Pork Industry Heads for Higher Production

July 2007

Chris Hurt

Thank goodness corn prices have now moved lower since pork producers have decided to stay on the course of moderate expansion. Higher pork production will result in somewhat lower hog prices, but anticipated costs of production have dropped sufficiently to offset these lower hog prices.

Price levels for corn and soybean meal remain one of the large uncertainties for the next 12 months. The size of the corn crop will come into better focus over the next several weeks and by mid to late-August for soybeans.

The Numbers

The nation’s breeding herd continued its modest increase in the June report. USDA reported that the breeding herd had expanded by almost one percent. This is now the 10th quarterly report that the breeding herd has been higher as shown in Figure 1. There was no one geographic region that seemed to be seeing more expansion. The slow increase is in keeping with the growth in demand for pork in the domestic and the export market.

Pigs per litter continue to set new records as shown in Table 1. March-May litters averaged 9.15 pigs per litter, a new record. Reflecting a few more sows and higher weaning rates, the market herd number was estimated to be up by 1.8 percent. Producers say they intend to farrow 2.5 percent more sows this summer and then .4 percent more in the September to November quarter.

Supplies and Prices

Some upward revisions in pig crops and larger than expected farrowing intentions for the summer will contribute to somewhat greater pork production than had been anticipated. In addition, corn costs have dropped as of this writing, which if validated, means weights will be higher. This all means that pork supplies will move up somewhat more than had been forecast prior to the report.
Pork production is expected to rise by 3.2 percent over the next four quarters compared to the average of the last four quarters. Some of this increase will be absorbed by higher exports; however, per capita pork availability in the domestic market is still expected to rise by nearly two percent in the coming 12 months.

Competitive meat supplies will play a role in prices of hogs and pork in the coming 12 months as well. Broiler production is expected to rise by 2.5 percent and turkey production by over one percent. However beef production is expected to be down a bit. If corn prices do stay as low as they are in early July, then it is likely that other species will increase production even more. Broilers and turkeys can respond quickly to lower feed prices. Cattle on-feed numbers can also increase along with higher market weights for all species.

Prices of live hogs are expected to average about $48.50 per live hundredweight over the next 12 months based upon 51% to 52% lean carcasses. Prices for the third quarter this summer are expected to average in the $50 to $54 range. Last quarter prices are expected to drop to $43 to $47. Winter prices may improve some to $45 to $49; with second quarter 2008 prices once again back up to $48 to $50.

<table>
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<tr>
<th>PRODUCTION</th>
<th>Percent Change vs. Year-ago</th>
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<th>2005 II</th>
<th>2005 III</th>
<th>2005 IV</th>
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<td>5,525</td>
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<td>-0.9%</td>
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<th>Liveweight Price Change vs. Year-ago</th>
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<th>2005 II</th>
<th>2005 III</th>
<th>2005 IV</th>
<th>Year</th>
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<tr>
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<td>-1.5%</td>
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Estimated Returns Near Breakeven

Near breakeven is the outlook for farrow-to-finish returns over the next 12 months. Breakeven is not so bad because it means all costs are covered including family labor and full depreciation. Even though the hog price outlook has weakened somewhat with the latest inventory report, lower corn price prospects have compensated. Over the next 12 months, we are estimating a slight profit of about $.50 per hundredweight. However, that will mostly come this summer with estimated profits near $5.00 per hundredweight followed by losses this fall and winter of
about $1 to $2, and near breakeven next spring. Corn and soybean meal prices could still be dynamic over the next few weeks until the size of this summer’s crops become clearer. Each $1 change in corn prices impact national hog production costs roughly $5 per live hundredweight.

The estimated corn breakeven prices over the next year given current futures price estimates for soybean meal are $4.18 per bushel this summer, followed by $2.85 in the fourth quarter and then $3.06 and $3.77 for the first two quarters of 2008.

