Hog Report Provides Hope For Price Recovery
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Pork producers were on a roll for the first three quarters of 2001 when hog prices averaged nearly $49 per live hundredweight. Then came the final quarter with supplies surging upward over 4% and prices plunging to average only $37. Some of the mystery of that final quarter was solved in the recent December Quarterly Hogs and Pigs report. USDA made upward revisions in the size of the spring 2001 pig crop by 1.3% to account for a portion of the greater supplies. The other factors contributing to the large amount of pork included increased weights by 1.1%, and increased imports of hogs from Canada.

Can hog prices mount a winter rally? The USDA report provides evidence that supplies will moderate and prices recover, however doubts will linger until the actual slaughter rate tapers off. Inventory data from the report says that the number of pigs to be slaughtered in January and February should be down 1%, and that the March through May rate should be unchanged to down slightly. If so, this will likely mean that prices will recover. The alternative view would be that USDA has not registered sufficient expansion in last summer’s farrowings (down 1.8%), and fall farrowings (up only .3%). This is especially true since the spring 2001 farrowings were up 1.3%. If the farrowings were up that much last spring, one might reason they would continue to grow in the summer and fall, and that supplies will thus be larger than indicated by the current inventory numbers. As always, we will only know as actual slaughter is registered this winter and spring.

There are some seemingly mixed messages in the farrowing intentions from the report also. Producers said they will increase farrowings this winter a lively 3.4%, but by only 1.2% in the spring. Again, it is unusual to see the herd in that large of expansion, only to drop the rate of increase this early in the expansion phase.

Canadian live hog imports also contributed to the weaker prices in the final quarter. Over the past three years, the Canadian breeding herd has provided increasing numbers of pigs to the U.S. even in the face of declining sow numbers here. In 2001 we imported about 5.4 million head of hogs from Canada, or 5.5% of our total slaughter. An increasing portion are SEW pigs coordinated with nursery and finishing units in the U.S. About 60% of the imports last year were of younger pigs as compared to market hogs. While exact trade data lags about two months, it is likely than rising Canadian imports played at least some role in the depressed late-year prices. Forecast from USDA are for the number of pigs from Canada to rise another 4% this year to 5.6 million head. Canada provides open spaces for health sensitive farrowing, while the Western Corn Belt provides cheap feed, abundant crop land for spreading hog waste, and strong demand from packers.

During the past year, the breeding herd continued to slip in the Eastern Corn Belt although both Illinois and Michigan maintained the same size herd. Indiana saw an erosion of 8% of their breeding stock, Ohio was down 6%, and Wisconsin’s breeding herd was down 13%. In total these three states lost 55,000 animals from their breeding herds. The largest growth state in numbers was Texas which added 15,000 animals to the breeding herd, and Arizona which added 12,000, as some herds were repopulated there.
Hog farm number continued to drop while the average size of farm grew still larger. The number of farms that had hogs sometime in 2001 decreased an additional 6% to 81,130 farms. Hog farm numbers are now down 52% since 1995, and down 70% since 1990. The number of farms with less than 1,000 hogs in inventory represented 69% of all farms, but only 13.5% of all inventory. Of course the very large farms continue to grow in importance with those having 5,000 or more hogs now representing 52.5% of all the hogs. In 1996 these large farms controlled 33% of the inventory.

Pork supplies for 2002 will be up about 1% if we assume that the USDA report is correct. This would range from down 1% in the first quarter, up 1% in the second and fourth quarters, but up over 4% in the summer time, as a result of the large increase in winter farrowings.

Prices for 2001 were $45.78 on a liveweight basis for 51% to 52% lean animals, and are expected to drop about $3 per live hundredweight in 2002 to somewhat under $43 for an average. Prices are expected to recover to the very low $40s for a first quarter average. A return to reasonable profits is expected for the second quarter with prices in the mid-to-upper $40s. Third quarter prices may fade somewhat with averages for the quarter expected to be in the $42 to $46 range. By the end of 2002, prices may once again dip below costs of production at times, as anticipated prices are expected to be in the $35 to $39 range for an average in the final quarter.

The major questions now are just what is the magnitude of the breeding herd expansion, and were farrowings actually larger last summer and fall than are now being reported? If they are, the price recovery will be less vigorous.

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