

Warning: More Hogs Will Mean More Losses

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The hog industry can't seem to get "back in the black." The spring of 2003 brought great promise as liveweight prices pushed above \$45 for a few weeks in June. Prospects for sharply lower feed costs were taking place at that time as well. But, the events of the summer would not be so kind. The realization of an increasing flow of pork and live hogs from Canada would serve to depress hog prices and the late-summer weather turned negative, resulting in rising soybean meal prices and corn to a lesser degree.

U.S. producers have cut the size of the U.S. breeding herd over the past five quarters by as much as four percent, but this has only reduced pork production by one to two percent. The reasons are threefold. First, sow productivity continues to improve modestly such that the industry is producing more pigs per sow. Second, marketing weights continue to rise such that each pig (and therefore each sow) produces more pounds of pork each year. Finally, even though producers in the U.S. have cut the size of their breeding herd, Canadian producers have been expanding and increased shipments of live pigs to the U.S. by an estimated 1.2 million head in the past two years. These factors have made the U.S. breeding herd reductions nearly futile toward the objective of reducing pork supplies and raising prices back into the black.

Now, USDA is reporting that producers will only reduce farrowings by one percent this fall, and intend to farrow as many sows this winter as last. If they follow through, pork supplies, which will remain one to two percent lower this fall and winter, will begin rising by mid-year 2004. In addition, sow slaughter has been dropping since July, which is a potential early indication that producers may be leaning toward breeding herd expansion.

Farrow-to-finish producers can anticipate some moderate losses this fall and winter, before returning to some moderate profits next spring and summer. Prices on a liveweight basis are expected to average in the mid-to-higher \$30s this fall; \$1 to \$2 better in the winter; and in the low \$40s next spring and summer. With estimated costs being in the \$39 to \$41 range, the outlook for the next 12 months appears to be for near breakeven operating margins.

The Numbers

Hog numbers and pork supplies will be somewhat higher than had previously been anticipated according to latest *Hogs and Pigs* inventory report from USDA. The numbers are shown in Table 1. While the breeding herd remains three percent smaller than last year, farrowings will not be down as much. The summer pig crop was only down by two percent, while fall farrowing intentions are down only one percent, and winter intentions are unchanged. Producers have been reducing their herds as a result of financial losses in the last-half of 2002. The breeding herd has been in a reduction phase since September of 2002 and now totals five consecutive quarters. Normally, one would expect the herd to stay below year-earlier levels for about 6 to 8 quarters.

The breeding herd was lower in most major production states. In percentage terms Indiana had the largest breeding herd decline at nine percent, Iowa's herd was down seven percent, Missouri was down six percent, Ohio down three percent, and Illinois' breeding herd dropped by two percent. Major states with unchanged or increasing numbers included North Carolina as unchanged; Minnesota with a two percent increase in their breeding herd; and Nebraska's herd was up four percent

The market herd was down two percent. Marketing weights will likely be somewhat higher, so total pork production this fall and winter may be down one to two percent. By summer of 2004, supplies are expected to begin to climb once more. More pork is not what hog producers want to see, as prices may still have to be below costs of production for portions of this fall and winter.

The following table shows the magnitude of herd adjustments that have occurred in the U.S. industry since 1990. The first column compares the size of the breeding herd today with the size in September of 1990. You can see at the bottom of the table that the U.S. breeding herd today is 86 percent as large as it was in 1990. However a number of large

	Breeding (Percent)	Total
Ia	61	107
Il	60	68
In	55	67
Mn	102	131
Mo	83	105
Ne	77	71
NC	313	367
Oh	60	70
US	86	107

production states have seen a much larger decline. Iowa, Illinois, Indiana, and Ohio now have breeding herds that are 55 to 61 percent the size they were in 1990. In contrast, Minnesota and North Carolina have increased the sizes of their breeding herds even in the face of a declining U.S. herd.

The second column is the size of the current "total inventory" compared to 1990. Total inventory includes both breeding herd and market herd animals. Most states have a total inventory percentage which is greater than

their breeding herd percentage. This is resulting from two factors. The first is that each animal in the breeding herd is producing more pigs, but secondly that some states are getting a much larger inflow of finishing pigs than other states.

