

## **Pork Producers May Face Worst Year Ever in 2008**

All you have to say to a pork producer is “1998” and the most jovial fellow will turn red with rage, or drop their shoulders in a feeling of helplessness. Unfortunately, those emotions may be relived as 2008 may replace 1998 as the worst financial year for pork producers in modern history.

The number one culprit is high feed costs and the second is too many hogs. The current unrelenting climb of corn and soybean meal prices potentially will drive 2008 costs to the highest annual level ever in the history of hog production. And, there continues to be more slaughter hogs than accounted for in USDA inventory reports, with no signs of moderation.

First, there are too many unexplained hogs. Estimated slaughter at the beginning of the last quarter of 2007 was about 4.5 percent higher. Actual slaughter was up almost nine percent. Where did the extra hogs come from? USDA increased last spring’s farrowings somewhat, but there were still nearly three percent unexplained slaughter hogs. The great worry is that there may still be several percent more hogs than USDA has counted in their December update.

The December USDA inventory count indicated that slaughter would rise by about four percent for the first five months of the year. If USDA has undercounted, slaughter could be six to seven percent higher. USDA indicated that the breeding herd was up by just one percent and that winter farrowings would rise by two percent and spring farrowings by one percent.

Even more pork in 2008. Pork supplies are expected to expand by three to five percent in each of the first three quarters of the year. By the final quarter, production may be about the same as the final quarter of 2007, but that was way too much pork. Annual production in 2008 will rise by about three percent. This is too much pork to sell at profitable prices.

Live hog prices for 2008 are estimated at \$46.30, down from \$47.10 in 2007. These are based on live weight prices for 51% to 52% lean carcasses. Quarterly prices are expected to average in the very low \$40s in the first quarter of the year, rise to the high \$40s for the second and third quarter and finish the last quarter with mid-\$40s averages. Annual prices for 2008 are expected to be the lowest in five years.

Now to feed costs. Corn and soybean meal futures prices indicate a record high price year. This will mean a record high annual costs for pork producers. Both corn and soybean meal have had higher prices than current levels, but those were spikes that soon moderated.

While live hog prices are expected to average \$46.30 for the year, costs of production are estimated at \$55.60 based on futures prices for corn and soybean meal on January 4, 2008 and adjusted to cash purchase levels. These estimates suggest a loss of about \$9.30 per

hundredweight or near \$25 per head on average for the year. This would exceed the previous worst year in modern history which was 1998 with an estimated loss of \$6.78 per live hundredweight.

Costs prospects for 2008 at \$55.60 are extraordinary. This can be seen when compared to my estimated costs average for the previous ten years (1998 to 2007) which was \$40.64 per live hundredweight. My previous record annual estimated high costs were \$48.93 in 1996.

The largest losses are expected in the first quarter of the year when they could reach \$36 per head and then be around \$20 per head of loss for the rest of the year.

How do we get out of this one? Nothing is going to come easy. Pork producers may want to base their strategies on a "survival mode" for 2008. But remember, if you can get through 2008, hog prices will likely recover in the spring or summer of 2009.

The industry needs to quickly work on demand stimulation. Retail pork prices have continued to move upward. Retailers need to be encouraged to lower pork prices by being reassured that wholesale pork prices will remain low in coming months. Our foreign buyers also need to be encouraged to increase their purchases at this time of low priced wholesale cuts. A special effort needs to move forward with China to resolve issues that may be constraining their purchases.

On the supply side, producers can, and will, cut weights to optimum levels. A re-examination of feed efficiency starting with feeder adjustment should be undertaken. Low feed efficient animals should be rapidly culled. Finally, the breeding herd must be cut, maybe in the range of 3 to 5 percent. That process is likely beginning now and will continue through the first-half of the year.

They say it is always darkest before the dawn, but the dawn will not be in sight until pork producers adjust production downward to better align with this new high costs era.

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

	2006	2007	2007 as % of 2006
		thousand head	percent
<i>Inventory</i>			
All hogs and pigs	62,490	65,110	104.2
Kept for breeding	6,087	6,157	101.1
Kept for market	56,402	58,953	104.5
<i>Market hogs by weight</i>			
Under 60 pounds	20,462	21,364	104.4
60-119	13,928	14,459	103.8
120-179	11,275	11,737	104.1
180 and over	10,738	11,394	106.1
<i>Sows farrowing</i>			
March 07 - May 07	2,927	3,033	103.6
June 07 - Aug 07	2,912	2,993	102.8
Sept 07 - Nov 07	2,949	3,029	102.7
Dec 07 - Feb 08 <sup>1</sup>	2,905	2,976	102.4
March 08 - May 08 <sup>1</sup>	3,033	3,037	100.1
<i>Pigs saved per litter</i>			
March 07 - May 07	9.08	9.20	101.3
June 07 - Aug 07	9.11	9.24	101.4
Sept 07 - Nov 07	9.11	9.24	101.4
<i>Pig crop</i>			
March 07 - May 07	26,580	27,896	105.0
June 07 - Aug 07	26,519	27,646	104.2
Sept 07 - Nov 07	26,857	27,998	104.2

