

Livestock

# Pork prices to soften

## Hog Outlook

By JOHN OTTE



RETURNS for U.S. hog producers have been positive for almost three years, and swine inventories have been building slowly but steadily.

Productivity gains — specifically more pigs per litter — are driving much of the inventory expansion. Meanwhile, the breeding herd remains relatively stable at 6.1 million head.

“Hog slaughter in 2007 will reflect larger U.S. domestic hog supplies and move imports of hogs from Canada,” says Shayle Shagam, livestock analyst with USDA’s World Agricultural Outlook Board. “Hog imports in 2006 reached 8.7 million with more than two-thirds of imports being animals weighing less than 110 pounds.”

### Price prospects

In 2006, hog prices — on a national base, 51% to 52% lean, live equivalent — averaged \$47.26 per cwt., down more than 5% from 2005. Shagam expects 2007 prices to average \$45 to \$47.

The Canadian hog inventory and

breeding herd this Jan. 1 were slightly smaller. Producers reported intentions to farrow about the same number of sows in the first half of 2007. Despite these indications of little change in hog numbers, restructuring in the Canadian slaughter sector and relatively favorable exchange rates for U.S. buyers likely will boost imports of Canadian swine to 9 million head in 2007.

U.S. commercial hog slaughter will reach 107.9 million head.

Higher corn prices encourage producers to market hogs as quickly as possible, so weights will be a bit lower. Still, USDA projects 2007 commercial pork production at a record 21.7 billion pounds, up from 2006’s record of 21 billion pounds.

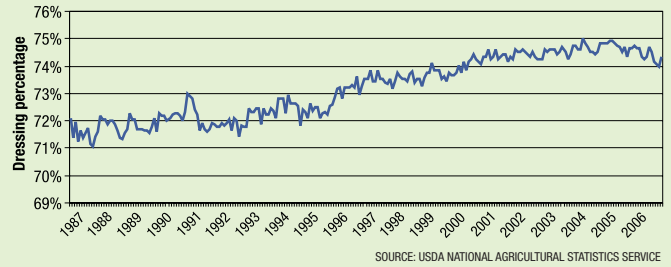
### Exports shine

Pork exports have risen at double-digit rates over the past three years. In 2006, exports to Japan fell, but exports rose to most other destinations — particularly Russia, South Korea and Mexico.

With the support of higher production and lower prices, Shagam expects growth to continue into 2007, reaching about 3.2 billion pounds, 5% above 2006. Pork imports declined more than 3% in 2006 but may rise 2% in 2007.

USDA projects retail pork prices will decline as well, as pork competes for consumers’ dollars.

### Three-year slump in hog dressing percentage continues



# Higher production costs for milk squeeze profits

## Dairy Outlook

By JOHN OTTE

**D**AIRY farmers are getting higher prices in 2007 than in 2006. USDA forecasts the 2007 all-milk price will run in a \$15.55-to-\$16.05-per-cwt. range. That’s up from 2006’s \$12.90. Class III and Class IV prices will likely run \$2.75 to \$3.25 higher than in 2006, as well.

“Unfortunately, producers face continued pressure on profits due to rising production costs,” points out Milton Madison, USDA economist.

He expects milk production to grow 1% to 2% in 2007. That’s near the long-term average growth rate. “The expansion will come from continued growth in output per cow because we expect cow numbers to decline during the year.”

### Product use solid

Madison expects dairy product demand to be strong enough to boost 2007 commercial use above 2006, even at higher dairy product prices. Economic growth should remain robust.

However, energy price shocks or interest rate hikes could force consumers to reallocate their discretionary spending.

Restaurant sales appear firm. People are eating more meals away from home

### Key Points

- Milk prices in 2007 should average \$2.75 to \$3.25 per cwt. higher than last year.
- Higher feed costs will offset higher milk prices, restricting dairy profits.
- Fewer cows but more milk per cow will keep production inching higher.

and more prepared meals, which should benefit the dairy sector.

“We expect commercial use on a fat basis to rise nearly 3% in 2007, which should result in smaller than year-earlier stocks by the end of the year,” says Madison. “Growth of commercial use on a skim solids basis may lag fat basis use a bit. But we expect no sales to the Commodity Credit Corporation.”

Factors Bob Cropp, University of Wisconsin economist, sees supporting milk prices include:

- a smaller rise in milk per cow due to higher corn, hay and soybean prices as well as some feed-quality problems and reduced use of rBST

- a decline in cow numbers by the second half of 2007 as cow slaughter runs higher than a year earlier and the fourth round of Co-operatives Working Together removes cows from the herd

- expected continued good growth in commercial use

“Despite these factors, futures prices offered for milk in early spring may not hold through 2008,” he cautions.

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### 2007 price could parallel 2005 pattern

