

HOGS & PIGS REPORT A BELATED CHRISTMAS PRESENT

The December Hogs and Pigs Report released by the USDA on December 27th was a belated Christmas present for pork producers. It indicated smaller market and breeding herds than expected, resulting in steady or lower supplies for the coming year. Given current and forecast feed prices, average producers should have a profitable 1997.

The report was far more bullish than analysts and traders expected, causing some to question the numbers. The futures market opened limit-up the first two trading days following the report as traders adjusted to the new information. Interestingly, the breeding herd was three percent lower than that of the same period a year ago, while the average trade estimate was for a 1.6 percent increase. December-February farrowing intentions were near trade expectations. *The USDA estimate for March-May intentions expected to be five percent higher was actually two percent lower.*

The inventory of market hogs by weight classes was close to, but slightly below average trade estimates and should be supportive of near-term prices. Fourth quarter 1997 prices will be strongly supported if producers follow through with lower Mar-May farrowing intentions and the breeding herd is not expanded. Prices for the year are expected to average in the mid- to upper \$50s.

Record Low Breeding Herd

The USDA estimated the U.S. inventory of all hogs and pigs to be 56.2 million head on December 1 four percent below December 1995 (Table 1). *The breeding herd inventory of 6.66 million head down three percent from a year ago, was the smallest December breeding herd on record.* The market hog inventory totaled 49.5 million head four percent lower than a year ago.

First quarter pork supplies are expected to be three percent below year-earlier levels. The Jun-Aug pig crop and the inventory over 60 pounds suggest that slaughter will be approximately four percent lower, but heavier slaughter weights should add at least one percent to total supplies. Increased gilt retention may further reduce supplies and strengthen prices.

Table 1. Summary USDA December 1 Hogs & Pigs.

United States Iowa					
Inventory	1,000)	% Chg	(1,000)	% Chg	
All Hogs and Pigs	56,171	-3.6	12,200	-9.0	
Breeding Herd	6,663	-2.6	1,250	-7.4	
Market Hogs	49,507	-3.7	10,950	-9.1	
Under 60 Pounds	18,411	-2.5	3,850	-9.4	
60-119 Pounds	12,239	-4.4	2,900	-4.9	
120-179 Pounds	10,313	-3.6	2,300	-11.5	
180 Pounds & Over	8,544	-3.4	1,900	-11.6	
Pig Crop					
Jun-Aug	21,653	-4.6	4,250	-17.1	

Sep-Nov	21,279	-1.4	4,056	-13.7
Farrowing Intentions				
Dec-Feb	2,765	+0.7	500	-6.5
Mar-May	2,894	-2.4	520	-9.1

Second quarter supplies will be determined largely by the Sep-Nov pig crop and the hogs under 60 pounds. Both indicators suggest approximately one to two percent lower slaughter and steady to one percent lower pork supplies.

Third and fourth quarter pork production will depend on the number of farrowings, pigs per litter and carcass weights. ***Pigs per litter and carcass weights continue to increase and account for an additional one to two percent increase in supplies per year.***

Third quarter supplies are driven by Dec-Feb farrowing intentions which are expected to be approximately one percent higher than those of the previous year. With the productivity increases, third quarter supplies are forecast to be two percent higher than third quarter 1996. Fourth quarter 1997 supplies are expected to be steady with the previous year on two percent fewer farrowings but with increased pigs per litter and carcass weight.

Fourth quarter supplies may end up larger than this report indicates, and the price forecast below reflects this change. First, the difference between trade expectations and the USDA estimates suggests that the USDA may revisit their estimate in the next report. Second, producers may revise their thinking, given the profit potential for fourth quarter marketings. Sep-Nov farrowings were 1.4 percent lower than the intentions reported in the September report. On the other hand, ***Dec-Feb farrowing intentions are 2.1 percent higher in the December report than in the September report.***

Table 2 summarizes my price forecast by quarter. The quarterly average Iowa-Southern Minnesota cash price for barrows and gilts and a comparable CME Lean Hog contract price is listed. The CME price is on carcass weight and reflects a leaner hog than the quoted cash price. In general, the comparable CME price equals the cash price divided by 74% plus \$3 in the meat. See the Iowa Farm Outlook issues from October 15 and November 15 for more information.