One of the dramatic changes in modern multiple-site production is that pigs are now moved around the country to find the best economic location at each stage of production. In an USDA: ERS study titled "Interstate Livestock Movements" (LDP-M-108-01) it is reported that in 1990, 3.6 million head of pigs were moved in interstate shipment for finishing or breeding. That number increased dramatically to 26.9 million head by 2001. The vast majority of these pigs are moved as SEW pigs for finishing with the top five inshipment states being: Iowa (13.0 million head); Minnesota (4.1 million head); Illinois (1.6 million head); Missouri (1.6 million head); and Indiana (1.3 million head).

The significance of inshipments to Iowa is astounding. In 2001, the state marketed a total of 26.3 million head, and inshipments accounted for 13 million of that total. Or saying this in an alternative way, in-state Iowa producers farrowed about one-half of their hogs

and shipped-in for finishing the other one-half. By 2002, the portion of inshipments to marketings had increased to 53 percent.

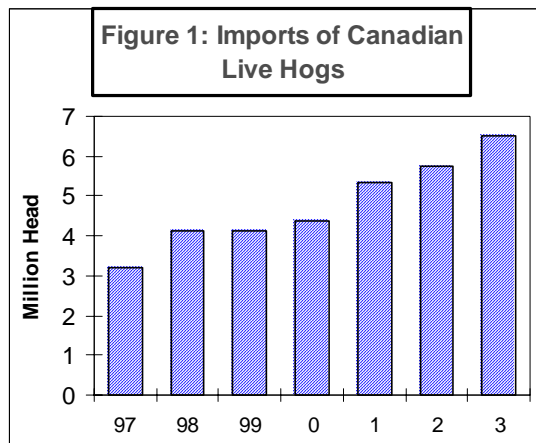
Canadian Impacts

This summers hog prices were lowered due to the increased flow of hogs and pork from Canada. While the border was closed to beef, it was open to hogs and pork. In Canada low retail beef prices stimulated consumers to eat more beef at the expense of pork and other competitive meats. Much of this displaced pork was then shipped to the U.S.

Pork imports from Canada increased in June and July by 14 percent over the same period in 2002. For the period January through July, imports from Canada were up by 16 percent. The added pork imports from Canada compared to last year were an additional .6 percent of U.S. production.

The flow of live hogs continues to increase as well. In the period January through July, total live imports were up by 16 percent, primarily due to a huge increase in young pigs coming to the U.S. for finishing. Slaughter hog numbers from Canada this summer represented about three percent of U.S. slaughter compared to about 1.5 percent earlier in the year.

The sum of added pork imports and added hog imports represented somewhat over two



percent of additional pork in the U.S. market, and thus likely depressed our prices by perhaps \$2 to \$3 per live hundredweight.

Of course the largest Canadian influence is the growing number of young pigs coming for finishing. In the January through July period these totaled 2.8 million head, an increase of 29 percent over last year.

All live imports may reach 6.5 million head this year as shown in Figure 1. This is approximately double the number of live

animals imported in 1997, and will represent about 6.6 percent of total U.S. slaughter.

One factor that should begin to reduce the incentive to ship Canadian hogs to the U.S. is the exchange rate. The Canadian dollar has strengthened by about 15% this year in relation to the U.S. dollar. This means that hogs sold at the same price in the U.S. will bring 15 percent less when the U.S. dollar is converted back to Canadian dollars. However, most of the pigs coming to the U.S. are on long-term contracts. This exchange rate difference will first reduce the incentive to sign new contracts, but will not stem the flow immediately.

Small Supply Reductions Lagging Prices

Pork production in the U.S. is expected to be down about two percent during this fall and winter. Spring supplies are expected to be down about one percent before turning slightly higher next summer. Estimates for supplies and prices are shown below and in Tables 3, 4, and 5.

