

July 1, 2000

Ames, Iowa

Econ. Info. 1792

BREEDING HERD REDUCTION; INCREASED PRODUCTIVITY:

Analysis of the June hogs and Pigs Report

The June USDA Hogs and Pigs report estimated all hogs and pigs on farms in the U.S. at 59.40 million head, with 6.23 million breeding animals and 53.16 million market hogs. This estimate is 2.5 percent below the June 1, 1999 all hogs number and 4.5 percent below 1997 numbers. The breeding herd is 4.3 percent lower and the market hog inventory is 2.2 percent below June 1, 1999 inventory levels. The breakdown of market hog weights shows all weight categories below 1999 levels. The under 60 pound pigs were down 1.7 percent, 60 – 119 pounds down 1.9 percent, 120 – 179 pounds down 3.4 percent, and the 180 pound and over pigs were down 2.6 percent. Table 1 summarizes the report for the U.S. and Iowa.

Most of the estimates in the report came in near trade expectations, with the exception of the breeding herd numbers. The pre-report expectations put the breeding herd at 97.3 percent of year earlier levels with a range of 96.0 to 98.0. The actual breeding herd inventory estimate from the report was 95.7 percent of June 1, 1999. The market hog inventory came in 0.5 percent above expectations. In general the report should be considered neutral to the market.

The March – May pig crop totaled 25.8 million pigs, down 1.7 percent from 1999. Sows farrowing during the March – May period were estimated at 2.905 million head, down 2.7 percent, while the pigs per litter increased 1.0 percent from 8.80 in 1999 to 8.89 in 2000. Farrowing intentions for the June – August period were estimated to be down 2.3 percent and the September – November intentions are estimated to be up 0.6 percent from 1999.

Table 1. June USDA Hogs and Pigs Summary

	US		Iowa	
	1,000 Head	% Change	1,000 Head	% Change
All Hogs and Pigs	59,397	-2.5	15,500	0.0
Breeding Herd	6,234	-4.3	1,160	-3.3
Market Hogs	53,164	-2.2	14,340	0.3
Under 60 Pounds	20,188	-1.7	4,570	0.4
60 – 119 Pounds	13,247	-1.9	4,070	3.0
120 – 179 Pounds	10,700	-3.4	3,080	1.0
180 Pounds and Over	9,029	-2.6	2,620	-4.7
Sows Farrowing				
March – May	2,905	-2.7	500	-3.8
June – Aug Intentions	2,854	-2.3	485	-1.0
Sep – Nov Intentions	2,861	0.6	485	-1.0
Pig Crop				
March – May	25,831	-1.7	4,450	-1.6
Pigs per Litter				
March – May	8.89	1.0	8.90	2.3

While the breeding herd is 4.3 percent lower, producers continue to increase the productivity of the breeding herd. The March USDA Hogs and Pigs report put the breeding herd at 6.2 million head, down 4.9 percent from 1999. Sows farrowing during March – May were only down 2.7 percent and pigs per litter were up 1.0 percent, resulting in the March – May pig crop being only 1.7 percent lower. Additional weights could push pork production to less than 1 percent lower from nearly 5 percent fewer breeding animals.

This productivity is estimated to continue based on the June 23rd report. The breeding herd is 4.3 percent lower and farrowing intentions for June – Aug are down only 2.3 percent, with the Sep – Nov intentions up slightly. The increase in farrowing intentions for late 2000 can be attributed to the recent profitability in hog production. Average farrow-to-finish producers are earning profits of nearly \$25/head based on the Iowa State University estimated livestock returns for May.

Price Forecasts

Iowa-Southern Minnesota barrow and gilt prices are expected to average near \$50 for the third quarter of 2000. Much of the inventory of 180 pound and over market hogs have already gone to market. The 120-179 pound category was 3.4 percent lower. Additional weights will put pork production about 2.5 percent lower for the next few months. Prices trended lower throughout most of May after their peak early in the month. Prices trended back up in June and are currently near the highs reached in May. Prices should trade sideways into September. For 2000 through the middle of June prices have averaged \$43.10 compared to \$28.70/cwt in 1999, a 50 percent increase. Figure 1 shows the Iowa-Southern Minnesota live hog price.

