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EXTENSIONWEEK
OUT

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HOG EXPANSION ATTITUDES HAVE CHANGED

“More pork is on the way.” That was the call after the September Hogs and Pigs report that farrowings would be up 1 percent this fall and 3 percent this winter. A September 1 survey of pork producers around the country, markets have been recovering. In August the corn crop was pegged at nearly 10.4 billion bushels, with soybeans approaching 3 billion bushels. These huge crops were going to create transportation problems and new crop basis bids were at sub-basement levels. Central contract prices in August were \$1.45 per bushel with hi-pro meal at \$150 per ton, and this was before the harvest pressure began.

Meanwhile, hog prices were rocking along at \$42 to \$43, with some talking about the potential for a near record high hog-corn ratio by the fall harvest. The huge crop had to go somewhere, and hogs appeared to be a reasonable direction. Given these market signals, it is not surprising that hog producers felt some desire to expand.

Now let's fast forward to today. The monster corn crop was a possibility in early August, but the heat, late season dryness, and lodging problems took care of 315 million bushels of the potential such that the 2000 crop would even lose its status as the largest crop ever. The 3 billion bushel soybean crop vanished also, being trimmed by 212 million bushels itself. As a consequence, the storage shortness was never as severe as anticipated, and corn basis levels and futures both recovered. Bids of \$1.45 a bushel gave way to \$1.90 per bushel and higher. Soybean meal prices rose from \$150 per ton in August to \$175 on the realization of the smaller crop.

What do these higher corn and meal prices mean to the costs of raising hogs? My estimates are that they raised the anticipated costs by about \$3.33 per live hundredweight. But there is more to the story. Hog prices also weakened more than many had anticipated during the late summer. Dropping from the low \$40 in August, hog prices reached their fall lows in the low \$30s in early November. While the fall quarter will still likely average \$37-\$38 per hundredweight, the higher feed costs will make the final quarter of 2000 a near breakeven period.

The profit outlook brightens only marginally into the winter. Higher feed, fuel, and interest costs now all will contribute to higher costs and thus even with slightly higher hog prices there will be near breakeven returns for average cost producers. The ray of hope remains for next spring and early summer when higher hog prices are expected to boost hog prices back into the profit column for a few months before the impacts of rising production hit the market late next summer. The profit outlook changed in a substantial way this fall and producers will likely respond with a

smaller expansion than had previously been anticipated. Unfortunately there may be only small impacts on the size of farrowings this winter. Those were largely being locked in when the September survey was taken. But the size of the expansion “follow through” that was expected next spring and summer is where most of the impact could occur. In fact it was this continuation of expansion that was the most worrisome for building excess supplies in the final quarter of 2001 and early 2002 that had the ability to break the backs of producers once again.

As we look ahead to the December report which will be released on December 28th, it remains likely that the breeding herd will creep marginally above year-earlier levels at unchanged to 1 percent higher. As mentioned earlier, winter farrowings will still likely be up 2 percent to 3 percent, and spring farrowing intentions may be up in the same range instead of up 4 percent to 5 percent as previously anticipated. What this all means is that hog margins will be tighter in the coming year than had been anticipated, but that the loss period in late 2001 and 2002 may not be as difficult as was thought back in August.

Three additional thoughts are in order. First it seems increasingly clear that hog margins are going to be narrow in the future. A continuation of the hog cycle means there will be periods of both positive and negative margins, but the average margin is likely to be small, and the ability to earn that thin positive margin is dependent upon being a highly productive producer.

Second, the total number of sows in the country is sufficient to provide the demand growth in the next few years based upon productivity gains. In essence, no new sows need to be added to the national sow base.

Finally, the eastern corn belt suffered a disproportionate reduction in their breeding herds after the 1998-99 hog depression. Now it appears there will be little opportunity for the region’s producers to strengthen their financial positions, or to rebuild and regain their historic importance in national production.

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