UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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HOG HERD EXPAND[illegible]O CONTRACTING????

The newly instated mo[illegible]*ogs and Pigs* report from USDA continues to provide mixed signals regarding whether the b[illegible]g herd is in expansion. After reporting expanded farrowings in June, reductions were report[illegible]July. As the industry adjusts to having monthly reports, it should be remembered that rever[illegible]monthly data are not unusual and we should not jump to conclusions based on one monthly [illegible]ation. New trends become clear with more data. While it is difficult to say whether the herd is [illegible]ling or contracting from these monthly reports, the general conclusion is that the breeding herd may not be changing very much. Most pork producers appreciate the status quo after a summer of favorable hog prices and much needed profits.

Going back to the quarterly report in June, farrowings in June, July, and August were expected to be up by 1.2 percent. In the monthly reports, June farrowings were up 1.3 percent, but the just reported July farrowings were down 1.5 percent. This means that August farrowings would need to be up by 4 percent to reach the quarterly estimate. This seems unlikely, and leads to the conclusion that summer farrowings may be only slightly larger and that expansion has not really begun.

The monthly reports continue to signal very good weaning rates for the summer. During June and July, the weaning rate was 8.93 pigs per litter. This compares with the record high of 8.88 pigs last spring. The industry is on-track to establish a new record for the summer quarter. The pig crop in June and July was up a modest 0.9 percent and hog slaughter in December and January can be expected to be up a similar amount. With average weights expected to be about 0.7 percent higher, December and January pork supplies may be up only about 1.6 percent.

Summer hog prices exceeded most expectations, with June to August prices averaging about $53 on the live equivalent of lean prices (51 to 52 percent national base lean). This compared with an average of about $49 for the summer of 2000. The strength in prices resulted from surprisingly small pork supplies (down 2.2 percent) and from strong domestic and export demand. Summer hog prices were also supported by tightness in belly inventories and strong belly prices. As an example, 12-14 pound bellies traded at $1.15 per pound in the first half of August, but have collapsed to $.71 per pound in the past week as a result of increased slaughter and the end of the bacon-lettuce-and tomato sandwich season.

Exports were robust in the early summer, however, the Japanese import safeguard was triggered at the beginning of August This means that the minimum price of pork entering Japan was raised to $2.41 per pound. Prices for a number of frozen products had been below this minimum level. The safeguard stays in place for the remainder of the Japanese fiscal year, which will not end until March 31, 2002. The minimum price is likely to change the mix of products shipped to Japan such that containers have higher quality (more expensive) pork cuts. It is likely that the volume of sales to Japan will be down, but it is not obvious that the value will be off sharply as higher quality products are favored.

Pork supplies this fall are expected to be 1 to 2 percent larger than supplies of last fall. Winter supplies are expected to be up by 2 percent and spring supplies up about 3 percent. This pattern reflects a slow expansion of farrowings, a continuation to higher weights, but a slowing in the rate of growth in the number of pigs weaned per litter.

Beef supplies will also be abundant, as large numbers of cattle are coming out of feedlots. The slow growth economy will also temper meat consumption and the Japanese import safeguard will restrict US pork exports. Fall prices are expected to average in the low $40s. Seasonal lows are expected in late October and November near, or slightly below, $40. Winter prices are expected to be a few dollars higher, with spring 2002 prices back into the mid to higher $40s.

For now, hog producers are doing just what they need to do. They are keeping expansion plans on hold and ensuring that any industry expansion is moderate. The fear is that expansion will become more robust in 2002 and drive production sharply higher in late 2002. That is what would be expected based on past hog cycles. On the other hand, industry participants are a much different group today and, so far, they have given signals of expansion moderation.

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