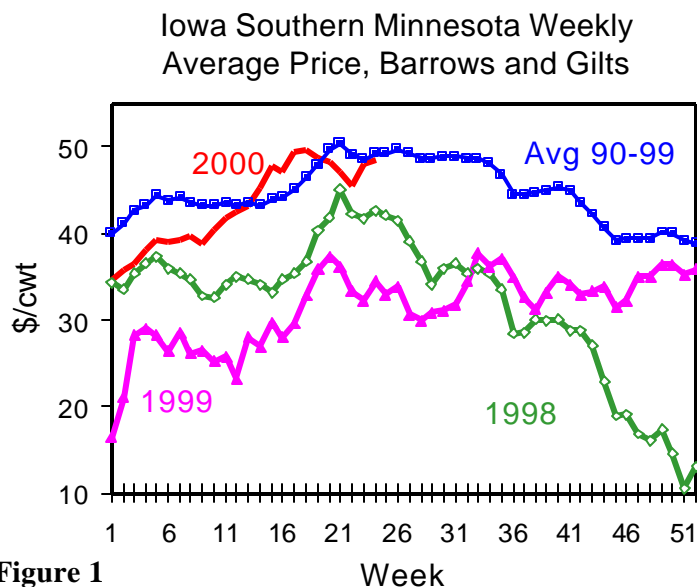


Figure 1

Fourth quarter supplies will come from the March – May pig crop that was 1.7 percent below 1999 levels. With a near normal corn and soybean crop, feed costs will probably continue to remain low and continue to push weights to higher levels. Pork production in the fourth quarter may be down less than 1 percent with heavier weights. Prices are expected to average in the low \$40s.

Based on the farrowing intentions in the report, supplies will continue to increase into 2000. First quarter supplies based on 2.3 percent smaller June – August farrowings could easily push production to 2000 levels with additional productivity. By the second quarter supplies will be above year earlier levels based on the September – November 0.6 percent higher farrowing intentions. Prices should remain in the low \$40s early in 2001 and increase into the mid \$40s by the second quarter, with summer highs below 2000 price levels.

Slaughter Weights

Hog slaughter weights play a critical role in pork production levels and they continue to run above year earlier levels. For 2000, slaughter weights in the Iowa-Southern Minnesota markets have averaged 260.5 pounds through mid-June compared to 258.2 pounds during the same period in 1999, a 0.9 percent increase. Figure 2 shows the

weekly Iowa-Southern Minnesota slaughter weights. During 2000 through the week ending June 17th, hog slaughter numbers are down 4.6 percent, while pork production is only down 3.3 percent due to the heavier carcass weights. Some of the increase in slaughter weights can be attributed to today's inexpensive feed. With continued increases in slaughter weights, pork production could be at year earlier levels by the second quarter of 2001.

Another factor that may further increase slaughter weights is the introduction of the new feed ingredient Paylean™ by Elanco. This product promises to increase the amount of quality meat in high-value cuts and improves production efficiency through increased average daily gain (ADG) and feed efficiency (FE). This product would cause a given slaughter weight hog to have a higher carcass weight and more meat. It could also potentially increase slaughter weights further due to increased FE and ADG.

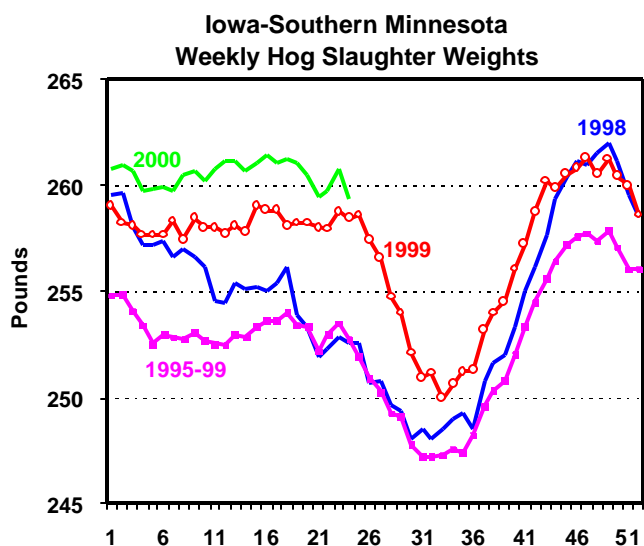


Figure 2

Cold Storage

Figure 3 shows pork in cold storage. Cold storage stocks at the end of May totaled 525.8 million pounds, an increase of 4.0 million pounds from the month before. Traditionally cold storage stocks begin to decline in May and continue to decline until September. Even though stocks increased slightly in May, they are still 8.2 percent below year earlier levels. This may be one of the first indications that the strong demand for pork is starting to slow.

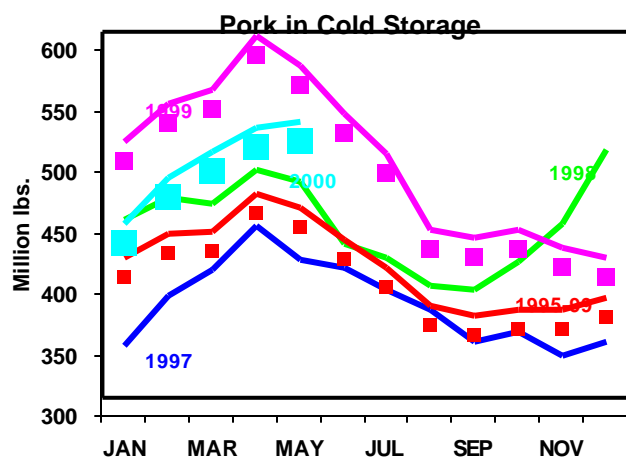


Figure 3

Iowa Numbers

All hogs and pigs in Iowa were estimated to be at the same levels as in 1999. Iowa's breeding herd is down only 3.3 percent compared to 4.3 percent for the U.S.; the market hog inventories are up 0.3 percent. The March – May Iowa pig crop was down 1.6 percent and farrowing intentions for June – November are down 1 percent. Pigs per litter during March – May increased from 8.7 in 1999 to 8.9 in 2000.

