

## Hog Liquidation Continues

The June USDA Hogs and Pigs report estimated all hogs and pigs on farms in the US at 60.5 million head. This estimated is 2.7 percent below the June 1, 1998 number and 5.5 percent above 1997. The breeding herd is 6.4 percent below 1998 and the market hog inventory is 2.2 percent lower. These reported numbers are 1 to 2 percent above the pre-report expectations.

The breakdown of market hog weights still shows the heavier hogs running above year earlier levels. Slaughter levels since Memorial Day have averaged over 4 percent above 1998 levels due to the larger supply of heavier hogs. Hogs weighing over 180 pounds are 2.1 percent above 1998 and 120 – 179 pound hogs are near year earlier levels at 99.4 percent. The inventories of lighter pigs are down reflecting the decrease in the breeding herd that has been occurring since December 1998. Hogs weighing 60 – 119 pounds are down 2.8% and those under 60 pounds were down 4.6%.

The March – May pig crop was estimated at 26.3 million pigs, down 2.5 percent from 1998. Sows farrowing during the March – May period were down 3.1 percent, while the pigs per litter increased from 8.75 in 1998 to 8.80 in 1999. Farrowing intentions for the June – August period were estimated to be down 3.9 percent and the September – November intentions are estimated to be down 4.1 percent from 1998. The March – May farrowings and the farrowing intentions were also larger than the pre-report expectations. Table 1 shows the inventory levels, pig crop, and farrowing intentions for Iowa and the US.

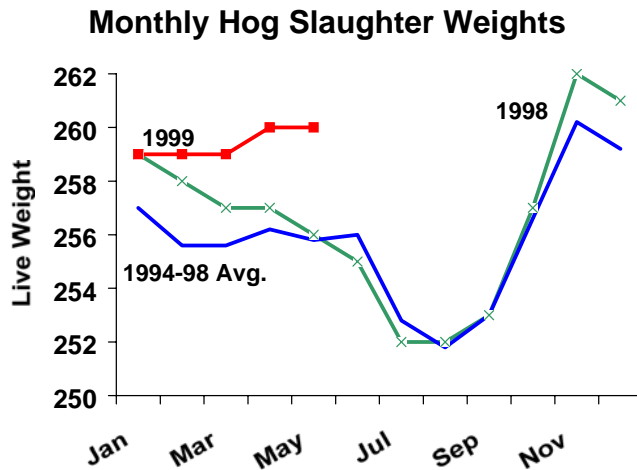
There are also some inconsistencies within the report that will make people nervous. For the first three weeks of June hog slaughter has averaged 4.4 percent higher than a year ago while the report estimated a 2 percent increase. Second, the change in the Under 60 lbs class is larger than the change in the March-May pig crop even though they should represent the same hogs.

In general, the rate of liquidation was not as great as expected. Coupled with the heavy slaughter weights, large cold storage and depressed exports, prices have been less than expected based on historic relationships and reported inventories. While increased Canadian slaughter capacity expected this fall is expected to lessen the threat of a packer capacity constraint this fall as we experienced last fall, there could still be several weeks in late 1999 of burdensome supplies.

Table 1. June USDA Hogs and Pigs Summary				
	US		Iowa	
	1,000 Head	% Change	1,000 Head	% Change
All Hogs and Pigs	60,536	-2.7	15,200	2.7
Breeding Herd	6,515	-6.4	1,200	-7.7
Market Hogs	54,020	-2.2	14,000	3.7
Under 60 Pounds	20,502	-4.6	4,550	-1.7
60 – 119 Pounds	13,331	-2.8	3,800	2.4
120 – 179 Pounds	11,021	-0.6	3,000	4.9
180 Pounds and Over	9,167	2.1	2,650	15.2
Sows Farrowing				
March – May	2,990	-3.1	520	-5.5
June – Aug	2,936	-3.9	500	-5.7
Intentions				
Sep – Nov	2,870	-4.1	460	-9.8
Intentions				
Pig Crop				
March – May	26,301	-2.5	4,524	-5.4
Pigs per Litter				
March – May	8.80	0.9	8.7	0.0

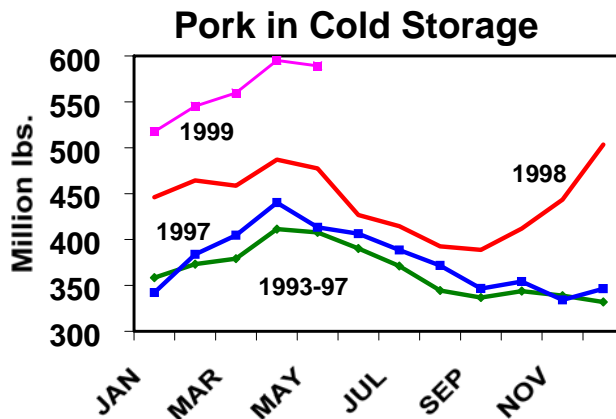
### Slaughter Weights...