Marketing weights so far in 2003 have averaged about .5 percent higher than for 2002. This fall, corn prices will be sharply lower than in the fall of 2002, and therefore marketing weights are expected to be nearly one percent higher than last fall. Weights in the winter and through next summer are anticipated to be about .5 percent higher. If

PRODUCTION			Percent
Year	Quarter	Production Million#s	Change vs. Year-ago
2001	I	4,805	-0.4%
	II	4,546	1.5%
	III	4,548	-1.3%
	IV	5,239	4.6%
Year		19,138	1.2%
2002	I	4,779	-0.5%
	II	4,800	5.6%
	III	4,832	6.2%
	IV	5,290	1.0%
Year		19,701	2.9%
2003	I	4,889	2.3%
	II	4,734	-1.4%
	III	4,775	-1.2%
	IV	5,182	-2.0%
Year		19,580	-0.6%
2004	I	4,792	-2.0%
	II	4,676	-1.2%
	III	4,784	0.2%

PRICES			Liveweight	Percent
Year	Quarter	Price \$/cwt.	Change vs. Year-ago	
2001	I	\$42.83	4.1%	
	II	\$52.05	3.2%	
	III	\$51.05	10.0%	
	IV	\$37.30	-8.5%	
		\$45.81	2.5%	
2002	I	\$39.43	-7.9%	
	II	\$34.99	-32.8%	
	III	\$33.86	-33.7%	
	IV	\$31.39	-15.8%	
		\$34.92	-23.8%	
2003	I	\$35.38	-10.3%	
	II	\$42.64	21.9%	
	III	\$41.15	21.5%	
	IV	\$37.80	20.4%	
		\$39.24	12.4%	
2004	I	\$39.60	11.9%	
	II	\$42.06	-1.4%	
	III	\$40.90	-0.6%	

producers follow through on their intentions to keep farrowings unchanged this winter, pork production by next summer will begin to creep above previous year levels. Prices are not expected to be what producers had been hoping for. This fall, liveweight prices are expected to average in the mid-to-higher \$30s and near \$40 for the first quarter of 2004. Additional improvement is expected seasonally into the spring with prices averaging in the low-to-mid \$40s. The current forecast for the summer is for prices to average in the very low \$40s. These prices may be better if the next summer's Canadian hog shipments have moderated.

Costs of production are expected to be in the \$39 to \$41 per live hundredweight range over the coming 12 months. Given the price forecast here, this means farrow-to-finish producers with near average costs may operate with \$1 to \$2 per hundredweight losses this fall and winter and switch to \$1 to \$2 of profits next spring and summer.

Summary and Implications

Some additional financial losses can be expected this fall and winter as hog prices dip below costs of production at times. However, these losses are expected to be relatively modest on average, with margins turning toward the slightly positive side by next spring and summer. The industry has generally operated at a loss for most of 2002 and 2003. The largest estimated losses in this time period were nearly \$8 per hundred in the last quarter of 2002.

At this point, the outlook for the coming 12 months shows little help in restoring weakened financial positions that have resulted from the last two years of average losses. It is further discouraging to see producers indicate they will bring farrowings back to unchanged levels by this winter as the liquidation phase of the hog cycle seems to have been very short and shallow in the past year.

On the positive side, the USDA is allowing some Canadian beef to be imported to the U.S. and growing volumes of beef imports will likely be allowed into the fall and winter. This will enable cattle and beef prices in Canada to rise which will serve to expand Canadian pork consumption and reduce some of the flood of hogs and pork products coming to the U.S. This may enhance U.S. prices in the range of \$1 to \$3 over the coming year.

Feed is another concern particularly the costs of soybean meal. Meal prices tend to bottom in the first-half of October, but may be somewhat later this year due to the late harvest. Booking some portion of meal needs is often a favorable strategy near anticipated harvest lows. The late fall and winter price direction for meal may be highly influenced by South American soybean production prospects. Above normal yields would result in falling meal prices, with below normal production providing the potential for much higher prices.

For corn, yield reports are encouraging and USDA is expected to increase estimated production. Harvest prices tend to reach lows in very late October or early November. Ownership of corn at harvest appears to be a favorable strategy. Futures and basis levels will likely weaken somewhat more into late-October, costs of storage is low given moderate interest rates, and prospects for corn price recovery are high with tight world stocks and a devaluing U.S. dollar.

