i>			
All hogs and pigs	61,687	62,750	101.7
Kept for breeding	6,060	6,116	100.9
Kept for market	55,627	56,634	101.8
<i>Market hogs by weight</i>			
Under 60 pounds	20,808	21,182	101.8
60-119	13,692	13,894	101.5
120-179	11,485	11,624	101.2
180 and over	9,643	9,934	103.0
<i>Sows farrowing</i>			
Dec 06 - Feb 07	2,840	2,885	101.6
March 07 - May 07	2,927	2,966	101.3
June 07 - Aug 07 <sup>1</sup>	2,912	2,985	102.5
Sept 06 - Nov 06 <sup>1</sup>	2,949	2,960	100.4
<i>Pigs saved per litter</i>			
Sept 06 - Nov 06	9.03	9.11	100.9
Dec 06 - Feb 07	9.03	9.09	100.7
March 07 - May 07	9.08	9.15	100.8
<i>Pig crop</i>			
Sept 06 - Nov 06	26,187	26,857	102.6
Dec 06 - Feb 07	25,661	26,210	102.1
March 07 - May 07	26,579	27,141	102.1

<sup>1</sup> Intentions

Table 2. U.S. Market Hogs Weighing 60 to 179 Pounds on June 1, and Commercial Slaughter in Calendar Quarter from July through September

Year	Hogs 60-179 Pounds	July-Sept Slaughter	Ratio
- - - - thousand head - - - -			
1990	20,253	20,346	100.5
1991	21,201	21,376	100.8
1992	22,613	23,746	105.0
1993	22,455	22,777	101.4
1994	22,970	23,673	103.1
1995	23,200	23,264	100.3
1996	22,500	22,711	100.9
1997	22,576	22,666	100.4
1998	24,795	25,038	101.0
1999	24,577	24,960	101.6
2000	23,957	24,097	100.6
2001	23,528	23,635	100.5
2002	24,445	25,120	102.8
2003	23,780	24,747	104.1
2004	24,756	25,817	104.3
2005	24,519	25,515	104.1
2006	25,177	25,813	102.5
2007	25,518	26,443	103.6 <sup>b</sup>

<sup>a</sup> Projected<sup>b</sup> Mean of past three years

Table 3. U.S. Sow Farrowings and Pig Crop Compared to U.S. Commercial Slaughter (1,000 head) with 7-month Lag 1993 to 2007