Slaughter weights continue to run above year earlier levels. Figure 1 shows the monthly slaughter weights for 1998, 1999, and a five-year average. Weights during June continue to run at 260 pounds. Seasonally, weights should decline from the June to August period. For the week ending June 25, 1999 weights averaged 260 pounds compared to 254 for the same week in 1998. These additional 6 pounds put 2.7 percent more pork on the market for the same number of hogs.



### Cold Storage Stocks...

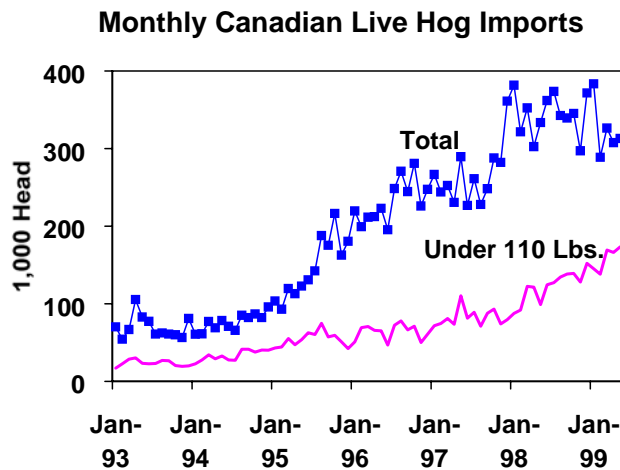
Pork in cold storage is at near record levels. Figure 2 shows the monthly cold storage stocks. The May 31<sup>st</sup> inventory was down slightly from the peak in April but still at very high levels. Seasonally supplies should begin to decline during the June to September period. The May inventory of 590 million pounds represents about 1.7 weeks of pork production compared to a 5-year average of 1.2 weeks of production, or nearly a 50 percent increase.



### Canadian Live Hog Imports...

Imports of live hogs from Canada were 4 percent of the annual slaughter for 1998. Figure 3 shows the growth in Canadian imports from 1993 through May 1999. The number of imports has leveled off in recent months while the percentages that are feeder pigs continue to increase. In 1998 35% of the imports were less than 110 pounds, compared to nearly 50% for the first few months of 1999. The number of slaughter hogs

imported into the US should continue to decrease after a new Canadian slaughter plant comes on line later in the summer. Estimated imports through May are down slightly from 1998 numbers.



### **Production and Price Outlook...**

Third quarter 1999 pork production is forecast to meet or exceed year earlier levels. Slaughter levels are currently 4 percent higher than the same period in 1998 and should decline to levels slightly below a year ago by late summer. Live prices are expected to increase somewhat as the summer progresses and hopefully return to the \$40 level seen in May. However, given the lingering lower than expected prices we expect prices for the quarter to average in the \$34-37 range.

Fourth quarter production is expected to average 3 percent below fourth quarter 1998. The March-May pig crop was 3 percent lower and weights should continue heavy, but gilt slaughter and Canadian hog imports (See below) should both be lower than last year. Live prices are forecast to average in the low to mid \$30s (\$32-35) compared to \$20.50 in 1998. Given this report, there may be several weeks of slaughter near 2 million head a week or higher.

After the first of the year supplies will be driven by the summer and fall pig crops. Farrowing intentions for both quarters were down 4 percent from a year ago. Depending on weights supplies could be comparable to only 3 percent lower. Live prices for the first quarter are forecast to average \$35-38 and second quarter should average \$38-41.

### **Wild Cards...**

Unknowns to watch that can impact prices include:

- When and to what extent the new Canadian slaughter plant is operational this fall to stem the tide of hogs moving south.
- Slaughter weights are running 2.5 percent higher than the year before and have a big impact on supplies. Grain prices will likely impact weights.
- Changes in exports and frozen stocks.
- Changes in producer decisions following weak summer prices and a discouraging report.