



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.

JULY 7, 2003

PORK PRODUCERS MAY LEARN A FORGOTTEN WORD: "PROFITS"

Pork producers can look forward to the next 18 months with some optimism as costs are expected to drop and hog prices remain at least high enough to cover all expenses. This is great news for many producers needing to improve their relationship with their lenders after about 14 months of operating losses.

The improvement will result from lower feed costs and higher hog prices coming from reductions in pork production as a result of breeding herd cut-backs. Costs are expected to drop about \$2 per live hundredweight by this fall due to lower corn and soybean meal prices. Pork supplies are expected to be down an estimated 2 to 3 percent for the remainder of this year.

The breeding herd continues to decline as producers respond to discouraging prices and lack of profits over the past 14 months. The breeding herd on June 1 was estimated by USDA to be down to 5.9 million animals, a reduction of over 4 percent from the same date last year. This is the fourth quarterly report indicating that the breeding herd is declining. Further declines are expected through all of 2003 so that pork supplies will continue to decline through much of 2004.

Most midwestern states have reduced the size of the breeding herds. The decline was led by Missouri, with 11 percent fewer animals in the breeding herd, but closely followed by Iowa and Ohio with an 8 percent reduction. Illinois' herd was down 7 percent, Indiana down 6 percent, and Nebraska was down 5 percent. These six states accounted for a reduction of 225,000 animals in the breeding herd, with the national total down 269,000. The breeding herd increased by 9 percent in Oklahoma, 5 percent in Texas, 4 percent in South Dakota, and 2 percent in Minnesota. Nationally, producers indicated they will farrow 2 percent fewer sows this summer and 1 percent fewer this fall.

Pork supplies should continue to moderate throughout 2003 and into 2004. Pork production is expected to be down 2 percent in the summer and nearly 3 percent in the fall. Pork production during the first-half of 2004 is expected to be down 1 to 2 percent. Hog prices are also likely to be supported by an improving U.S. and world economy over the coming year and by the decline of the U.S. dollar relative to the Canadian dollar. Prices for 51 to 52 percent lean animals on a live weight basis are expected to average in the low to mid-\$40s this summer, before dropping

STATE • COUNTY • LOCAL GROUPS • U.S. DEPARTMENT OF AGRICULTURE COOPERATING

University of Illinois Extension and Purdue University Cooperative Extension Service provide equal opportunities in programs and employment.

to the higher \$30s for a fall quarter average. Prices are anticipated to average near \$40 for the winter and in the low-to-mid \$40s for the spring of 2004.

While a period of large profits cannot be forecast from the current level of herd liquidation, observations from past hog cycles suggest that the ultimate reduction in the herd may be larger and that prices and profits will be greater than is now in view. In cycles observed since 1980, profits reached at least \$10 per live hundredweight in the most profitable quarters. The current "best estimate" of the high price period would be the spring and summer of 2004. To achieve \$10 or greater per live hundredweight margins would require hog prices in the higher \$40s and above. While June 2004 futures are currently reflecting live prices several dollars lower than this, hog producers will likely see profitable hedging opportunities over the next 14 months. Those farrow-to-finish operations considering exit from the industry should focus on completing farrowings in the summer of 2004 and selling the last of the market hogs by the end of 2004.

Issued by Chris Hurt
Extension Economist
Purdue University