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Weekly Outlook: Pork Outlook Brightens

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Finally, pork producers have some positive news that has increased optimism for greater profitability in the coming year. That good news came from USDA in two forms. The first was the September *Hogs and Pigs* report which indicated little change in the size of the breeding herd. The second was the feed price lowering impacts of higher than expected corn inventories revealed in the September *Grain Stocks* report. The combination of stronger hog prices and lower feed prices has put the pork outlook back into solid black for the coming year.

Pork producers have largely settled for the status quo because of the uncertainty over feed prices. As a result, USDA says the breeding herd has expanded only slightly as producers awaited the corn and soybean yield and price outcomes of the troubled 2011 growing season. USDA indicated that the breeding herd has increased just 0.6% over the past year. The expansion is occurring in the traditional hog production states of the Midwest. The breeding herd was up four percent in Missouri and three percent each in Ohio, Indiana, and Nebraska. Iowa's herd was up one percent.

While the breeding herd only increased fractionally, pork production will be up by a larger percentage due to the surging sow productivity. This summer, the number of pigs per litter set a new quarterly record at a bit over 10 pigs. This establishes the possibility that the yearly average will be at 10 pigs or higher for the first time. In contrast, the weaning rate was at just 9 pigs per litter in 2005. This represents an annual productivity growth of about two percent. Pork production for the coming year will be up two to three percent. This will be led by the higher sow productivity and by somewhat higher market weights with lower feed prices.

While pork production will be higher in the next 12 months, hog prices are expected to be higher, led by strong demand. The stronger demand will come from very low levels of beef available in the domestic market and from continued growth in pork exports.

In the last 12 months, live hog prices averaged about \$62 per hundred pounds with a forecast of \$66 for the next 12 month period. Feed costs are expected to be lower over these two periods as well, with lower corn and soybean meal prices. Total feed costs are forecast to be about \$1.75 per hundred lower in the coming 12 months.

The pork profit outlook has improved sharply in recent weeks. Producers had been targeting \$7.00 cash

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corn prices as the profit fulcrum. Corn prices above \$7.00 would throw many into losses and prices below \$7.00 could mean profits. U.S. corn prices are expected to average about \$5.75 per bushel over the next 12 months according to cash price forecasts from corn futures markets on October 3.

Of course these corn prices are well below the \$7.00 fulcrum and turn the profit outlook positive. In the past 12 months estimated profits were about \$5 per head. In the next 12 months that turns to expected profits above \$20 per head, which would be the highest estimated returns since 2006 when corn prices were still low.

Given the profit outlook, will producers shift their thoughts toward expansion? The answer is that their thoughts may be moving in that direction but not their actions. The reason is because uncertainties remain so large. Those uncertainties include concerns about world economic growth and the impacts on pork demand as well as feed prices. When corn prices can change 40 cents in one day, pork producers know the profit outlook can be altered quickly as just witnessed in the month of September. If the current profit outlook holds over the next six months, then further expansion can be expected by the March or June reports in 2012.

Prospects for a return to normal yields in 2012 provide the likelihood for further moderation in corn prices in the fall of 2012. This would also be considered as a positive prospect which would encourage further expansion by mid-and-late 2012.