Table 2. Price forecast for 1997: Avg. Prices by Quarter.

Period	Iowa S. MN Cash Price	Comparable CME Price
Jan-Mar	\$55-58	\$77-81
Apr-Jun	56-59	79-83
Jul-Sep	55-58	77-81
Oct-Dec	48-51	68-72

Other Factors

Other factors that will influence hog prices include large, first-quarter beef supplies and continued growth of pork exports. The larger beef supplies could hamper hog prices

somewhat in the first half of the year, but should be less of a factor later in 1997. Pork exports are expected to increase, but possibly at a slower rate as buyers adjust to the higher price levels.

Strategies

Watch for hedging opportunities in the near future. The report was very bullish and the market may overreact to the good news by pushing futures prices higher than will be realized at expiration. While supplies will remain very tight for the next four-six months, next fall could be different. It is possible to breed sows and gilts to farrow in May and deliver hogs late in the year. With the amount of liquidation that occurred a year ago, there are ample facilities available to seize this opportunity to raise more hogs. Watch for opportunities to hedge fourth quarter and first quarter 1998 production before the next report is released.

Farm Number, Size, and Location

The December report includes information about the number of farms with hogs by size of operation. The number of farms with hogs in the U.S. declined 24,300 or approximately 13 percent to stand at 157,450. Of these, 96,000 (61 percent) had less than 100 head of hogs (market hogs and breeding herd combined) and accounted for three percent of the US inventory.

At the other extreme, 4,880 farms with 2,000 head or more hogs held slightly more than half (51 percent) of the inventory. This size category was the only group to increase in number of operations **and** number of hogs. The percent of hogs on farms with at least 1,000 head has increased over 50 percent since 1991.

With 21,000, Iowa has the greatest number of farms with hogs down from 25,000 a year ago. Iowa's share of total U.S. hogs was 21.7 percent its lowest level since 1954. Iowa has 18.8 percent of the U.S. breeding herd and 22.1 percent of the nation's market hog inventory. The December 1995 to December 1996 Iowa pig crop totaled 17.5 million head or 18.4 percent of the U.S. total.

Iowa reduced its hog inventory nine percent and its breeding herd by 7.4 percent. Both figures were greater declines than those in the rest of the nation. Since December 1991, Iowa's breeding herd has fallen by 550,000 head or 31 percent. The market hog inventory has decreased 2.25 million head or 17 percent.

The number two state, North Carolina, reported 6,000 farms with hogs, 600 fewer than in the previous year. Its share of the U.S. inventory continues to grow and now stands at 16.6, 15.0, and 16.8 percent, respectively, for all hogs, breeding herd, and market hogs. The North Carolina pig crop last year totaled 16.2 million head or 17.1 percent of the U.S. total. North Carolina increased its hog inventories, but at a slower pace than it had in past years. Growth is expected to slow or grind to a halt due to increased environmental pressures and producers matching production to packing and feed mill capacity.

Producers from other states as well as those from North Carolina are expanding into other states. ***Inventories increased 30 percent in Oklahoma (320,000 head) to make it the 10th largest state. Kansas increased inventories 220,000 head or 18 percent and is number 9.*** Colorado, Wyoming, Arizona, and Utah all posted increases as new production units start in these states.

Back in the Midwest, Minnesota is now third in inventories after passing Illinois. Minnesota inventories declined only two percent from a year ago and Illinois was down eight percent. Indiana is now 5th after a six percent drop. Nebraska is 6th after an 11 percent decline. Missouri is 7th but reported only a one percent decrease in hog numbers.

