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HOG PRICES RIDE CREST OF STRONG EXPORTS

Where have these strong hog prices come from? In the first quarter of the year, pork production has been up two percent yet prices have been up by a remarkable 25 percent. The obvious conclusion is that demand is substantially better this year. The most logical explanation would rest with outstanding export shipments as a result of the sharply restricted beef exports due to BSE and reduced broiler exports since February due to bird flu.

Given the anticipation for record large pork supplies this year, hog prices may be riding a crest that cannot be maintained. Production for this year is now estimated at 20.3 billion pounds, an increase of about one percent over last year’s record. Slaughter supplies will be above year-previous levels this spring and summer. Higher slaughter supplies will be driven by the three percent larger supply of pigs that weighed less than 120 pounds on March 1, according to the Hogs and Pigs report just released by USDA.

The second factor driving higher slaughter numbers is the growing number of pigs from Canada. In the first 11 weeks of the year, through March 13, there were about 1.9 million hogs imported from Canada, counting both young pigs and slaughter animals. This is a 50 percent increase from imports during the same weeks last year. Canadian imports now represent nearly ten percent of U.S. slaughter.

There remains some chance that pork supplies will drop modestly late in 2004 and early 2005 as U.S. producers indicate they intend to farrow one percent fewer sows this spring and 2 percent fewer this summer. However, if Canadian supplies remain at current levels, these reductions may not show up as reduced pork production.

The farrowing reductions will be the largest in states that have cut the size of their breeding herds. These include: Missouri (-8 percent), Indiana (-6 percent), Nebraska (-5 percent), and Iowa and Illinois (-2 percent). Kansas has expanded the herd over the past year by 6 percent and Oklahoma has expanded by 3 percent. For the entire country, the breeding herd is down 2 percent. However, Canadian producers have about 3 percent more sows and are demonstrating a strong desire to move many of these pigs to the U.S.
Price forecasts for the coming 12 month period are complicated by the uncertainty over trade issues, including the opening of the Mexican and Canadian borders to beef trade, as well as live animal movement, and by the question of when broiler exports will be renewed. This uncertainty means that price forecasts are made with reduced confidence. Second quarter prices are expected to average in the $45 to $49 range for 51 to 52 percent lean carcasses on a liveweight basis. The highest prices for the year could occur in the April or May time period, while broiler and beef exports are still restricted. Summer quarter prices are forecast in the $43 to $47 range and fall quarter prices are forecast in the $36 to $40 area. By the first quarter of 2005, prices are expected to be in the $40 to $44 range. Hog prices are expected to average $41 to $45 over the next 12 months.

Current futures prices for corn and soybean meal suggest that costs will exceed anticipated hog prices. Costs are estimated at near $47 per live hundredweight this spring and summer and $44 this fall. Losses would average about $2.00 per live hundredweight over the next 12 months, with some positive returns this spring and early summer and the largest losses of nearly $6 per live hundredweight coming in the fall of 2004.

Lean hog futures prices on March 29 averaged about $46.50 for the live equivalent price over the coming 12 months. This is about $3.50 higher than the price forecasts made in this report and provide profitable hedging opportunities that will cover all estimated costs of production. Forward pricing or selling lean hog futures as a hedge over the coming year should be strongly considered. It is possible that soybean meal and perhaps corn prices have not yet reached their highs and so price protection on those feed items should also be considered.

Several threats remain for hog producers. The first is that pork exports will not be able to keep hog prices high after this spring. The second is that old crop soybeans may not yet be sufficiently rationed. Finally, any concerns over harmful weather this summer would result in still higher prices for corn and meal.

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