Near Term Outlook for the Pork Sector

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mates, reported in the November issue of Crop Production, suggest that U.S. corn yields will average 138.4 bushels per acre compared with the 1992 record of 131.4 bushels per acre. The USDA projects that U.S. soybean yields will average 41.5 bushels per acre in 1994, 3.9 bushels above the 1992 record.

**Prices at Harvest**

With record yield levels for the United States, 1994 crop production is expected to be quite large. The USDA estimates that 1994 U.S. corn and soybean production will be 10 billion bushels and 2.5 billion bushels, respectively. Expectations of a large crop have already forced commodity prices significantly lower. With a 10 billion bushel corn crop, the Iowa season average corn price is projected to be in the $1.85 - $1.95 per bushel price range with average harvest period prices in the $1.75 to $1.85 per bushel range. Iowa season average prices for soybeans are expected to fall in the $5.05 to $5.25 per bushel range with average harvest period prices in the $4.85 to $5.00 per bushel range.

**Policy Announcements**

The Secretary of Agriculture is required by law to announce ARP (set-aside) rates before planting season. For wheat, the Secretary must announce a preliminary ARP rate by June 1 of the year prior to the calendar year in which the crop is harvested. The secretary must make any changes in the preliminary ARP rate by July 31 of the year prior to the calendar year in which the crop is harvested. Secretary Espy set the ARP rate for the 1995 wheat crop at 0 percent. The preliminary ARP rates announced on September 30 became final November 15, setting an ARP rate of 7.5 percent for corn and 0 percent for sorghum and barley. The 1990 FACTA set the oats ARP at 0 percent through 1995.

**Near Term Outlook for the Pork Sector**

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The USDA reported in the September issue of Hogs and Pigs that, for the third consecutive quarter, hog inventories throughout the United States were above previous year levels with the largest inventories existing since 1980. The USDA estimated that total hog inventories as of September 1 were 4 percent above the same time last year. In previous quarters, USDA estimated total hog inventories were 3 percent higher on June 1 and 1 percent higher on March 1 from the same time last year. Not only have market
hog inventories increased, but the breeding herd inventory continues to expand, further increasing potential production and keeping prices low. Breeding herd inventories for September were estimated to be 4 percent above 1993 levels with farrowing intentions for December through February up 5 percent from the same period last year. If producers follow through with their stated intentions, the increased supply of hogs will continue as the hogs from those farrowings come to market in the third quarter of 1995.

This raises the question, "Will hog production continue to expand?" In the past, producers have ridden out 12 months of losses before a breeding herd liquidation begins. ISU Extension's Estimated Returns for Farrowing and Finishing Hogs in Iowa shows producers have been in the red since December 1993. This would suggest that breeding herd liquidation may take place in the first quarter of 1995. But it contradicts the farrowing intentions in the September 1 report for the December to February 1995 period which showed a 4 percent increase. Remembering that this is an intention stated before having experienced 12 months of losses suggests the possibility of a downward revision in farrowing intentions in the December 1 report. Even with a downward revision in farrowing intentions, supplies will remain above the previous year levels until at least the end of the third quarter of 1995.

Iowa has not been contributing to the recent surge in pork production. This raises the concern of whether or not Iowa, the nation's largest pork producing state, will hold its market share in pork production. The September 1, 1994 report shows that the breeding herd remained constant from a year ago while the whole U.S. breeding herd increased by 4 percent. Iowa's share of the U.S. breeding herd has fallen from 25 percent in 1992 to 23.3 percent in 1993 to 23 percent in 1994. The decline in share was due to a relatively stable number of market hogs in Iowa, while the United States overall showed a 4.9 percent increase in market hogs on hand from September 1, 1992 to September 1, 1994.

Is this a signal of Iowa's decline as the leader in pork production? In order to answer this question one has to take into account recent events that may explain Iowa's recent market share slip. 1992 was an unprofitable year for Farrow to Finish operations in Iowa. The Extension Service at Iowa State University reported losses in the estimated returns from Iowa farrowing and finishing hog operations for 6 of 12 months in that year, and even profitable months were only marginally so. In 1993, Iowa had to contend with severe flooding, which caused economic hardship and increased feed costs. In addition, structural changes have been occurring in the pork industry with a move toward larger farms. Much of the expansion in the current cycle could be associated with these larger farms. With laws discouraging corporate farming, fewer large hog farms have located in Iowa when compared with surrounding states. However, Iowa continues to have, relative to the rest of the United States, lower feed costs and excess slaughter capacity, giving it a competitive advantage in pork products. The coming recovery may give early indications of Iowa's future place in pork production.

With prices averaging $40 per cwt for the second quarter of 1994, and live hog prices currently falling to below $30, one could speculate that we may already be entering a period of breeding herd liquidation. The most recent sow slaughter for the week ending October 22 showed an increase of 11 percent head in U.S. sow slaughter from the previous year. However, even if this trend would continue for the rest of the quarter, only 84,000 additional sows would be slaughtered over last year, or only 1 percent of the breeding herd based on September inventory numbers. The gilt replacement rate remains unknown.

We can expect prices to remain in the low $30s for the first and possibly second quarters of 1995 with a few dollars per cwt. being added to the farm-level live hog price as the currently high farm-to-retail price margin is distributed between consumers and producers after a 6 to 9 month lag. If the December to February farrowing intentions are revised downward, we are likely to see prices average in the mid to upper $30s through March 1, 1996.

The price recovery will come, but will likely not reach the price levels of past recoveries, and will be at the expense of the marginal producers. The newest large-scale operations, which tend to be low cost producers, are capital intensive and less able to move in and out of production. Therefore we will see a recovery, but under a changed market structure it will likely be less dramatic than the recoveries of previous cycles.