

Livestock Price OUTLOOK

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HOG PRODUCERS SHOW LITTLE SIGN OF RETREAT

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Hog producers reported in the latest USDA update that they increased the size of the breeding herd by 1 percent. This means pork production will continue to increase by about 2 percent in 2007, and establish the eighth consecutive year of record pork production. All in all, pork producers seem to have ignored, at least so far, the massive increase in costs.

Production in 2007 is expected to be 21.4 billion pounds, an increase of 1.8 percent over last year's record production. The number of head slaughtered is expected to rise by over 2 percent for the year, but weights are expected to be down about .4 percent due to high feed prices.

Growth in exports is expected to slow this year, but still be up 5 percent. This rate of growth is a considerable slow down from the 75 percent increase in exports in over the three previous years.

Liveweight prices are expected to average near \$48 for 2007. This is slightly higher than the \$47.30 of 2006. The big change, however, is cost of production. In 2006, estimated cost for farrow-to-finish operations was about \$40.40 and this year it is \$47.50. This means the year is expected to be near breakeven for hog producers with almost all the change in producers' bottom lines related to higher

feed costs.

Lean hog futures are expecting higher prices than forecasts by our models, and are providing profitable hedging opportunities for 2007. Producers should seriously consider both covering corn purchases and pricing lean hogs if they can generate an expected profit from doing so. Hedging profits are available at this writing, but lean hog futures prices may also improve somewhat more in the next four to five weeks.

The Numbers

Pork producers in the U.S. say they have continued to increase the size of the breeding herd by about 1 percent. The national breeding herd is 56,000 animals higher than last year on March 1. Most of the increase occurred in the Eastern Corn Belt (ECB) where numbers are up 50,000 head. The increases by state in the ECB are: Illinois 20,000; Indiana 10,000; Michigan 10,000; and Ohio and Wisconsin each 5,000 head. In the Western Corn Belt, Iowa's herd was down 20,000 head, but was offset by a similar increase in Minnesota. The nation's market herd was up by a bit over 1 percent.

Farrowing intentions are down modestly for the spring quarter, but unchanged for the

summer quarter, perhaps finally indicating some slow down in the growth in pig crops. These numbers are shown in more detail in Table 1.

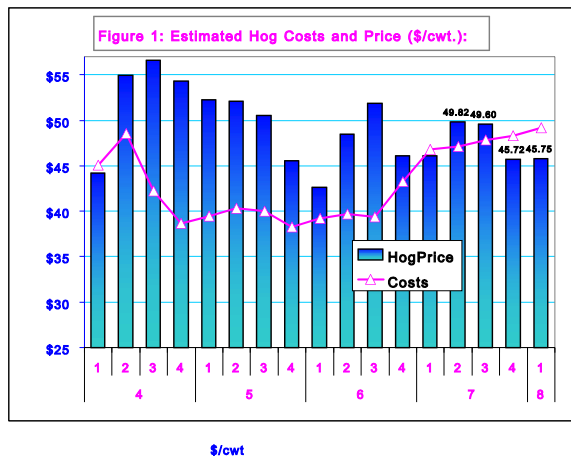
Supplies and Prices

The table at the end of this section shows anticipated supplies and prices by quarter. Pork supplies in the remainder of 2007 are expected to be up about 2 percent, but only 1 percent higher in the first quarter of 2008.

Prices for 51 to 52 percent lean carcasses on a liveweight basis are expected to be near \$50 in the second and third quarter this year and close to \$46 for the last quarter of 2007 and the first quarter of 2008. See Tables 2 through 5 for more details.

Lean Times Coming for Producers?

The break in corn prices after the March 30th *Prospective Plantings* report was welcomed by hog producers, giving them added hope that crop producers could provide enough corn for both fuel and feed for the 2007-08 marketing year. However, one week after the report, anticipated costs of production are still expected to increase from around \$47 per live hundredweight currently to near \$49 by late 2007 and early 2008, see Figure 1.



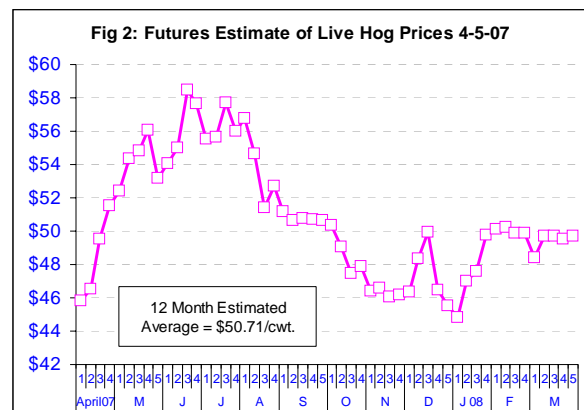
In the one week after the report corn prices dropped sharply, but recovered substantially, while meal prices are little different from their pre-report levels. In addition, while the decline in corn prices for

the nearby corn futures contract was about 20 cents, the decline in the more deferred corn futures have been closer to 5 cents per bushel. After all the excitement of the March 30 reports, estimated costs of hog production are down less than \$.50 per live hundredweight over the coming 12 months.

