Hog Market Update

In the last Iowa Farm Outlook we summarized the March Hogs and Pigs report and forecast supplies and prices for the year ahead. While initially bullish, the futures market for summer and fall months has retreated to pre-report levels. This IFO will update first quarter pork production and prices and briefly discuss the situation with Canada since the International Trade Commission decision to remove duties on live swine.

Hog slaughter through the first quarter of 2005 was 0.4% lower than the same quarter in 2004, but due to heavier carcass weights total pork supplies were up 0.4%. Iowa barrow and gilt weighted average price for the first quarter was $73.57/cwt carcass or $54.44/cwt live. This average is $11.56/cwt carcass ($8.55 live) higher than the first quarter of 2004. It reflects the strong demand for pork the US has enjoyed since 2003. As is shown in Table 1, Iowa – S. Minnesota hog prices have increased over the same quarter of the year earlier beginning with the second quarter of 2003.

In 2003 Q1 prices averaged $49.20/cwt carcass, down 8.2% from the first quarter of 2002. Pork production and per capita consumption had increased 2.5% and 2.4%, respectively, and the roughly 3:1 relationship is about what we expect. However, regardless of the change in production or consumption, hog prices increased. We don’t expect this level of demand to continue, but through the first quarter of 2005 it appears to still be in place. Also note the impact of exports as consumption increased less to decreased more than production.
Exports through February remain strong again in 2005. Compared the same time period in 2004, pork exports were up 22.5% and pork imports were down 8.3%. The two largest export markets for US pork, Japan and Mexico were up 14.9% and 6.9%, respectively over the year before. Mainland China showed dramatic growth this year, but exports to Taiwan were down dramatically. Two markets combined have had 9% lower US pork exports in Jan-Feb 2005. Exports also increased to Canada (#3) and South Korea (#4). The weaker US dollar and relatively higher beef prices and restrictions on beef trade are expected to continue to support pork exports in 2005.

### Table 1. Change in Pork Production, Consumption, and Lean Hog Price, Percentage Change from the Same Quarter the Year Before

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>IA S.</th>
<th>MN Lean</th>
<th>Hog Price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% Chg</td>
<td>% Chg</td>
<td>$49.20</td>
<td>-8.2</td>
</tr>
<tr>
<td>2003 Q1</td>
<td>2.5</td>
<td>2.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003 Q2</td>
<td>-1.2</td>
<td>-0.8</td>
<td>60.27</td>
<td>24.5</td>
</tr>
<tr>
<td>2003 Q3</td>
<td>-0.5</td>
<td>-1.4</td>
<td>58.63</td>
<td>26.9</td>
</tr>
<tr>
<td>2003 Q4</td>
<td>4.6</td>
<td>1.8</td>
<td>51.39</td>
<td>21.0</td>
</tr>
<tr>
<td>2005 Total</td>
<td>1.4</td>
<td>0.5</td>
<td>54.87</td>
<td>15.1</td>
</tr>
<tr>
<td>2004 Q1</td>
<td>4.7</td>
<td>3.0</td>
<td>62.01</td>
<td>26.0</td>
</tr>
<tr>
<td>2004 Q2</td>
<td>3.3</td>
<td>-0.9</td>
<td>76.53</td>
<td>27.0</td>
</tr>
<tr>
<td>2004 Q3</td>
<td>5.0</td>
<td>0.7</td>
<td>79.45</td>
<td>35.5</td>
</tr>
<tr>
<td>2004 Q4</td>
<td>-1.2</td>
<td>-6.2</td>
<td>75.64</td>
<td>47.2</td>
</tr>
<tr>
<td>2004 Total</td>
<td>2.8</td>
<td>-1.0</td>
<td>73.41</td>
<td>33.8</td>
</tr>
<tr>
<td>2005 Q1</td>
<td>0.4</td>
<td>-3.4</td>
<td>73.57</td>
<td>18.6</td>
</tr>
</tbody>
</table>

The United States International Trade Commission (ITC) April 6 determined that a U.S. industry is not materially injured or threatened with material injury by reason of imports of live swine from Canada that the U.S. Department of Commerce has determined are sold in the United States at less than fair value. So even though the Department of Commerce indicated that a 10.63% of value duty should apply to hogs and pigs (not pork) imported to the US, the US ITC ruling means that the duty should not be collected. As a result, trade returns to as it was prior to mid-October when the exporter of record was required to post a bond for the amount of the duty on swine crossing the border.