Table 1. Hogs and Pigs in the United States, September 1, 2003

	2002	2003	2003 as % of 2002
	thousand head		percent
Inventory			
All hogs and pigs	60,725	59,623	98.2
Kept for breeding	6,054	5,882	97.2
Kept for market	54,670	53,741	98.3
Market hogs by weight			
Under 60 pounds	20,070	19,862	99.0
60-119	13,655	13,570	99.4
120-179	11,019	10,848	98.4
180 and over	9,926	9,461	95.3
Sows farrowing			
Mar 03 - May 03	2,943	2,821	95.9
June 03 - Aug 03	2,887	2,826	97.9
Sept 03 - Nov 03 ¹	2,817	2,801	99.4
Dec 03 - Feb 04 ¹	2,767	2,766	100.0
Pigs saved per litter			
Mar 03 - May 03	8.82	8.88	100.7
June 03 - Aug 03	8.90	8.90	100.0
Pig crop			
Mar 03 - May 03	25,959	25,053	96.5
June 03 - Aug 03	25,700	25,150	97.9

¹Intentions

Table 2. U.S. Market Hogs Weighing 60 to 179 Pounds on September 1, and Commercial Slaughter in Calendar Quarter from October to December

	thousand head		percent
1990	22,350	22,628	101.2
1991	23,680	24,367	102.9
1992	24,509	25,138	102.6
1993	22,720	24,573	108.2
1994	25,130	26,322	104.7
1995	24,517	25,198	102.8
1996	23,370	23,833	102.0
1997	24,061	25,152	104.5
1998	25,587	27,584	107.8
1999	24,543	26,723	108.9
2000	23,872	25,714	107.7
2001	24,292	26,465	108.9
2002	24,674	26,714	108.3
2003 ^a	24,418	26,447	108.3 ^b

^a Projected^b Mean of previous three years

Table 3. U.S. Sow Farrowings and Pig Crop Compared to U.S. Commercial Slaughter (1,000 head), with 7-month Lag 1991 to 2004

Year	Sows Farrow	Pig Crop	Ratio	Commercial		
				Year	Slaughter	Ratio
				March-May		
1991	3,287	26,158	7.96	1991	24,367	93.2
1992	3,368	27,208	8.08	1992	25,138	92.4
1993	3,220	26,135	8.12	1993	24,574	94.0
1994	3,390	27,984	8.26	1994	26,322	94.1
1995	3,170	26,373	8.32	1995	25,198	95.5
1996	2,930	24,833	8.48	1996	23,833	96.0
1997	2,911	25,229	8.67	1997	25,152	99.7
1998	3,086	26,989	8.75	1998	27,584	102.2
1999	2,986	26,272	8.80	1999	26,732	101.8
2000	2,885	25,565	8.86	2000	25,714	100.6
2001	2,870	25,509	8.89	2001	26,465	103.7
2002	2,943	25,959	8.82	2002	26,714	102.9
2003 ^a	2,821	25,053	8.88	2003	25,658	102.4 ^b
				June-August		
1991	3,105	24,499	7.89	1992	23,802	97.4
1992	3,020	24,590	8.14	1993	23,057	93.8
1993	2,972	24,041	8.09	1994	22,746	94.6
1994	3,107	25,547	8.22	1995	24,229	94.8
1995	2,976	24,813	8.34	1996	23,650	95.3
1996	2,718	23,244	8.55	1997	22,342	96.1
1997	2,946	25,696	8.72	1998	24,776	96.4
1998	3,054	26,634	8.72	1999	25,571	96.0
1999	2,920	25,862	8.86	2000	25,019	96.7
2000	2,889	25,548	8.84	2001	24,574	96.2
2001	2,878	25,539	8.87	2002	24,139	94.5
2002	2,887	25,700	8.90	2003	24,620	95.8
2003 ^a	2,826	25,150	8.90	2004	24,019	95.5 ^b
				September-November		
1991	2,969	23,427	7.89	1992	22,202	94.8
1992	2,992	24,086	8.05	1993	22,661	94.1
1993	2,982	24,003	8.05	1994	22,965	95.7
1994	2,997	24,517	8.18	1995	23,646	96.5
1995	2,815	23,479	8.34	1996	22,201	94.6
1996	2,731	23,327	8.54	1997	21,834	93.6
1997	2,939	25,494	8.67	1998	23,631	92.7
1998	2,993	25,902	8.66	1999	24,292	93.8
1999	2,844	24,973	8.78	2000	23,107	92.5
2000	2,838	25,112	8.85	2001	23,273	92.7
2001	2,889	25,492	8.82	2002	24,290	95.3
2002	2,817	24,892	8.83	2003	23,890	96.0
2003 ^a	2,801	24,817	8.86	2004	23,488	94.6 ^b
				April-June		
1991	2,892	23,258	8.04	1992	23,746	102.1
1992	2,808	22,871	8.15	1993	22,777	99.6
1993	2,885	23,368	8.10	1994	23,673	101.3
1994	2,886	23,851	8.27	1995	23,264	97.5
1995	2,735	23,054	8.43	1996	22,711	98.5
1996	2,684	23,164	8.63	1997	22,679	97.9
1997	2,929	25,480	8.70	1998	25,038	98.3
1998	2,891	25,247	8.73	1999	24,960	98.9
1999	2,798	24,522	8.76	2000	24,097	98.3
00/01	2,748	23,963	8.72	2001	23,631	98.6
01/02	2,836	24,794	8.74	2002	25,117	101.3
02/03	2,767	24,374	8.81	2003	24,545	100.7
03/04 ^a	2,766	24,396	8.82	2004	24,446	100.2
				October-December		
				January-March		
				July-September		

