



ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

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HOG MARKETS: SITUATION AND OUTLOOK

Last year was an excellent year for U.S. hog producers. In the face of record large pork production, almost every other factor behind hog prices pulled them higher. Key factors that supported hog prices in 2004 included: 1) very strong domestic and export demand for U.S. pork, 2) quarterly declines in beef production; and 3) rather tight hog packer margins. Looking ahead to calendar year 2005, at least some of those factors are likely to change. But U.S. pork production will likely continue to increase in 2005.

For calendar year 2005, hog prices are expected to average 3 to 5 percent below 2004's. The first few months of 2005 will post strong year-to-year increases in hog prices. The largest year-to-year declines are forecast for the fourth quarter. In 2006, preliminary forecasts are for cyclically lower hog prices.

Review for 2004 – Pork Exports Surge

Commercial hog slaughter in 2004 totaled 103.5 million head. That was 2.5 percent or 2.5 million head larger than a year earlier. For the same period, pork production totaled 20.5 billion pounds, nearly 3 percent larger than 2003's and 7 percent above the prior-five year average.

On a quarterly basis, U.S. hog slaughter and production were record large for the first three quarters, but posted a yearly decline in the fourth quarter. Commercial hog slaughter in the fourth quarter was 1.5 percent below the prior year with production down 64 thousand pounds (a 1.2 percent decline).

Canadian feeder pigs continued to be grown and slaughtered in the U.S. Despite some moderation during the spring and summer quarters of 2004, from January through December U.S. hog imports (feeder and slaughter) totaled nearly 5 million head compared to just under 4 million head for the same period in 2003, a 24 percent increase. Despite smaller weekly imports in December, U.S. imports of Canadian hogs and pigs were record large.

U.S. pork exports surged in 2004, posting all-time record highs. Pork exports, in large part, were supported by limitations on U.S. and Canadian beef exports. A low U.S. dollar may also have supported export levels. U.S. exports of pork in 2004 totaled 2.2 billion pounds (carcass weight basis), 27 percent or 463 million pounds above 2003's. On a monthly basis, pork exports posted the largest year-to-year increase in October at 40 percent above 2003's. As expected, pork exports peaked in November at 216 million pounds (carcass weight basis).

Exports to most of the major trading partners were well above a year ago. Japan remained the largest importer of U.S. pork in 2004, accounting for 42 percent of the market, however the share of U.S. exports to Japan did decline 4 percent from 2003 to 2004. U.S. pork sales to Mexico were astounding in 2004, up nearly 53 percent from the previous year and 71 percent above 2002's. Record large exports of U.S. pork to Mexico, boosted Mexico's share of the market from 20 percent in 2003 to 25 percent in 2004. Among other trading partners, sales on

average to Canada were up 21 percent, while exports to South Korea and Hong Kong were down 11 and 28 percent, respectively.

U.S. imports of pork products unlike exports were below a year earlier in 2004, down 7.2 percent from 2003's, but 11 percent above the prior five-year average. On a monthly basis, pork imports were below the prior year with the exception of August. Imports of pork from Canada were down about 9 percent, while imports from both the Netherlands and Poland were above 2003's. One reason for lower pork imports in 2004 was more hogs from Canada were being processed in the U.S compared to earlier years.

Despite the record production of pork in the U.S. market in 2004, the supply of pork available per person in the U.S. was below a year ago. In 2004, the consumption of pork per person was down 1 percent from 2003's. The year-to-year decline was caused by the surge in pork exports and a decline in pork imports. In fact, the supply per capita of pork in the fourth quarter was 13.3 pounds per person (retail weight) versus 14.1 pounds per person in 2003. That was a 6.2 percent year-to-year decline, which is very large by historical standards.

Despite another record large increase in the supply of slaughter hogs in 2004, hog prices remained surprisingly strong and were the highest reported since 1982 (\$74.38 per cwt.). Slaughter hog and pork prices during 2004 benefited from robust demand (domestic and foreign). The national weighted average barrow and gilt base price for 2004 averaged \$67.53 per cwt. (carcass basis) compared to \$52.82 per cwt. in 2003, a 29 percent year-to-year price upswing. In late 2004, the small domestic pork supply (especially on a per capita basis) greatly mitigated the seasonal decline in hog prices. In terms of profitability, U.S. hog producers had a very good 2004.

