

## Hog Inventories Decline, but at a Slower than Expected Pace

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USDA released its estimate of the December 1, 2009 U.S. inventory of Hogs and Pigs on December 30 (Table 1). The inventory of all hogs was down 2%, market hogs down 1.8% and breeding herd down 3.5% compared the same quarter the year before. These numbers were similar to or larger than the pre-report trade estimates. The report will likely be viewed as neutral to bearish by the trade.

The Jun-Aug pig crop was 1.6% smaller than the year before and the Sep-Nov pig crop was down 3.2%. These estimates with slight increases in carcass weights and potentially larger hog and pig imports from Canada will predict the change in pork production for first and second quarters of 2010 compared to the year before. Dec-Feb farrowing intentions are expected to be 1.9% lower than the year before and Mar-May farrowings are expected to be down 2.8%. With increases in pigs per litter and carcass weights the change in pork production will not be as pronounced as the change in farrowings.

Table 1. December USDA Hogs and Pigs Report Summary, Inventory and Percentage Changes From Year Before

	United States		Iowa	
	1000	% Chg	1000	% Chg
All Hogs	65,807	-2.0%	19,300	-3.0%
Breed Herd	5,850	-3.5%	1,020	-4.7%
Market Hogs	59,957	-1.8%	18,280	-2.9%
<50#	19,085	-1.8%	4,530	-4.2%
50-119	17,062	-1.9%	5,800	-1.4%
120-179	12,529	-1.6%	4,530	0.7%
180+	11,282	-2.2%	3,420	-8.1%
Pig Crop				
Jun-Aug	28,777	-1.6%	4,631	-3.4%
Sep-Nov	28,833	-3.2%	4,900	1.1%
Farrowing Intentions				
Dec-Feb	2,954	-1.9%	500	-2.0%
Mar-May	2,935	-2.8%	495	-4.8%

Productivity increases continue to be significant in the pork industry. Pigs weaned per litter were 9.70, a record for Sep-Nov and equaling the all time record set in Jun-Aug. Also, note that farrowing intentions are off 1.9% and 2.8% while the breeding herd is down 3.5% suggesting that producers are getting more litters per female per year. It may also reflect fewer gilts in the breeding herd which is consistent with approximately 12,000 fewer sows slaughtered during the Sep-Nov quarter compared to the 25,000 smaller breeding herd inventory.

Given this estimate of inventory and pig crop, Iowa-Southern Minnesota live hog prices are expected to average \$49-52 in 2010 (Table 2). Comparable lean hog carcass prices would be \$66-71. Current forecast of cost production for farrow-to-finish

operations is approximately \$51-52/cwt live (\$69-70/cwt carcass) indicating that producers will likely see losses in the first and fourth quarters of 2010, but profits in the second and third quarters. Based on the ISU Estimated Livestock Returns Series, farrow-to-finish operations have had losses since October 2007 with the exceptions of May and August 2008.

Table 2. Pork Supply and ISU ISM Hog Price Forecast and Pre-Report Basis Adjusted Futures Forecast

	Supply change %	ISU Forecast		12/30/2009
		Live	Carcass	Futures
Jan-Mar	-1.0	46-49	62-66	63.83
Apr-Jun	-2.5	52-55	70-74	73.38
Jul-Sep	-1.5	51-54	69-73	72.72
Oct-Dec	-2.5	47-50	64-68	65.43

### Other factors to watch...

Domestic pork demand has been relatively strong through the first three quarters of 2009, but showed some weakness in the fourth quarter as prices and supplies both declined relative to 2008 levels. The strengthening U.S. economy and still small poultry supplies should be helpful for hog prices. More importantly, the weaker U.S. dollar and improving global economy should support export demand in 2010. The removal of restrictions on U.S. pork by China late in 2009 provides the potential for more exports to that country.

Productivity has been excellent in 2009. Can producers maintain or improve productivity in 2010 or do they slip back? Factors to consider: 1) Small calculated gilt retention points to an older sow herd that may improve productivity near term, but hurt production when the herd is has more old and young females than normal as producers begin replacing gilts. 2) Disease problems have been relatively quiet since the circo-virus vaccine was introduced. Will there be disease breaks that hurt production as diseases mutate or as producer try to economize by cutting back on vaccinations. 3) There is wide spread reports of poorer quality corn across the Midwest with light test weights and in some cases molds and mico-toxins that can impact palatability and perhaps performance. Could grain quality reduce carcass weights or even the pig crop.

Is the contraction ending? The industry has suffered unprecedented losses, but sow slaughter has declined below a liquidation pace during the last quarter. As prices reached a point that operations could cash flow did they change their minds about further liquidation? The December market hog inventory was the smallest since December 2006. For the 2005 crop year, ending in August 2006 corn prices had averaged \$1.89/bu and cost of production averaged \$40-41/cwt live. For the 2008 crop year corn prices average \$3.80 and cost of production \$50-51/cwt live. Getting production to the levels of 2006 will not be profitable with the higher cost unless there is significantly more demand. A possible purgatory is that prices are high enough to cash flow and keep people in business, but not profitable enough to recover the lost equity of the last two years.