ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

Letter #41 October 4, 2004

HOG MARKETS: SITUATION AND OUTLOOK

This year has been astonishing for the U.S. hog and pork industry and will more than likely be remembered as the year that traditional market fundamentals could not fully explain hog prices. This year has been characterized by the following key factors 1) record large hog slaughter and pork production, 2) extremely strong domestic and export demand for U.S. pork, 3) tremendously high prices in both the cash and wholesale markets, and 4) very strong producer profits.

Review and Outlook for 2004

Commercial hog slaughter for the first half of 2004 totaled 50.5 million head. That was 4 percent or 1.9 million head larger than the respective period a year ago. For the same period, production totaled 9.6 billion pounds, 4 percent larger than 2003's and 7 percent above the prior-five year average.

Commercial slaughter for July and August was up almost 4 percent above a year ago with hog slaughter in the third quarter coming in larger than anticipated due to the mild summer temperatures throughout the major hog finishing areas. For the summer quarter, commercial hog slaughter is projected to be nearly 3.5 percent above 2003's.

Hog weights for the first eight months of 2004 averaged 199 pounds, just a tad above a year ago. Commercial production for the summer quarter is projected to be about 4 percent larger than 2003's and nearly 7 percent larger than the prior five-year average. Commercial hog slaughter and production have been record large each quarter this year and is projected to set another astounding number in the fourth quarter. For the year, commercial hog slaughter is expected to average 3 percent above 2003's, with production up nearly 3.5 percent.

Canadian imports of feeder pigs have contributed to above year ago U.S. hog slaughter. The number of feeder pigs and slaughter hogs exported from Canada to the U.S. has continued to increase. For the first seven months of 2004, U.S. hog imports (feeder and slaughter) totaled close to 5 million head compared to 3.9 million head for the same period last year, a 28 percent increase. Imports of feeder pigs (under 110 pounds) totaled 3.4 million or 21 percent above a year ago. Year-to-year increases in U.S. hog and pig imports from Canada did moderate some in the second quarter and appear to have eased in the third quarter as well. Nevertheless, small year-to-year increases are likely for the balance of 2004 and for the calendar year U.S. imports of hogs and pigs from Canada will set another record.

The U.S. continues to be a net exporter of pork products on a meat tonnage basis. Throughout the first seven months of 2004 (latest data available), U.S. pork exports were extremely large; posting all-time record highs supported by limitations on U.S. and Canadian beef exports. U.S. exports of pork for the January through July period, totaled 1.2 million pounds (carcass weight basis), 24 percent or 239 thousand pounds above the respective period in 2003. Exports to most major trading partners have been well above a year ago with sales on average to Canada up 28 percent, Mexico at 71 percent and Japan 6.3 percent. U.S. imports of pork products unlike exports have been below a year ago, down 8.5 percent over the respective period in 2003. One reason for lower pork imports is that more hogs from Canada that are being processed in the U.S.

Despite the larger than anticipated year-to-year increase in the supply of slaughter hogs this year, hog prices have remained surprisingly strong. Slaughter hog and pork prices have benefited from both strong foreign demand and pork has been a substitute for both beef and poultry in the international market. In addition, domestic pork demand has been robust since late 2003, with mostly attributed to the renewed interest in high protein diets.

The national weighted average base barrow and gilt prices for the first two quarters averaged $64.18 per cwt. (carcass basis) compared to $52.22 per cwt. in 2003. That is nearly 23 percent higher than last year. That price increase came in the face of pork production averaging 3 to 4 percent above 2003's. In July and August hog prices averaged $73.03 per cwt., $15.46 per cwt. or 27 percent higher than last year. For the third quarter, the National weighted average price should average 20 to 21 percent above the respective quarter last year. For the year, slaughter hog prices are expected to average 23 to 24 percent above 2003's. In terms of profitability, U.S. hog producers have a very good 2004.

Wholesale prices for pork have also been strong this year. The cutout value for January through August averaged $73.11 per cwt. compared to $ 58.75 per cwt. last year. That represents a gain of $14.36 per cwt. or 24 percent. Typically, the belly is the key primal supporting the hog cutout value. However, this year all of the primal cuts have averaged well above last year. A few key items of note include the picnic (up 43 percent), ham and butt (both up 33 percent), and the rib (up 23 percent). The ham has been a popular export item this year particularly to Mexico.

Quarterly Hogs and Pigs Report

On Friday, September 24th, USDA-NASS released the September 1 Quarterly Hogs and Pigs Report. That report was expected to show a larger than previously reported inventory number and was esteemed by many analysts as a key report in predicting slaughter, production, and prices for the remainder of the year and next year 2005. According to the report, the U.S. September 1 inventory or hogs and pigs was 61.4 million head, 1 percent above a year earlier and just slightly above the average industry estimate. As expected, the number of market hogs in the U.S. was above a year ago as evidenced by much larger than anticipated slaughter rates this summer. The U.S. breeding herd also reported a yearly increase of one percent or 65 thousand head larger than last year.

Unlike the last two quarterly reports, USDA reported the U.S. breeding herd at 5.98 million head was one percent above last year, but below the 2002's by the same percentage. As expected, USDA made revisions to the inventory and pig crop, only the adjustments were smaller than expected being less than one-half of one percent. The number of sows farrowing was one percent larger with the June through August pig crop at 26.01 million head, up one percent from 2003. The sow productivity continued to improve over last year with 9.0 average pigs per liter compared to 8.90 last year. Producers intend to farrow slightly more sows this fall and into next year. The above year ago herd numbers coupled with above year ago farrowing intentions suggests herd expansion has begun in some areas of the U.S. and larger hog slaughter in 2005.