Wholesale prices for pork were also very strong in 2004, due in large part to strong foreign demand. In 2004, the pork cutout averaged a record value of \$73.51 per cwt. compared to \$58.80 per cwt. in 2003. That represented a gain of \$14.71 per cwt. or 25 percent above 2003's. On a weekly basis, the cutout peaked at \$86.62 per cwt. in mid-May. The ham was an extremely popular export item to Mexico in 2004, which further supported wholesale pork prices. All of the primal pork cuts averaged well above 2003's with the picnic up 48 percent followed by the ham at 40 percent, and the butt at 35 percent. Typically the belly is the key primal supporting the pork cutout, however in 2004 the belly posted the smallest yearly increase at 15 percent above 2003's. Still, as in 2003, pork packer margins were thigh by historical standards, especially in the fourth quarter of 2004.

Outlook for 2005

U.S. commercial slaughter hog numbers will continue to post modest year-to-year increases in 2005. Average hog weights are expected to increase by the normal trend, thus production will once again post an annual increase. Two key questions surround the hog and pork industry in 2005: 1) will the demand for U.S. pork by foreign markets and U.S. consumers remain as robust in 2005 as observed in 2004; and 2) how much will producers ramp-up hog numbers in response to high prices in 2004 and early 2005.

In 2005, forecasts are for a modest increase in commercial hog slaughter in response to a larger domestic hog numbers and a modest yearly increase in the number of feeder pig and slaughter hog imports from Canada. Hog slaughter in the first quarter of 2005 is forecasted to be 0.5 to 1 percent below the prior year, but then slaughter will likely increase for the remainder of the year. Commercial slaughter for the remaining three quarters is expected to range 1.5 to 2 percent larger than 2004's. For the year, commercial hog slaughter is forecast at a modest one percent yearly increase from 2004's.

As of January 1, 2005, Statistics Canada reported the total number of hogs and pigs on Canadian farms just barely (less than one-half percent) above 2004's. According to the inventory report, the number of breeding hogs was 2 percent larger than 2003's, which coincides with the modest expansion seen in previous reports. The increased breeding herd and improved breeding efficiency resulted in farrowings up 4 percent from 2004's. So, a larger

supply of feeder pigs and slaughter hogs will be available for export to the U.S. However, at the onset of 2005, feeder pig and slaughter hog imports were down 14 and 15 percent from 2004's. Recent expansion in Canadian hog slaughter capacity and the U.S. imposed tariffs on Canadian feeder and slaughter hog imports could result in a smaller number of live hog imports from Canada but a larger amount of imported pork in early 2005. But, as 2005 progresses year-to-year increases in U.S. imports of both pork and hogs are currently being forecast.

Average carcass weights will more than likely stay on trend and average around one pound heavier at 199 pounds in 2005. Commercial pork production is forecasted to be up about 1.5 to 2 percent, which would set yet another new record. Production in the first quarter is expected to be slightly below to about even with 2004's due to smaller than anticipated hog slaughter, but then average about 2 percent larger in each of the subsequent quarters

Slaughter hog prices are expected to fade in much of 2005 due to: 1) larger supplies; 2) increased margins for packers and retailers; and 3) some modest retrenchment in foreign demand as markets re-open and improve for beef and poultry. Compared to a year earlier, slaughter hog prices in 2005 are not expected to decline in the first quarter, but will tend to weaken especially in the second half of the year.

In the first quarter, the national weighted average barrow and gilt price is expected to average 13 to 14 percent above 2003's but then decline year-to-year about 1 to 2 percent in the second. Still for the second quarter most hogs will likely bring well over \$70 per cwt. on a carcass basis. Slaughter hog prices will more than likely decline further in the second half of 2005, yearly declines of 10 percent may be common. In 2005, the national weighted average barrow and gilt price is projected to average about 3 to 4 percent below 2004's.

Despite modest weakness in barrow and gilt prices in 2005, hog prices will remain favorable relative to hog prices prior to 2004's. Producer profitability may erode in 2005 due to weakness in slaughter hog prices, but should remain positive for most producers for at least the first half of the year.

