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Weekly Outlook: Fewer Hogs and Higher Prices

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The nation's pork producers have indicated to USDA that they are not expanding the breeding herd and, in fact, intend to reduce farrowings this spring and summer. This means pork supplies will be somewhat less than had been anticipated and that hog prices will be somewhat higher.

For the USDA's March *Hogs and Pigs* report, pork producers' indicated that the size of the nation's breeding herd was unchanged from the same date one-year earlier. The herd had been in an expansion phase from the last half of 2014 through 2015. That expansion was largely because of record high profits due to baby pig losses from PED. That expansion phase seemingly has now ended.

There is some unevenness in the change in breeding herd numbers over the past year. One constant is that the Southern Plains states have been the most aggressive in adding breeding herd numbers over recent years. For the 16 states that USDA surveys for the March report, the breeding herd is up nine percent in Oklahoma and 10 percent in Texas. Over the past two years, the Southern Plains have led the country in expansion by increasing their breeding herd by 15 percent.

Some of the primary Midwestern states reported a decrease in their breeding herds over the past year. Generally, record corn yields in most western Corn Belt states were not a sufficient reason to increase the breeding herd. Iowa reported their breeding herd as down five percent, Missouri was down four percent, and Minnesota was down two percent. In Indiana, where corn yields were reduced by summer flooding, the breeding herd was down seven percent.

The second most important information from this inventory report is that pork producers intend to reduce the number of sows farrowed by one percent this spring and by three percent this summer. If they follow through on these intentions, pork supplies next fall and winter will be smaller than previously anticipated. Smaller anticipated supplies will likely boost price prospects.

The inventory numbers in this latest inventory report can be used to forecast pork supplies for the remainder of 2016 and the first quarter of 2017. Market hog inventories indicate that pork supplies may be near unchanged in the second and third quarters of this year. Fourth quarter supplies are also expected to be near unchanged, reflecting modestly smaller spring farrowings, but somewhat more pigs per litter.

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For the 2016 calendar year, pork production is expected to be unchanged to up one percent. Pork supplies in the first quarter of 2017 will come from the three percent smaller summer farrowings. However, with more pigs per litter and heavier weights, pork production is expected to be only about one percent smaller.

Live hog prices in 2015 averaged \$50.23 per hundredweight for 51 percent to 52 percent lean carcasses, according to USDA. My current forecast is that prices will be in a range of \$49 to \$54 for all of 2016, about \$1 higher than last year. Live weight prices averaged about \$46 in the first quarter of this year. Prices are expected to rise to the \$55 to \$58 range for averages in the second and third quarters and finish the year in the mid-to-higher \$40s.

Hog prices stand ready to make their normal seasonal rally into the early summer. Current prices in the higher \$40s are expected to move to the higher \$50s or low \$60s by June and July. Strong prices are expected until September when the normal seasonal pattern begins a sharp decline.

Current prospects are for costs of production to be at the lowest level in nine years due to low feed costs. Those costs are estimated to be near \$50 per live hundredweight for the entire year of 2016. This means that this year's outlook is for an average profit of about \$6 per head compared to an estimated \$3 per head of loss for 2015. Losses of \$9 per head are expected in the first quarter and \$6 per head in the final quarter. Profits of \$21 per head are anticipated in the second quarter and \$18 per head in the third quarter.

The pork production industry appears headed for a year in which they will cover all costs and with some modest profits left over. Producers have avoided a bigger build-up in the breeding herd that could have driven the industry back toward losses. For right now, the industry seems to have supply in alignment with pork demand such that prices cover full cost of production. In the future, producers will need to keep expansion of the breeding herd at one percent or less per year.

At this time of year, producers are reminded of the threat of higher feed prices if weather should turn harmful to the growing U.S. crops. Some coverage of new-crop feed supplies should be considered with current price prospects at the lowest level in nine years.