Year	Sows Farrow	Pig Crop	Pigs/ Litter	Commercial Slaughter		Ratio <sup>b</sup> Slau/PigCrop
				Year	Slau/PigCrop	
December-February			July-September			
93/94	2,885	23,368	8.10	1994	23,673	101.3
94/95	2,886	23,851	8.27	1995	23,264	97.5
95/96	2,735	23,054	8.43	1996	22,711	98.5
96/97	2,684	23,164	8.63	1997	22,679	97.9
97/98	2,929	25,480	8.70	1998	25,038	98.3
98/99	2,891	25,247	8.73	1999	24,960	98.9
99/00	2,798	24,522	8.76	2000	24,097	98.3
00/01	2,748	23,963	8.72	2001	23,635	98.6
01/02	2,835	24,857	8.77	2002	25,120	101.1
02/03	2,769	24,400	8.81	2003	24,747	101.4
03/04	2,836	25,105	8.85	2004	25,817	102.8
04/05	2,835	25,343	8.94	2005	25,515	100.7
05/06	2,840	25,661	9.03	2006	25,813	100.6
06/07	2,885	26,210	9.09	2007 <sup>ab</sup>	26,697	101.9
March-May			October-December			
1993	3,220	26,135	8.12	1993	24,574	94.0
1994	3,390	27,984	8.26	1994	26,315	94.1
1995	3,170	26,373	8.32	1995	25,197	95.5
1996	2,930	24,833	8.48	1996	23,832	96.0
1997	2,911	25,229	8.67	1997	25,143	99.7
1998	3,086	26,989	8.75	1998	27,586	102.2
1999	2,986	26,272	8.80	1999	26,723	101.7
2000	2,885	25,565	8.86	2000	25,714	100.6
2001	2,870	25,509	8.89	2001	26,470	103.8
2002	2,941	26,001	8.84	2002	26,715	102.7
2003	2,886	25,629	8.88	2003	27,608	107.7
2004	2,870	25,633	8.93	2004	27,192	106.1
2005	2,882	25,986	9.02	2005	27,485	105.8
2006	2,927	26,579	9.08	2006	27,980	105.3
2007 <sup>a</sup>	2,966	27,141	9.15	2007 <sup>ab</sup>	28,902	106.5
June-August			January-March			
1993	2,972	24,041	8.09	1994	22,742	94.6
1994	3,107	25,547	8.22	1995	24,224	94.8
1995	2,976	24,813	8.34	1996	23,651	95.3
1996	2,718	23,244	8.55	1997	22,308	96.1
1997	2,946	25,696	8.72	1998	24,775	96.4
1998	3,054	26,634	8.72	1999	25,579	96.0
1999	2,920	25,862	8.86	2000	25,019	96.7
2000	2,889	25,548	8.84	2001	24,578	96.2
2001	2,878	25,539	8.87	2002	24,148	94.6
2002	2,883	25,725	8.92	2003	24,654	95.8
2003	2,918	25,974	8.90	2004	25,717	99.0
2004	2,905	26,162	9.01	2005	25,529	97.6
2005	2,918	26,449	9.06	2006	26,205	99.1
2006	2,912	26,518	9.11	2007	26,751	100.9
2007 <sup>a</sup>	2,958	27,125	9.17	2008 <sup>ab</sup>	27,112	100.0
September-November			April-June			
1993	2,982	24,003	8.05	1994	22,965	95.7
1994	2,997	24,517	8.18	1995	23,644	96.5
1995	2,815	23,479	8.34	1996	22,201	94.6
1996	2,731	23,327	8.54	1997	21,831	93.6
1997	2,939	25,494	8.67	1998	23,628	92.7
1998	2,993	25,902	8.66	1999	24,288	93.8
1999	2,844	24,973	8.78	2000	23,105	92.5
2000	2,838	25,112	8.85	2001	23,280	92.7
2001	2,889	25,492	8.82	2002	24,280	95.2
2002	2,833	25,094	8.86	2003	23,922	95.3
2003	2,856	25,488	8.93	2004	24,803	97.3
2004	2,888	25,881	8.96	2005	25,028	96.7
2005	2,900	26,187	9.03	2006	24,835	94.8
2006	2,949	26,501	9.11	2007 <sup>p</sup>	25,505	96.2
2007	2,960	27,143	9.17	2008	26,218	96.6

<sup>a</sup> Estimates

<sup>b</sup> Last entry is the mean of previous three years including Canadian live imports (not shown).

Table 4. U.S. Commercial Slaughter, Carcass Weights, and Quarterly Pork Production 1995-2008

Year	Quarter	Commercial Slaughter (1,000 head)	Carcass Weight Per Hog	Pork Production (million #'s)	Percent Change Year-Ago
1997	I	22,342	187.7	4,194	-4.4
	II	21,834	187.4	4,091	-0.3
	III	22,666	185.0	4,196	1.3
	IV	25,152	189.5	4,766	7.1
1998	I	24,776	189.2	4,688	11.8
	II	23,631	187.5	4,429	8.3
	III	25,038	184.7	4,625	10.2
	IV	27,523	188.9	5,239	9.9
1999	I	25,571	190.3	4,865	3.8
	II	24,292	190.6	4,630	4.5
	III	24,960	187.2	4,672	1.0
	IV	26,732	191.2	5,110	-2.5
2000	I	25,019	192.8	4,824	-0.8
	II	23,107	193.8	4,478	-3.3
	III	24,097	191.1	4,606	-1.4
	IV	25,714	194.8	5,010	-2.0
2001	I	24,578	195.5	4,805	-0.4
	II	23,280	195.3	4,546	1.5
	III	23,635	192.4	4,548	-1.3
	IV	26,470	197.9	5,239	4.6
2002	I	24,148	197.9	4,780	-0.5
	II	24,280	197.6	4,797	5.5
	III	25,120	192.4	4,832	6.2
	IV	26,715	196.7	5,255	0.3
2003	I	24,654	198.7	4,898	2.5
	II	23,922	198.2	4,741	-1.2
	III	24,747	194.2	4,807	-0.5
	IV	27,608	199.2	5,499	4.6
2004	I	25,717	199.5	5,130	4.7
	II	24,803	197.4	4,897	3.3
	III	25,817	195.5	5,046	5.0
	IV	27,192	199.9	5,435	-1.2
2005	I	25,529	201.2	5,136	0.1
	II	25,028	200.7	5,022	2.6
	III	25,515	195.9	4,999	-0.9
	IV	27,485	201.0	5,525	1.7
2006	I	26,205	203.6	5,335	3.9
	II	24,835	201.7	5,008	-0.3
	III	25,813	197.1	5,087	1.8
	IV	27,884	201.7	5,625	1.8
2007	I	26,686	202.2	5,396	1.1
	II <sup>P</sup>	25,505	201.5	5,140	2.6
	III <sup>ab</sup>	26,570	197.7	5,253	3.3
	IV <sup>a</sup>	28,902	202.5	5,853	4.0
2008	I <sup>a</sup>	27,112	203.5	5,517	2.2
	II <sup>a</sup>	26,218	202.7	5,314	3.4

