Cooperative Extension Service

WEEKLY OUTLOOK

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LARGE WINTER PIG CROP MEANS TROUBLE FOR SUMMER PRICES

The nation's hog breeding herd on March 1 was 2.5 percent above year-ago levels, as producers followed through on expansion plans. The number of hogs for market was reported as 7 percent higher than last year. This was about 2 percentage points higher than anticipated prior to the report. The primary reason for the large market inventory was the record high weaning rate this past winter. Pork supplies for 1992 will be at record high levels of about 17 billion pounds and will keep average live hog prices at midwest terminals near $41 for the yearly average.

Even though the average producer has been operating at a loss for the past six months, the breeding herd continues to expand. This seemingly illogical relationship is due to biological time lags inherent in hog production. The continuing expansion is related to the favorable profitability during 1990 and through September of 1991. The breeding herd inventory reflects profitability conditions about nine months to one year prior. Thus, the breeding herd inventory is not expected to be below year-ago levels until the September 1992 report.

While the nation continues in expansion, variation from region to region has important implications for the industry. States such as Illinois, Indiana, and Missouri began to expand earlier than Iowa. These three states are already seeing some reduction in the size of the breeding herds. Iowa, however, has a herd which is 3 percent larger than last year's herd.

The most dramatic expansion story, however, belongs to North Carolina, where the herd is 36 percent above year-ago levels. For the entire nation the breeding herd is 178,000 head larger than last year, but North Carolina's expansion alone accounts for 125,000 of these animals. Without the North Carolina expansion, the nation's breeding herd would be up 0.8 percent rather than 2.5 percent. A recent visitor to the North Carolina hog production area reported that buildings were still "going up" and that further expansion can be anticipated as those buildings are filled with hogs. In addition, new slaughtering capacity is being built in the state.

North Carolina has passed Missouri as the state with the sixth largest breeding herd. They currently are reported with a breeding herd inventory of 475,000 head and are closing on both Nebraska and Indiana, which have around 540,000 head. There can be little question that this rate of expansion will alter the hog cycle somewhat from historical patterns. The potential for a longer period of losses and larger losses would be the logical conclusions.

Pork supplies in the first quarter of 1992 were surprisingly large -- 10.3 percent above year-ago levels. This was partially due to the very mild winter which allowed market hogs to reach finishing weights more rapidly. The fast pace to market this past winter will likely reduce the spring bulge in marketings. Inventory numbers from the report suggest that April slaughter may be up only 5 percent. Total second quarter pork production will be about 7 percent higher. The large winter pig crop will provide a large summer pork supply, about 10 percent above last summer's supply, and perhaps the lowest summer prices since 1979. By fall and winter, pork supplies should begin to drop modestly below year-previous levels.

The spring price lows should be made by mid-April with a seasonal rally back toward the $45 to $46 level into late May and June. However, as the large winter pig crop comes to market in the summer, prices will likely be pressured lower. By late August and especially September, terminal hog prices may be pushed back down into the higher $30. Fall prices may bottom in October in the mid $30s. Average prices for the last quarter of 1992 and the first quarter of 1993 may be near $40.

For the year, hog producers will likely be operating at a loss except for a period in May, June and July. By late summer and fall it is expected that these losses will have taken their toll on the industry and stimulate the beginning of sow liquidation. The period of sow liquidation is often the lowest price period of the hog cycle. If liquidation does occur this fall, a return to moderate profits would be anticipated by late spring of 1993.

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