Even with wide swings in anticipated feed prices, pork producers have maintained a steady hand on the reins. They have continued a modest expansion to supply a growing world demand for their pork products in the face of greater financial risks and uncertainties to themselves.

**Implication for the Industry**

The industry has just experienced large shifts in the price prospects of primary feed ingredients. Yet, the industry has stayed on the same course. This is a reflection of the greater stability of the production sector today, and to the commitment pork producers have to their product. While profits are expected to be negative this fall and winter, we cannot foresee a period of losses that would result in a liquidation of the breeding herd.

The odds seem to favor continued wide swings in feed ingredient prices. This means that price risk management on feed purchasing takes on added significance. It is likely that feed prices may add nearly as much to financial risks in the future as hog price uncertainty.
### Table 1. Hogs and Pigs in the United States, June 1

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<tr>
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<th>2006</th>
<th>2007</th>
<th>2007 as % of 2006</th>
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<td>thousand head</td>
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<tr>
<td><strong>Inventory</strong></td>
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<tr>
<td>All hogs and pigs</td>
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<td>62,750</td>
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<td>Kept for breeding</td>
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<td>6,116</td>
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<tr>
<td>Kept for market</td>
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<tr>
<td>Under 60 pounds</td>
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<td>60-119</td>
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<td>120-179</td>
<td>11,485</td>
<td>11,624</td>
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<tr>
<td>180 and over</td>
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<td>9,934</td>
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<tr>
<td><strong>Sows farrowing</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Dec 06 - Feb 07</td>
<td>2,840</td>
<td>2,885</td>
<td>101.6</td>
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<tr>
<td>March 07 - May 07</td>
<td>2,927</td>
<td>2,966</td>
<td>101.3</td>
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<td>June 07 - Aug 07</td>
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<td>102.5</td>
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<tr>
<td>Sept 06 - Nov 06</td>
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<td>2,960</td>
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<tr>
<td><strong>Pigs saved per litter</strong></td>
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<td></td>
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<tr>
<td>Sept 06 - Nov 06</td>
<td>9.03</td>
<td>9.11</td>
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<td>Dec 06 - Feb 07</td>
<td>9.03</td>
<td>9.09</td>
<td>100.7</td>
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<td>March 07 - May 07</td>
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<td><strong>Pig crop</strong></td>
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<td>Sept 06 - Nov 06</td>
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<td>Dec 06 - Feb 07</td>
<td>25,661</td>
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<td>March 07 - May 07</td>
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<td>27,141</td>
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1 Intentions

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

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<thead>
<tr>
<th>Year</th>
<th>Hogs 60-179 Pounds</th>
<th>July-Sept Slaughter</th>
<th>Ratio</th>
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<td></td>
<td>thousand head</td>
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<tr>
<td>1990</td>
<td>20,253</td>
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<tr>
<td>1991</td>
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<tr>
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<tr>
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<td>24,519</td>
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<tr>
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<td>25,177</td>
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<td>2007</td>
<td>25,518</td>
<td>26,443</td>
<td>103.6&lt;sup&gt;b&lt;/sup&gt;</td>
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<sup>a</sup> Projected

<sup>b</sup> Mean of past three years
<table>
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<tr>
<th>Year (93/94)</th>
<th>Sows Farrow (1,000 head)</th>
<th>Pig Crop (1,000 head)</th>
<th>Pigs/Commercial Ratio</th>
<th>Year (93/94)</th>
<th>Slaughter (1,000 head)</th>
<th>Slau/PigCrop</th>
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<td>July-September</td>
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<th>January-March</th>
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*a* Estimates

*b* Last entry is the mean of previous three years including Canadian live imports (not shown).
<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>Commercial Slaughter (1,000 head)</th>
<th>Carcass Weight Per Hog</th>
<th>Pork Production (million #s)</th>
<th>Percent Change Year-Ago</th>
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<sup>a</sup> Predicted prices for 2007 (III) forward are made with two equations with the results averaged.

<sup>p</sup> Preliminary

<sup>c</sup> Estimated