<sup>a</sup> Projected

<sup>c</sup> Average of the two estimation methods (Table 2 and 3)

<sup>P</sup> Preliminary

Table 5. Actual and Forecast Live Hog Prices, Lean Carcass Prices, and Retail Pork Prices<sup>a</sup>

Year	Quarter	Barrow and Gilts 6-Mkt Price (\$/cwt)	Lean Value (Live Price/74.5 yield) (\$/carcass cwt)	Retail Pork ¢/carcass cwt
1997	I	\$51.06	\$68.54	231.0
	II	\$56.41	\$75.72	229.7
	III	\$54.45	\$73.09	234.5
	IV	\$43.69	\$58.64	231.0
1998	I	\$34.74	\$46.63	233.0
	II	\$39.42	\$52.91	226.9
	III	\$33.95	\$45.57	231.0
	IV	\$19.30	\$25.91	226.9
1999	I	\$28.83	\$38.70	235.8
	II	\$35.18	\$47.22	238.4
	III	\$35.70	\$47.92	246.4
	IV	\$36.29	\$48.71	245.2
2000	I	\$41.14	\$55.22	249.8
	II	\$50.43	\$67.69	257.3
	III	\$46.43	\$62.32	264.3
	IV	\$40.78	\$54.74	261.3
2001	I	\$42.83	\$57.49	262.5
	II	\$52.05	\$69.87	267.0
	III	\$51.05	\$68.52	275.0
	IV	\$37.30	\$50.07	273.0
2002	I	\$39.43	\$52.93	270.9
	II	\$34.99	\$46.97	267.7
	III	\$33.86	\$45.45	264.1
	IV	\$31.34	\$42.07	260.2
2003	I	\$35.38	\$47.49	260.9
	II	\$42.64	\$57.23	262.2
	III	\$42.90	\$57.58	269.8
	IV	\$36.89	\$49.52	270.2
2004	I	\$44.18	\$59.30	269.3
	II	\$54.91	\$73.70	276.8
	III	\$56.58	\$75.95	287.7
	IV	\$54.35	\$72.95	282.8
2005	I	\$52.24	\$70.12	282.9
	II	\$52.09	\$69.92	286.7
	III	\$50.51	\$67.80	282.9
	IV	\$45.54	\$61.13	278.3
2006	I	\$42.63	\$57.22	277.4
	II	\$48.45	\$65.03	278.7
	III	\$51.83	\$69.57	285.8
	IV	\$46.13	\$61.92	281.0
2007	I	\$46.04	\$61.80	280.8
	II <sup>P</sup>	\$52.28	\$70.17	283.3
	III <sup>AC</sup>	\$51.74	\$69.45	
	IV <sup>C</sup>	\$45.42	\$60.97	
2008	I <sup>C</sup>	\$46.66	\$62.63	
	II <sup>C</sup>	\$50.30	\$67.52	

<sup>A</sup> Predicted prices for 2007 (III) forward are made with two equations with the results averaged.

<sup>P</sup> Preliminary

<sup>C</sup> Estimated