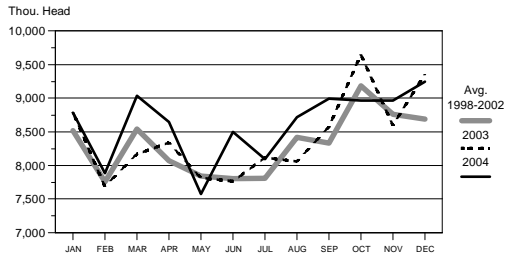
Looking Ahead into 2006

U.S. commercial hog slaughter is once again expected to increase in 2006. Improvement in U.S. breeding hog efficiency coupled with a larger number of feeder pig and slaughter hog imports from Canada will further add to the supply of slaughter hogs in 2006. Commercial hog slaughter is forecast to range 1 to 2 percent above 2005's. Hog weights should adhere to the normal yearly trend, posting another increase. Therefore, pork production in 2006 will establish another record tonnage level with the expectation that U.S. commercial pork production will exceed 21 billion pounds for the first time.

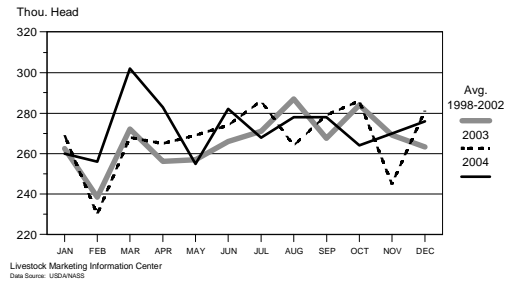
Demand for U.S. pork in the international market will be key to U.S. hog prices in 2006. The resumption of U.S. beef exports may displace some demand for many pork items that served as substitute for beef in the international market since late 2003. In addition, poultry exports are expected to improve in 2005 and 2006, which could also impact foreign sales for U.S. pork.

Record pork production is expected to be supplemented by increased beef and poultry production in 2006. National weighted average barrow and gilt prices are expected to average below 2005's in each quarter of 2006. The greatest year-to-year decline could be in the first quarter of 2006. On a carcass basis, national base barrow and gilt prices are forecast to average in the high \$50's per cwt. to low \$60's per cwt. for calendar year 2006. Net prices (carcass basis) are forecast to average in the low to mid \$60's per cwt. Hog producer returns for 2006 will post a yearly decline in response to lower hog prices.

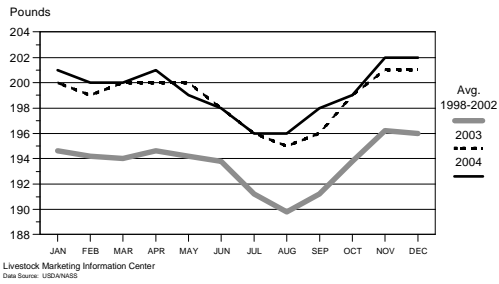
COMMERCIAL HOG SLAUGHTER Monthly



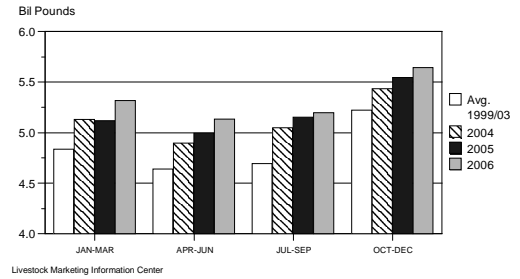
SOW SLAUGHTER Federally Inspected, Monthly



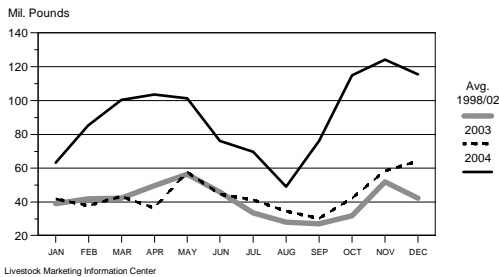
AVERAGE DRESSED WEIGHT - HOGS Federally Inspected, Monthly



COMMERCIAL PORK PRODUCTION Quarterly



U S NET PORK EXPORTS Monthly, Carcass Weight



BASE SLAUGHTER HOG PRICES National, Weighted Average, Carcass, Weekly

