



Weekly Outlook: Pork Outlook Looks Up as Corn Prices Go Down

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Pork producers are maintaining the size of the breeding herd in the face of a very uncertain financial outlook. This cautious position would be expected given the wide swings in both hog and feed prices evident this spring. In addition, little change should be expected in the hog herd until the feed supply situation is better known this fall.past year. North Carolina continued to lead the states reducing their breeding herds. The national breeding herd has declined five percent in the past three years and North Carolina alone accounts for about one-half of that total. The smaller sow herd remains very productive, however, as the number of pigs per litter reached 10 pigs for the first time ever this spring.

This resulted in the number of market hogs being up by nearly one percent over year earlier levels.

Consumers will have to pay record high prices for U.S. pork this year as high feed prices over the past four years are finally getting transmitted to consumers. Retail prices through May this year have averaged a record \$3.35 per pound, which is up 14 percent from the \$2.93 a pound for the same period in 2010. Everyone in the pork marketing channel is sharing as packer gross margins are up 10 percent, retail gross margins are up 14 percent, and producers have received 16 percent higher prices.

Heavily contributing to U.S. pork demand is a record level of pork exports. Numbers through April show a 19 percent increase over the same period in 2010. For the first 4 months of the year, exports represented an amazing 22 percent of all the pork being produced in the U.S. The big export increases this year are heading to Asia, led by South Korea, Japan, Russia, and China. USDA projects that exports for the entire year will be up 15 percent.

There just isn't much pork left for U.S. consumers as supplies per person will be down about three percent in 2011. While it now appears U.S. pork production will rise by about one percent, the large sales to foreign customers mean tight supplies here at home. In addition, per capita beef supplies will drop by about two percent, resulting in less red meat competition.

Pork production in the first-half of 2012 should be up less than one percent as farrowing intentions are down three percent for this summer and down one percent for this fall. Somewhat higher production will come from more pigs per litter and from higher market weights.

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Hog prices set daily records at \$78 per live hundredweight in late June. Moderation is expected from these extremes, with third quarter prices averaging in the mid \$60's. Prices are expected to be in the very low \$60s this winter before moving back to the mid \$60s for the spring and summer of 2012. For 2011, live prices are expected to average a record \$63.50 compared to \$55 last year.

Corn price volatility is a major component of the pork production uncertainty. Corn prices reached their peak on June 9th when Midwest cash prices were commonly \$8.00 or higher in some locations. Declines in corn prices of as much as \$1.50 per bushel after the June 9th highs have dramatically changed the anticipated costs structure for pork producers. Using current corn costs of \$6.50 per bushel this summer and \$5.90 for the fall, costs of production for farrow-to-finish production is about \$63 this summer and \$60 this fall. This means the production sector would have a profit potential of about \$10 per head in the third quarter and \$2 per head in the fall. Some profit would be likely in 2012. Given the current outlook, that profit would average about \$7 per head, but much uncertainty remains.

Will this modest profit potential result in herd expansion? The answer is a clear NO! Pork producers know that corn and soybean yields are not yet assured and that the feed price outlook could still change sharply depending on final yields in the U.S. and the northern hemisphere. For this reason, there will be almost no movement to expand herds until sub-\$6 cash corn prices are assured this fall. At that point, the expansion discussion can begin, which means it would be very late-2012 before pork production could begin to rise.