...*John Lawrence*

USDA JANUARY 10 REPORTS KEY TO CORN MARKET

On January 10, USDA is scheduled to release its semi-final crop estimates for corn and soybeans for the 1996 growing season. The market will trade on these production numbers for the rest of the current marketing year, although revisions are possible next fall or winter. At the same time, USDA will release the estimated U.S. and state grain stocks report for December 1. Stocks data will allow analysts to calculate September-December corn feeding. Domestic corn feeding is the largest source of demand for corn by a wide margin. For soybeans, the stocks numbers are less important but provide a check on production estimates. These two sets of estimates plus revised world crop estimates will be very important to the grain markets. Key numbers from the World report will be China's corn trade estimates, the size of its expected imports of soybeans and soybean products, and Southern Hemisphere feed grain and soybean production for spring 1997.

What is Anticipated from the Reports

U.S. and world corn and feed grain production estimates have increased in each of the monthly reports since September. Analysis of crop estimates for the last 20 years indicates additional increases are likely this month, especially for U.S. corn and grain sorghum. The grain trade currently seems to be anticipating a 150 to 200 million bushel increase in 1996 corn production estimates, with another 15 to 25 million bushel increase in grain sorghum production. A 10 to 20 million bushel increase in U.S. soybean production estimates appears to be expected. Approximately neutral estimates of corn and soybeans appear to be 9.43 and 2.42 billion bushels, respectively. Some market reaction would be likely with corn estimates differing from expectations by .05 billion bushels or more, and soybeans by .02 billion or more.

Stocks numbers are harder to anticipate since they will depend on revised production estimates. Fall quarter corn feeding in 1995 was 13 percent below that of a year earlier in response to relatively high corn prices. Lower prices are expected to have encouraged a modest increase in corn feeding in October and November 1996 although the increase likely was tempered by a 78 to 80 percent increase in the 1996 U.S. grain sorghum crop.

Also, hog numbers are estimated to have been a little below those of last year. Part of the 1996 corn crop was harvested and fed in August in the southeastern U.S. as well as in southern Kansas and Missouri. This will show up in fall quarter feeding. At the same time, Texas, the largest southern producer of corn, likely had much less August corn feeding than a year earlier because of severe drought and reduced corn production. One other possible influence on corn feeding is test weight, with many areas reporting lower test weight than normal. This may have increased corn feeding somewhat. The grain trade appears to expect an increase in corn feeding of five to six percent from last year. Production estimates near expectations and a smaller increase than this in corn feeding would limit the chances for much increase in corn prices this winter. That combination from the reports also would be a caution that further weakness in corn prices is possible in late February and early March. December supply-demand projections for 1996-97 are shown in Table 1, along with our projections of potential 1997-98 supplies with normal U.S. and foreign growing season weather.

...*Robert Wisner*

Table 1. Corn Balance Sheet (Mil. B.) 12/12/96

	'93-94	'94-95	Prelim. '95-96	Proj. 96-97 USDA	Proj. 97-98 ISU
Supplies:					
Harv. A. (mil)	62.9	72.9	65.0	73.3	75.0
Bu./A.	100.7	138.6	113.5	126.5	128.5
Production	6336	10,103	7374	9265	9644
Carryover	2113	850	1558	426	1174
Total (inc imports)	8470	10,962	8948	9702	10,824
Util: Feed, Resid.	4704	5535	4711	4975	5400
Other Domestic	1588	1693	1583	1670	1700
Exports	1328	2177	2228	1900	2100
Total	7620	9404	8522	8545	9200
Carryover	850	1558	426	1157	1624
Free Carryover	686	1318	396	1027	1604
U.S. Farm Price	\$2.50	\$2.26	\$3.95	\$2.65	\$2.45
Iowa Avg. Price	\$2.43	\$2.20	\$3.85	\$2.55	\$2.35

* With normal weather

The *Iowa Farm Outlook* newsletter is now available on the World Wide Web at the same time it goes to print. For quick and easy access to the timely information and colored graphs contained in the newsletter, look for us at: <http://www.econ.iastate.edu/publications/ifo>.