If Producers Respond To Losses, Pork Production Likely Will Drop

hog outlook

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Over the years, hog producers reduced production on average 15-16 months after they started losing money. According to data from Iowa State University, the average cost producer started losing money on hogs in October. If producers respond as quickly to losses as they have in the past, pork production will likely drop below year earlier levels in the first quarter of 2009.

However, hog producers who forward priced hogs using a contract tied to the futures market made money in October and only lost $1.55 per head in November and $4.89 per head in December. About 15 percent of the hogs produced by independent producers used a contract tied to the futures market in December. Some producers whose volume we have no way of measuring used the futures market directly without a packer contract. Therefore, a substantial portion of the producers have not lost very much money in the last three months of 2007.

The price protection with the futures market and the change in the structure of the production segment of the current hog industry may slow the adjustment. Most hog producers now are dedicated to hog production and getting in and out of production is not easy. These two factors may slow the reaction to losses which could keep production at or above year earlier levels through more of 2009 then history would indicate.

Hog producers also are in a very strong financial condition. Hog production was profitable for a record high 35 months ending in December 2006. However, the loss was only $0.60 per head in January 2007 then for February through September the average monthly profit was $12.77 per head based on Iowa State data. In other words, hogs were profitable for 43 out of 44 consecutive months. We believe the odds are relative high for losses on average for most of 2008 and possibly into 2009, unless the industry is again blessed with substantial growth in live hog demand as it was in 2004.

Hog slaughter continues very large and above expectations with slaughter this week above 2.4 million head under Federal Inspection, the second week of record with a slaughter above 2.4 million head.

Pork cutout per cwt of carcass Thursday afternoon at $55-69 per cwt was down $0.60 per cwt from a week earlier. Loins at $71.28 were down $4.32 per cwt, Boston butts at $57.93 were down $4.32 per cwt, hams at $39.45 per cwt, up $2.21 per cwt and bellies at $70.58 per cwt, down $1.17 per cwt from 7 days earlier.

Top live hog prices Friday morning were steady to $2.00 per cwt lower compared to a week earlier. The weighted average negotiated carcass prices Friday morning were down $0.41-0.70 per cwt compared to Friday 7 days earlier.

The top live prices for select markets Friday morning were: Peoria $27.00 per cwt, St. Paul $30.00 per cwt, and interior Missouri $32.00 per cwt.

The weighted average negotiated carcass prices Friday morning were: Western Cornbelt $46.60 per cwt, Eastern Cornbelt $44.23 per cwt, Iowa-Minnesota $46.63 per cwt and nation $45.40 per cwt.

The average live weights of barrows and gilts last week at 271.6 pounds was up 0.5 pound from a week earlier and up 0.6 pound from a year earlier.

There is a possibility that hog slaughter will be increased in coming weeks as producers reduce market weights by pulling marketings forward due to high priced feed and substantial losses.

Slaughter this week under Federal Inspection was estimated at 2444 thousand head up 16.4 percent from a year earlier. Δ