The number of hogs and pigs coming into the US since the first of the year is down from the year before (Figure 1), but it is doubtful that the collection of duties had much impact. Canadian hog inventories on October 1 and January 1 were approximately 0.4% higher than the year before. Weekly hog slaughter in Canada increased approximately 3500 head during the first quarter of 2005 compared to first quarter 2004. During the same period slaughter hog exports to the US decreased 9600 head a week. It will be interesting to see if slaughter hog exports increase now that the duty is removed. The weekly average number of pigs exported to the US decreased 15,400 during the first quarter of 2005 compared to first quarter 2004. It is questionable that Canadians could have increased finishing spaces since late October. The decrease suggests that the finishers were built before the ruling.
USDA April World Supply-Demand Report

USDA’s latest supply-demand projections serve as a caution that, barring serious Corn Belt weather problems, old and new-crop corn prices and basis have significant down-side risk for the August-November period. In contrast to corn, this month’s projections show a slightly tighter U.S. soybean supply-demand balance than indicated a month ago. Even so, U.S. August 31, 2005 soybean carryover stocks are expected to be about 3.5 times as large as a year earlier. With trend yields, total corn and soybean supplies likely would exceed last fall, thus putting additional strain on storage capacity.

Prices for corn will be sensitive to planting progress during the next month. Current conditions point to another year of early plantings west of the Mississippi river and in parts of Illinois and Indiana. However, wet soils may cause some delayed plantings in parts of southern Illinois and Indiana, and most of Ohio except for the northwest corner. Soybean prices will be sensitive to any reports of Asian rust on beans in the South this spring. Sentinel plots in the Delta and southeastern states are being monitored closely, but so far the only confirmed reports of Asian rust are on Kudzu plants in three west central Florida counties. Farmers in the South have been accustomed to spraying cotton with insecticides and fungicides. Thus, they have experience and equipment for spraying soybeans, if it is needed. At this writing, new-crop prices for both corn and soybeans appear to include significant risk premiums that reflect uneasiness about possible weather and/or disease problems in 2005 production. It is not unusual for new-crop corn and soybean prices to show a risk-premium at this time of the year, as indicated by Figures 1 and 2. The upper line in Figure 1 shows the average closing Thursday price for December corn futures from late December before the planting season to December after harvest—for the last 30 years. The lower line shows the pattern
for the last 20 years. Figure 2 shows the 30 and 20-year patterns for November soybeans, and the lowest line shows the pattern for the last 15 years.

**World Supply-Demand Balance**

USDA’s April 8 world supply-demand report indicates world coarse grain (feed grain) stocks at the end of the current marketing year will be slightly larger than indicated a month ago and up 27% from a year earlier. World feed grain production for 2004-05 is estimated to be up 10% from last season along with a 13% increase in world wheat production. The world oilseed crop, which includes soybeans, is indicated to be up 11% along with a 16% increase over last year in world soybean production. The percentage increase in world soybean production would be the third largest since 1980. November soybean futures prices at $6.06 per bushel look to be out of line with current world supply-demand conditions, and reflect concern about possible serious Asian rust damage to the U.S. soybean crop. The 2004-05 projected world percent increase is only slightly smaller than the increases in 1994-95 and 1997-98, both of which pushed soybean futures prices sharply below current levels.

These estimates include Northern Hemisphere production from last summer and fall, and Southern Hemisphere production currently being harvested. For world production, these are very large increases. Normally, increased production in some countries is partially offset by reduced production elsewhere. The large increase this year reflects both the exceptionally large U.S. 2004 crops and a strong recovery in foreign feed grain and wheat production from serious weather problems in the previous two years.