Depending on how weather affects yield potential, it now appears producers will have a bit of profitability in the second and third quarter this spring and summer, perhaps averaging about a \$2. However, those positive returns will be surrendered in the last quarter of 2007 and first quarter of 2008, when margins are expected to turn to a loss of about \$3 on average as shown in Figure 1.

Lean Hog Futures More Optimistic

Lean hog futures as of the close of trading on April 5, 2007 are more optimistic for the coming year than are my forecasts, Figure 2. These represent the lean hog futures as of the close and the average Eastern Corn Belt basis in the five years from 2002 to 2006. These are based on weekly observations. The horizontal scale represents weeks from April of 2007 through March of 2008.



The average is \$50.71 compared to a forecast of \$47.77 per live hundredweight from my computer models. Futures are about \$3.00 more optimistic than model forecasts.

The *Hogs and Pigs* report released March 30th provided inventory numbers that were

close to expectations. Yet, lean hog futures in the first week after the report rose about \$1.50 per hundredweight. This strength did not seem to be justified on the basis of smaller potential supply numbers coming from the report. The strength in futures seems to have been supported by two factors: one, the start of a major seasonal increase in hog prices and two, the relief pork producers felt from the large potential corn acreage. The ultimate questions will be whether these higher lean hog prices will become reality.

Implications for the Industry

Why haven't producers made more adjustment to the nearly \$7 per live hundredweight higher hog costs? There are a few signs that adjustment is beginning. One sign is that carcass weights were down almost 1 percent in the first quarter of 2007. Weights are expected to continue lower for the rest of the year. Secondly, while the breeding herd is reported to be up 1 percent, the actual rate of sow slaughter has been up about 4 percent since last fall. In addition, farrowing intentions for this spring are down fractionally. Finally, there may not have been enough time to see much reaction yet. Hog producers were in "shell shock" over high corn prices last fall and, like other end users, hoped prices would drop back down.

Producers need to realize that national pork supplies will have to be reduced before the industry will recover back to profitability. So far, the cost increases have been absorbed by reductions in pork producers' bank accounts. Assuming costs are now about \$7 higher, U.S. pork producer returns will be reduced by about \$2.0 billion in 2007 alone.

How will that be recovered? Pork producers will need to cut production and reduce the total supply of pork available. Once these cuts are made, retail and farm level pork and hog prices will recover and the higher feed costs will be transferred to consumers. Alternatively, since pork demand is growing modestly, keeping pork production constant for a period of time will also encourage retail and farm prices to rise.

Current lean hog futures exceed my estimates of hog prices for the coming year by about \$3.00 per live hundredweight. In addition, current futures for lean hogs, corn, and soybean meal would provide a modest level of profit based on our estimates of current costs. Now would be a good time to add to hog margins taken for the year. There is a strong seasonal tendency for lean hog futures prices to rise in April and May. Taking some margins now and waiting to take additional margins on potential improvement in lean hog prices over the next four weeks might be considered.

Everyone has ideas on the future direction of corn prices. But the sell-off in the post-March 30 period may be an opportunity to add to corn feed coverage for the rest of 2007. From here on, it's up to weather and how rapidly the dramatic number of ethanol plants that are under construction come on-line. Volatility will be the key word for the next two months.

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PRODUCTION

Year	Quarter	Percent	
		Production Million#s	Change vs. Year-ago
2004	I	5,130	4.7%
	II	4,897	3.3%
	III	5,046	5.0%
	IV	5,435	-1.2%
	Year	20,508	2.8%
2005	I	5,136	0.1%
	II	5,022	2.6%
	III	4,999	-0.9%
	IV	5,525	1.7%
	Year	20,682	0.8%
2006	I	5,335	3.9%
	II	5,008	-0.3%
	III	5,087	1.8%
	IV	5,625	1.8%
	Year	21,055	1.8%
2007	I	5,397	1.2%
	II	5,088	1.6%
	III	5,219	2.6%
	IV	5,720	1.7%
	Year	21,424	1.8%
2008	I	5,430	0.6%

PRICES

Year	Quarter	Liveweight	
		Price \$/cwt.	Change vs. Year-ago
2004	I	\$44.18	24.9%
	II	\$54.91	28.8%
	III	\$56.58	31.9%
	IV	\$54.35	47.3%
	Year	\$52.51	33.1%
2005	I	\$52.24	18.2%
	II	\$52.09	-5.1%
	III	\$50.51	-10.7%
	IV	\$45.54	-16.2%
	Year	\$50.10	-4.6%
2006	I	\$42.63	-18.4%
	II	\$48.45	-7.0%
	III	\$51.83	2.6%
	IV	\$46.13	1.3%
	Year	\$47.26	-5.7%
2007	I	\$46.11	8.2%
	II	\$49.82	2.8%
	III	\$49.60	-4.3%
	IV	\$45.72	-0.9%
	Year	\$47.81	1.2%
2008	I	\$45.75	-0.8%