USDA reported the number of market hogs at 54.2 million head, just about one percent or 459 thousand head larger than 2003's. According to the report the number of lightweight feeder pigs (60 pounds and under) was up about one percent from last year, while the middleweight feeder pigs were down about a percent. The number of hogs in the heavyweight category (180 pounds and over) was up 5 percent from last year, but only 1 percent above 2002's. These figures coupled with recent slaughter data confirm many hogs to be marketed in the fourth quarter were pulled ahead as mild summer temperatures enhanced production efficiency.

Outlook for 2005

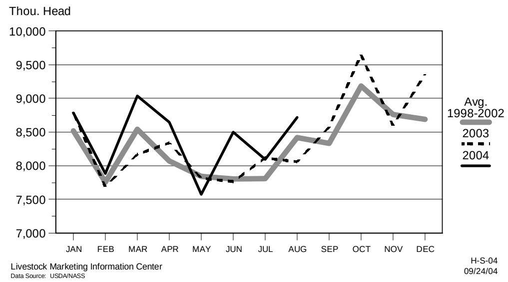
Slaughter hog numbers will continue to post year-to-year increases in 2005. Strong demand for U.S. pork from the foreign market combined with steady domestic demand should help support prices in 2005.

In addition to larger domestic hog production, continued increases in the number of feeder pig imports from Canada, will also contribute to larger slaughter numbers next year. Hog slaughter in first half of 2005 is forecast to average about 1 to 2 percent above 2004's. Average carcass weights will more than likely stay on trend and average around one pound heavier in 2005. Commercial pork production is forecasted to be up about 2 percent, which would be a new record.

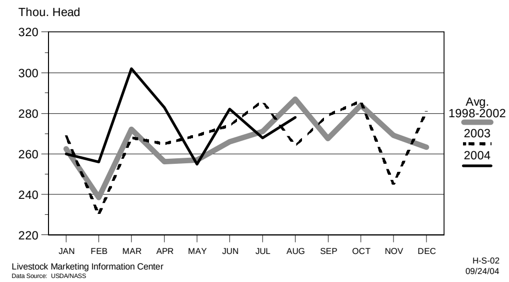
Unlike this year, slaughter hog prices are expected to fade in 2005 due to: 1) larger supplies; 2) increased margins for packers and maybe retailers; and 3) some modest weakness in foreign demand and possibly even in the domestic market. Much of the decline in slaughter hog prices will be in the second and third quarters of 2005. The national weighted average barrow and gilt price for 2005 is expected to average about 9 to 15 percent below the strong prices of 2004. Producer profitability may post a year-to-year decline in 2005 due to weakness in slaughter hog prices, but should remain positive for most producers for at least the first three quarters of the year.

Detailed hog forecasts are available to LMIC members on website (www.lmic.info) and are summarized in Tables option (table 7.100). Note that there is one less slaughter day in the fourth quarter of 2005 versus 2004, which impacts year-to-year slaughter and production comparisons.

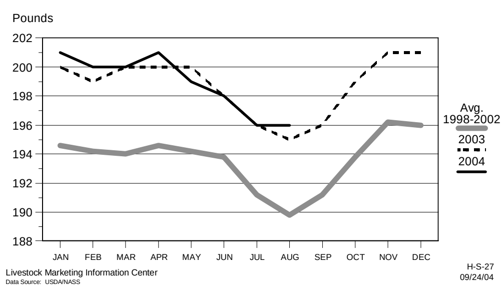
COMMERCIAL HOG SLAUGHTER
Monthly



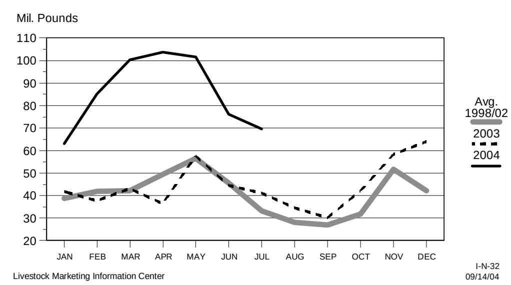
SOW SLAUGHTER
Federally Inspected, Monthly



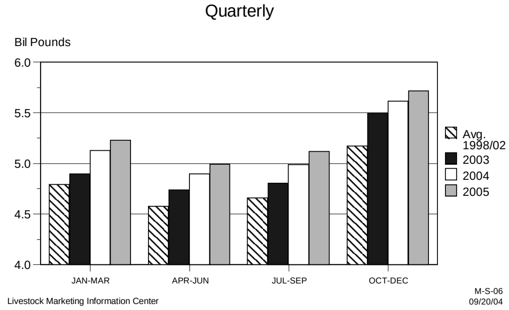
AVERAGE DRESSED WEIGHT - HOGS
Federally Inspected, Monthly



U S NET PORK EXPORTS
Monthly, Carcass Weight



COMMERCIAL PORK PRODUCTION
Quarterly



SEPTEMBER 1 ALL HOGS AND PIGS
U S Inventory, (Prior to 1988 Estimated)