

USDA Pork Production Estimate For 2008 Shows Increase From 2007



GLENN GRIMES AND RON PLAIN
Agricultural Economists • University of Missouri

outlook

Based on a study just completed by the University of Missouri funded by the National Pork Board and University of Missouri, the percent of hogs sold on the spot market in the U.S. increased a little from 2007. The 2008 increase follows an increase in the rate of decline in 2007 from 2006. However, we believe a substantial portion of the decrease was due to the USDA categorizing the hogs sold by farmer-owners of Triumph Foods in Missouri and Meadowbrook farms in Illinois as packer sold hogs. Some of these hogs were probably sold on the spot market. In 2006, the packer sold hogs amounted to 2.6 percent of the hogs reported by USDA. In 2007, the packer sold hogs amounted to 6.7 percent and held at 6.1 percent in 2008.

The spot market amounted to 10.2 percent in 2006, 8.6 percent in 2007 and 9.2 percent in 2008. We believe the number of hogs sold on the spot market is sufficient to represent actual supply and demand conditions and result in a fairly accurate price for hogs to tie marketing contracts to. This belief is based on the fact that packers margin have not indicated that they are purchasing hogs at prices much, if any, below their value based on actual supply and demand conditions.

The Mandatory Price Reports data include percent lean, carcass weights, base price and net price for each marketing arranged type.

The spot market or negotiated price hogs had the second lowest average percent lean and the lightest average weights. The other market formula hogs (contracts tied to the futures markets) had the highest average carcass weights at 209 pounds and the highest base and net prices. The packer-owned hogs had the lowest percent lean. This data was for January 2008.

USDA current estimate of pork production in 2008 shows an increase of 5.4 percent from 2007. This is very close to our current estimate for 2008 production.

USDA current estimate for pork imports in 2008 is for a decrease of 4.4 percent from 2007.

However, the current USDA estimate is for pork exports to increase again in 2008 by 15.8 percent from 2007. If this occurs, it will be the 17th consecutive year for record high exports.

With pork production in 2008 likely to be up between five and six percent, we expect live hog prices negotiated in Iowa to average between \$41-44 per cwt. The lean hog futures price in mid-week was offering a live price in the mid \$50 per cwt for June 2008 through April of 2009. The odds are very high that the demand for live hogs will not grow enough or slaughter decline enough to get close to the prices currently being offered for hogs by the futures market in the coming year.

The pork cutout per cwt of carcass this Thursday afternoon at \$56.79 per cwt was down \$2.31 per cwt from a week earlier. Loins at \$74.99 per cwt down \$0.38 per cwt, Boston butts at \$56.56 per cwt up \$0.33, hams at \$41.32 per cwt down \$5.03 per cwt and bellies at \$66.23 per cwt down \$7.31 per cwt from seven days earlier.

Live hog prices Friday morning were \$1.00 to \$2.25 per cwt lower compared to a week earlier. Weighted average carcass prices Friday morning were \$1.24 to \$2.60 per cwt lower compared to seven days earlier.

The top live prices for select markets Friday morning were: Peoria \$31.00 per cwt, St. Paul \$34.00 per cwt and interior Missouri \$35.75 per cwt. the weighted average negotiated carcass prices were: western Cornbelt \$49.98 per cwt, eastern Cornbelt \$47.02 per cwt, Iowa-Minnesota \$49.53 per cwt and nation \$47.98 per cwt.

The average weight of barrows and gilts in Iowa-Minnesota last week was at 267. pounds up 0.2 pound from a week earlier but down 1.6 pounds for a year earlier.

Slaughter this week at 2269 thousand head up 1.9 percent from a week earlier and up 6.3 percent from a year earlier.

Pork exports in January was a record high for a month up 3 percent from the previous record in November 2007 and up 26.6 percent from January 2007.

Cash feeder pig prices this week at United Tel-O-Auction were a little higher than two weeks ago. 50-60 pound pigs this week were \$81-90 per cwt and 60-70 pounds sold from \$56.81 per cwt. △