a Estimates

b Mean of previous three years

Table 4. U.S. Commercial Slaughter, Carcass Weights, and Quarterly Pork Production 1991-2004

Year	Quarter	Commercial Slaughter (1,000 head)	Carcass Weight Per Hog	Pork Production (million #'s)	Percent Change Year-Ago
1991	I	21,508	181.4	3,902	0.0
	II	20,921	181.3	3,792	4.0
	III	21,371	178.8	3,822	5.0
	IV	24,365	182.0	4,434	8.0
1992	I	23,802	181.5	4,321	10.7
	II	22,202	181.7	4,033	6.4
	III	23,746	179.6	4,264	11.6
	IV	25,138	181.7	4,567	3.0
1993	I	23,057	182.5	4,207	-2.6
	II	22,661	183.2	4,151	2.9
	III	22,777	181.7	4,138	-3.0
	IV	24,573	184.5	4,534	-0.7
1994	I	22,746	183.9	4,182	-0.6
	II	22,965	184.6	4,240	2.1
	III	23,673	182.7	4,326	4.5
	IV	26,322	186.6	4,913	8.4
1995	I	24,229	185.2	4,488	7.3
	II	23,646	185.8	4,394	3.6
	III	23,264	182.3	4,240	-2.0
	IV	25,198	186.1	4,690	-4.5
1996	I	23,650	185.6	4,389	-2.2
	II	22,201	184.9	4,104	-6.6
	III	22,711	182.4	4,143	-2.3
	IV	23,833	186.7	4,449	-5.1
1997	I	22,342	187.7	4,194	-4.4
	II	21,834	187.4	4,091	-0.3
	III	22,666	185.0	4,196	1.3
	IV	25,152	189.5	4,766	7.1
1998	I	24,776	189.2	4,688	11.8
	II	23,631	187.5	4,429	8.3
	III	25,038	184.7	4,625	10.2
	IV	27,523	188.9	5,239	9.9
1999	I	25,571	190.3	4,865	3.8
	II	24,292	190.6	4,630	4.5
	III	24,960	187.2	4,672	1.0
	IV	26,732	191.2	5,110	-2.5
2000	I	25,019	192.8	4,824	-0.8
	II	23,107	193.8	4,478	-3.3
	III	24,097	191.1	4,606	-1.4
	IV	25,714	194.8	5,010	-2.0
2001	I	24,574	195.5	4,805	-0.4
	II	23,273	195.3	4,546	1.5
	III	23,631	192.5	4,548	-1.3
	IV	26,465	198.0	5,239	4.6
2002	I	24,139	198.0	4,780	-0.5
	II	24,290	197.5	4,797	5.5
	III	25,117	192.4	4,832	6.2
	IV	26,714	196.7	5,255	0.3
2003	I	24,620	198.6	4,889	2.3
	II	23,890	198.2	4,734	-1.3
	III ^p	24,545	194.5	4,775	-1.2
	IV ^{ac}	26,053	198.9	5,182	-1.4
2004	I ^a	24,019	199.5	4,792	-2.0
	II ^a	23,488	199.1	4,676	-1.2
	III ^a	24,446	195.7	4,784	0.2