USDA’s World Agricultural Outlook Board has not yet made projections for 2005-06, but early indications show reasonably good prospects for most of the major world grain producing area. However, there has been some concern about rice and palm oil producing areas in southeastern Asia. Palm oil is the largest source of world vegetable oil imports and is an important competitor of soybean oil in world markets. Fringe areas of China’s corn and soybean belt also are reported to be somewhat dry.

**Brazilian Corn & Bean Crops Down**

In its April report, USDA lowered its estimate of Brazil’s spring 2005 soybean harvest from last month by 184 million bushels, to 54 million tons or 1.99 billion bushels. The current estimate is about 3% or 52 million bushels above last year’s weather-reduced crop. The low end of private Brazilian forecasts is around 51 to 52 million tons. USDA left its Argentine crop estimate unchanged from last month but up 18% from last year. At the same time, it lowered Brazil’s corn crop estimate about 40 million bushels from last month. The smaller Brazilian corn crop is expected to be more than offset by a 30% or 180 million bushel increase from a year earlier in Argentine corn production. In addition, South Africa’s spring 2005 corn harvest is expected to be about 70 million bushels above last year. Most of the increased production in these two countries is expected to be exported, more than offsetting the expected 116 million bushel decline in Brazilian corn exports. Exports of these crops will influence U.S. corn exports this summer and next fall. Brazil’s corn imports are expected to be about 30 million bushels above last season.

**U.S. Supply-Demand Changes**

In the domestic part of the report, USDA lowered its projected U.S. corn feeding, processing, and exports, and added 160 million bushels to its projected 8/31/05 U.S. corn carryover stocks. Official projections now place this season’s total use of U.S. corn at 10.56 billion bushels, down from 10.9 billion bushels projected last October. The updated projections reflect new information from the March 31 grain stocks report, as well as
lagging exports and slightly less corn processing to date than previously projected. The current carryover projection is 135 million bushels below our latest balance sheet projection for 2004-05 (See our balance sheets at http://www.econ.iastate.edu/faculty/wisner/ in the upper right-hand column).

USDA raised its projected U.S. soybean exports for 2004-05 by 35 million bushels and lowered the 8/31/05 carryover stocks by the same amount. Higher U.S. exports reflect the smaller Brazilian crop and expected lower Brazilian soybean exports. The latest official projection of total U.S. soybean use is 63 million bushels larger than indicated last October, with most of the increase due to larger exports.

**Export Sales Update**
Cumulative U.S. corn export shipments since last September 1 and outstanding unshipped sales on April 7 were down 11% from a year earlier. USDA projects the marketing year total (for year ending 8/31/05) will be 5% below the previous season. To reach the projection, export sales from now through the end of August will need to average 0.6% above a year earlier. Figure 3 shows weekly U.S. corn export sales so far this marketing year, comparisons with a year earlier, and the projected average weekly sales to reach the current projection. Figure 4 shows similar information for soybeans.

Cumulative U.S. soybean exports were 16% above a year earlier and up 5% from the same date in

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**Figure 3. Weekly U.S. corn Export Sales 2003-04 and 2004-05**

Weekly Avg. April 8-Aug. 31 to meet USDA Projection: +1%
Avg. Sept. 1,'04-April 7,'05 -11%

**Figure 4. Weekly U.S. Soybean Export Sales 2003-04 and 2004-05**

Assumes 1.06 mil. Tons will be rolled into '05-'06 in late August
the 2001-02 marketing year. Export sales were exceptionally strong at the start of the 2003-04 marketing year, but slowed dramatically in the spring and summer as U.S. supplies tightened. Exports this season are projected to approximately match the 2001-02 marketing year. U.S. soybean export sales for the past three weeks have dropped to the lowest levels of the marketing year as buyers have shifted aggressively to South American supplies.

Robert Wisner