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

	2006	2007	2007 as % of 2006
		thousand head	percent
<i>Inventory</i>			
All hogs and pigs	60,326	61,103	101.3
Kept for breeding	6,025	6,081	100.9
Kept for market	54,301	55,022	101.3
<i>Market hogs by weight</i>			
Under 60 pounds	19,988	20,265	101.4
60-119	13,006	13,086	100.6
120-179	11,434	11,423	99.9
180 and over	9,874	10,248	103.8
<i>Sows farrowing</i>			
Sept 06 - Nov 06	2,900	2,912	100.4
Dec 06 - Feb 07	2,840	2,874	101.2
March 07 - May 07 ¹	2,927	2,913	99.5
June 07 - Aug 07 ¹	2,912	2,917	100.2
<i>Pigs saved per litter</i>			
Sept 06 - Nov 06	9.03	9.11	100.9
Dec 06 - Feb 07	9.03	9.08	100.6
<i>Pig crop</i>			
Sept 06 - Nov 06	26,187	26,501	101.2
Dec 06 - Feb 07	25,661	26,084	101.6

¹ Intentions

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

Years	Number of Hogs 60 to 179 Pounds	April-June Commercial Slaughter	Ratio
	-----thousand head-----		
1990	19,811	20,263	102.3
1991	20,351	20,921	102.8
1992	21,645	22,202	102.6
1993	22,479	22,661	100.8
1994	22,620	22,965	101.5
1995	23,092	23,644	102.4
1996	22,075	22,201	100.6
1997	21,485	21,831	101.6
1998	23,565	23,628	100.3
1999	23,894	24,288	101.7
2000	22,961	23,105	100.6
2001	23,222	23,280	100.3
2002	24,086	24,280	100.8
2003	23,554	23,922	101.6
2004	24,159	24,803	102.7
2005	24,447	25,028	102.4
2006	24,440	24,835	101.6
2007	24,509	25,053	102.2 ^b

^a Projected^b Mean of previous 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	Pigs/Litter		Commercial Slaughter	Ratio ^b Slau/PigCrop		
	Sows Farrow	Pig Crop				
	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	2,910	26,501	9.11	2007 ^{ab}	25,674	96.9
	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	2,874	26,084	9.08	2007 ^{ab}	26,562	101.8
	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 ^a	2,913	26,625	9.14	2007 ^{ab}	28,357	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 ^a	2,917	26,720	9.16	2008 ^{ab}	26,814	100.4

^a Estimates

^b 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
1995	I	24,229	185.2	4,488	7.3
	II	23,646	185.8	4,394	3.6
	III	23,264	182.3	4,240	-2.0
	IV	25,198	186.1	4,690	-4.5
1996	I	23,650	185.6	4,389	-2.2
	II	22,201	184.9	4,104	-6.6
	III	22,711	182.4	4,143	-2.3
	IV	23,833	186.7	4,449	-5.1
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 ^p	26,751	201.7	5,397	1.2
	II ^{ac}	25,364	200.6	5,088	1.6
	III ^a	26,562	196.5	5,219	2.6
	IV ^a	28,357	201.7	5,720	1.7
2008	I ^a	26,814	202.5	5,430	0.6

^a Projected

^c Average of the two estimation methods (Table 2 and 3)

^p Preliminary

Table 5. Actual and Forecast Live Hog Prices, Lean Carcass Prices, and Retail Pork Prices^a

Year	Quarter	Barrow and Gilts 6-Mkt Price (\$/cwt)	Lean Value (Live Price/74.5 yield) (\$/carcass cwt)	Retail Pork ¢/carcass cwt
1995	I	\$38.19	\$51.26	191.6
	II	\$38.57	\$51.77	190.2
	III	\$48.32	\$64.86	195.6
	IV	\$42.86	\$57.53	201.8
1996	I	\$45.33	\$60.85	206.3
	II	\$54.84	\$73.61	214.9
	III	\$57.96	\$77.80	230.4
	IV	\$55.10	\$73.96	231.9
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 ^P	\$46.11	\$61.89	280.4
	II ^{AC}	\$49.82	\$66.87	
	III ^C	\$49.60	\$66.58	
	IV ^C	\$45.72	\$61.37	
2008	I ^C	\$45.75	\$61.41	

^A Predicted prices for 2007 (I) forward are made with two equations with the results averaged.

^P Preliminary

^C Estimated