a Projected

c Average of the two estimation methods (Table 2 and 3)

p Preliminary

Table 5. Actual and Forecast Hog Prices, Lean Carcass Prices, and Retail Pork Prices^a

Year	Quarter	Barrow and Gilts 6-Mkt Price (\$/cwt)	Lean Value (Live Price/74 yield) (\$/carcass cwt)	Retail Pork ¢/carcass cwt
1991	I	\$51.50	\$69.59	215.2
	II	\$53.34	\$72.08	213.2
	III	\$50.85	\$68.72	214.6
	IV	\$39.84	\$53.84	204.6
1992	I	\$38.68	\$52.27	198.9
	II	\$44.83	\$60.58	195.9
	III	\$43.86	\$59.27	200.6
	IV	\$41.84	\$56.54	197.0
1993	I	\$43.96	\$59.41	194.6
	II	\$46.83	\$63.28	194.3
	III	\$47.49	\$64.18	200.2
	IV	\$43.23	\$58.42	201.3
1994	I	\$45.19	\$61.07	200.8
	II	\$42.44	\$57.35	198.8
	III	\$40.07	\$54.15	199.0
	IV	\$30.56	\$41.30	193.6
1995	I	\$38.19	\$51.61	191.6
	II	\$38.57	\$52.12	190.2
	III	\$48.32	\$65.30	195.6
	IV	\$42.86	\$57.92	201.8
1996	I	\$45.33	\$61.26	206.3
	II	\$54.84	\$74.11	214.9
	III	\$57.96	\$78.32	230.4
	IV	\$55.10	\$74.46	231.9
1997	I	\$51.06	\$69.00	231.0
	II	\$56.41	\$76.23	229.7
	III	\$54.45	\$73.58	234.5
	IV	\$43.69	\$59.04	231.0
1998	I	\$34.74	\$46.95	233.0
	II	\$39.42	\$53.27	226.9
	III	\$33.95	\$45.88	231.0
	IV	\$19.30	\$26.08	226.9
1999	I	\$28.83	\$38.96	235.8
	II	\$35.18	\$47.54	238.4
	III	\$35.70	\$48.24	246.4
	IV	\$36.29	\$49.04	245.2
2000	I	\$41.14	\$55.59	249.8
	II	\$50.43	\$68.15	257.3
	III	\$46.43	\$62.74	264.3
	IV	\$40.78	\$55.11	261.3
2001	I	\$42.83	\$57.88	262.5
	II	\$52.05	\$70.34	267.0
	III	\$51.05	\$68.99	275.0
	IV	\$37.30	\$50.41	273.0
2002	I	\$39.43	\$53.28	270.9
	II	\$35.03	\$47.34	267.7
	III	\$33.86	\$45.76	264.1
	IV	\$31.34	\$42.35	260.2
2003	I	\$35.38	\$47.81	260.9
	II	\$42.64	\$57.62	262.2
	III ^p	\$42.63	\$57.61	268.0
	IV ^a	\$36.73	\$49.64	
2004	I ^a	\$40.80	\$55.14	
	II ^a	\$42.06	\$56.84	
	III ^a	\$40.90	\$55.27	

^a Predicted prices for 2003 (IV) forward are made with two equations with the results averaged.

^p Preliminary