Oklahoma (+10%) and Colorado (+5%) were the only two states with increases in their breeding herds. Breeding herds in Arkansas, North Carolina, Pennsylvania, and Texas were steady at year earlier levels. Only 4 states showed an increase in market hog inventories: North Carolina (+1%), Minnesota (+2%), Oklahoma (+4%), and Texas (+15%).

Alan Vontalge

GRAIN UPDATE

Sharply lower prices in the last month reflect widespread Midwest rains, generally good crop conditions, earlier than normal crop development, and slackening exports. Prices in the next few months will be strongly influenced by the June 30 planted acreage and stocks reports, weather, and foreign crop conditions. Thirty-day and 90 day forecasts show hot/dry weather for Iowa, Nebraska, and Missouri.

From early May to June 28, July corn futures have dropped by 66 cents per bushel and December futures fell 54 cents. Comparable numbers for July and November soybean futures during the same time period were -\$1.11 and -\$0.94 per bushel. Currently, the relative strength index for corn shows an oversold condition and soybean futures are nearing oversold levels. That increases the chances for a modest short-term rally in prices, as does the extended weather forecast. The recent decline in prices puts December corn futures at about \$0.29 *above* price lows seen last fall, and November soybean futures at about \$0.19 *above* early November lows seen last fall. Thus, a small weather premium still appears to exist.

International Update

Weather problems and shortages of key inputs are causing crop concerns in Russia again this year. Increased petroleum revenues may enable Russia to buy a little more feed grain than in recent years, but its economy remains very depressed and will limit purchasing power. In China, farmers reportedly have increased soybean plantings 5 to 10 percent from last year due to reduced government support for corn prices. Because corn acreage is much larger than for soybeans, a much smaller percentage decline in Chinese corn acreage is anticipated. About one-fifth of China's Grain Belt is experiencing drought, but it is too early to determine the impact on yields. Sixty percent of its cropland is irrigated. Look for at least slight moderation in Chinese demand for soybeans and meal next year, and at least slightly less competition from Chinese corn exports. Brazilian sources indicate soybean plantings there may be up 5 to 10 percent this fall, depending some on the level of bean prices.

Crop Conditions

The table below shows the percent of corn and soybean crops rated good to excellent on June 25. For major states as a group, percentages in this category were slightly less than a year ago. At this time last year, ratings were quite high, although they dropped considerably in July and August as drought conditions intensified in parts of the eastern Corn Belt. Recent rainfall has been substantial in most of the Corn Belt in the last five weeks, although Nebraska and parts of western Iowa have had less than regions further east. Rainfall has been enough to provide some subsoil moisture recharge in much of the Midwest, although timely rains will still be critical for yields in July and August. Corn tasseling will be unusually early in most areas, occurring before the usual hottest days of the summer. Soybeans in many areas could benefit from warmer and slightly drier weather for a little while.

Corn and Soybeans Crop Conditions.

	Percent Good to Excellent 6/25/00	
	Soybeans	Corn
Iowa	62	69
Illinois	76	85
Indiana	67	85
Ohio	55	73
Missouri	64	72
Minnesota	61	70
Nebraska	46	51
South Dakota	78	87
Major States	66	73

Watch Foreign and U.S. Wheat Crop Estimates

U.S. and International Grains Commission projections show global wheat stocks-to-use ratios declining again this year to relatively low levels. Since 1996, the world grain trade has decided it can get by with somewhat lower stocks than previously thought, but the projected stocks are low enough that wheat prices could be more sensitive than corn and soybeans. Strength in wheat prices would tend to have some positive impact on the corn and soybean markets through an anticipated reduction in foreign wheat feeding.

Stocks and Acreage Report

USDA's June 30 reports were not available at this writing. The grain trade generally expected a very slight (essentially insignificant) increase from March planting intentions for both corn and soybeans. Part of the anticipated increase in soybean plantings reflected expectations that an early wheat harvest would boost double-crop soybean plantings. Neutral acreage figures for corn and soybeans were believed to be to be about 77.9 million and 74.9 million planted acres, respectively. USDA's NASS will also estimate planted acreage of GMO and non-GMO corn and soybeans. The stocks report will be important as (1) a barometer of corn feed demand during the last quarter and (2) a further check on whether the 1999 U.S. soybean crop was over-estimated. An analysis of these reports will be available on <http://www.econ.iastate.edu/faculty/wisner/> under balance sheets, and a more detailed analysis will be included in the July 15 Iowa Farm Outlook letter.

Robert Wisner