<sup>1</sup> IntentionsTable 2. U.S. Market Hogs Weighing 60 to 179 Pounds on Dec 1 (previous year)<sup>c</sup>, and Commercial Slaughter in Calendar Quarter from January through March

Years <sup>c</sup>	Number of Hogs	Jan-March	Ratio
	60 to 179 Pounds	Commercial Slaughter	
1991	21,847	21,505	98.4
1992	23,351	23,802	101.9
1993	23,266	23,057	99.1
1994	22,871	22,742	99.4
1995	24,028	24,224	100.8
1996	23,510	23,651	100.6
1997	22,402	22,308	99.6
1998	24,507	24,775	101.1
1999	25,216	25,579	101.4
2000	24,180	25,019	103.5
2001	23,779	24,578	103.4
2002	23,668	24,148	102.0
2003	23,908	24,654	103.1
2004	24,347	25,717	105.6
2005	24,625	25,538	103.7
2006	24,817	26,208	105.6
2007	25,203	26,686	105.9
2008 <sup>A</sup>	26,196	27,523	105.1

<sup>a</sup> Projected<sup>b</sup> Mean of previous three years<sup>c</sup> December of previous year

Table 3. U.S. Sow Farrowings and Pig Crop Compared to U.S. Commercial Slaughter (1,000 head) with 7-month Lag 1994 to 2008

Year	Sows Farrow	Pig Crop	Pigs/	Year	Commercial	Ratio <sup>b</sup>
			Litter		Slaughter	Slau/PigCrop
			June-August	January-March		
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	25,538	97.6
2005	2,918	26,449	9.06	2006	26,208	99.1
2006	2,912	26,519	9.11	2007	26,686	100.6
2007	2,993	27,646	9.24	2008 <sup>AB</sup>	27,704	100.2
			September-November	April-June		
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	25,031	96.7
2005	2,900	26,187	9.03	2006	24,839	94.9
2006	2,949	26,857	9.11	2007	25,525	95.0
2007	3,029	27,998	9.24	2008 <sup>AB</sup>	27,246	97.3
			December-February	July-September		
94/95	2,886	23,851	8.27	1995	23,261	97.5
95/96	2,735	23,054	8.43	1996	22,710	98.5
96/97	2,684	23,164	8.63	1997	22,679	97.9
97/98	2,929	25,480	8.70	1998	25,039	98.3
98/99	2,891	25,247	8.73	1999	24,953	98.8
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	25,528	100.7
05/06	2,841	25,662	9.03	2006	25,810	100.6
06/07	2,905	26,396	9.09	2007	26,566	100.6
07/08 <sup>A</sup>	2,976	27,320	9.18	2008 <sup>AB</sup>	27,864	102.0
			March-May	October-December		
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	27,486	105.8
2006	2,927	26,580	9.08	2006	27,880	104.9
2007	3,033	27,896	9.20	2007	30,386	108.9
2008 <sup>A</sup>	3,037	28,153	9.27	2008 <sup>AB</sup>	30,301	107.6

<sup>A</sup> Estimates

<sup>B</sup> 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 1998-2008

Year	Quarter	Commercial Slaughter (1,000 head)	Carcass Weight Per Hog	Pork Production (million #'s)	Percent Change Year-Ago
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	25,538	201.2	5,138	0.2
	II	25,031	200.6	5,021	2.5
	III	25,528	195.9	5,001	-0.9
	IV	27,486	201.0	5,526	1.7
2006	I	26,208	203.6	5,335	3.8
	II	24,839	201.6	5,008	-0.3
	III	25,810	197.1	5,087	1.7
	IV	27,880	201.8	5,625	1.8
2007	I	26,686	202.2	5,396	1.1
	II	25,525	200.9	5,128	2.4
	III	26,566	197.8	5,255	3.3
	IV <sup>P</sup>	30,386	199.8	6,070	7.9
2008	I <sup>A</sup>	27,704	200.1	5,544	2.7
	II <sup>A</sup>	27,246	199.2	5,427	5.8
	III <sup>A</sup>	27,864	194.9	5,431	3.3
	IV <sup>A</sup>	30,301	199.8	6,054	-0.3

<sup>A</sup> Projected

<sup>P</sup> Preliminary

Table 5. Actual and Forecast Live Hog Prices, Lean Carcass Prices, and Retail Pork Prices<sup>a</sup>

Year	Quarter	Barrow and Gilts 6-Mkt Price (\$/cwt)	Lean Value (Live Price/74.5 yield) (\$/carcass cwt)	Retail Pork ¢/carcass cwt
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	\$51.92	\$69.69	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	\$46.04	\$61.80	280.8
	II	\$52.55	\$70.54	286.5
	III	\$50.34	\$67.57	292.4
	IV <sup>P</sup>	\$39.55	\$53.09	287.7
2008	I <sup>C</sup>	\$41.60	\$55.84	
	II <sup>C</sup>	\$48.57	\$65.19	
	III <sup>C</sup>	\$49.43	\$66.35	
	IV <sup>C</sup>	\$45.65	\$61.28	

<sup>A</sup> Predicted prices for 2008 (I) forward are made with two equations with the results averaged.

<sup>P</sup> Preliminary

<sup>C</sup> Estimated

