Iowa State University
University Extension

Iowa Farm Outlook

Department of Economics
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December Hog and Pig Report Summary, Hog Supplies Lower to Start Year

The December Hog and Pig Report, released on Dec 27, indications that swine numbers continue to decline from a year ago. Total swine numbers are down almost a percent at 64.3 million head. Sow numbers are down 1.2 percent and market hog numbers are down about 0.8 percent. Farrowing intentions for the next two quarters of the year are down 0.6 and 2.3 percent respectively, indicating that the reduction in the industry is still underway. However, the declining number of sows in the nation is only part of the story. Productive efficiency per sow continues to improve year over year, and from the reported pig crop in the fourth quarter of 2010 the average number of live pigs weaned per litter has increased to 9.89 head nationally. That 2 percent improvement, if it persists, results in a more than 1 percent increase in 3rd quarter 2011 hog numbers. Table 1 summarized the December report for national and Iowa numbers.

Table 1. Summary of the December 2010 Hog and Pig Report

	US			Iowa	
	Million Hd.	% chg.		Million Hd.	% chg.
All Hogs	64.33	-0.9%		18.90	-0.5%
Breeding Herd	5.78	-1.2%		1.02	0.0%
Market Hogs	58.55	-0.8%		17.88	-0.6%
Under 50	18.56	-0.8%		4.50	1.6%
50 - 119	16.52	-1.6%		5.60	-1.8%
120 - 179	12.21	-0.7%		4.33	-2.3%
180 & over	11.26	0.0%		3.45	0.9%
Sows farrowing					
Dec-Feb	2.86	-0.6%		0.47	-1.1%
Mar-May	2.86	-2.3%		0.48	-1.0%
Pig Crop					
Jun-Aug	28.72	-1.8%		4.63	-4.4%
Sep-Nov	28.15	-0.4%		4.77	1.5%
Pigs per litter	9.89	2.0%		10.05	2.6%

Iowa breeding herd numbers have remained unchanged from a year ago, and market hog numbers have declined 6 percent. The 4th quarter 2010 pig crop was up 1.4 percent from the year pervious, which has offset some of the decline in feeder pigs being imported into the state. Indications are that sow farrowings will be down in Iowa during the first half of 2011, but after taking into account a 2.6 percent increase in pig per litter efficiency, it is likely that the pig production in the state will be up more than a percent in 2011.

Despite the industry reducing sow numbers the numbers of hogs available will likely increase during 2011. However increasing corn and feed costs may encourage lighter finished weights and help to keep pork production a little more level. In the fourth quarter of 2010 slaughter weights increased primarily from the improved rate of gain from new crop corn. Also some finished hogs had to wait their turn to be delivered to the packer, further adding to their final weight. The average carcass weight was 206 lbs. up 1.7 percent from the same period in 2009. This year hog carcass weights will remain higher than normal for the first month or two, but are expected to level out to a more traditional level of 204 lbs. by February or March.

Table 2 contains the ISU predicted lean hog price and per capita change in pork supplies to the domestic market. While the number of hogs available may be up in the second half of the year, increasing export volumes and declining slaughter weights may result in tighter domestic pork supplies during the year. On the price side all commodity prices are increasing and hog prices, after a painful slump to close out 2010, are recovering and offering some promising returns in the first half of the year. Hogs currently being fed are expected to turn a double digit profit in the first half of 2011, based on the current corn prices. Lean hog prices are expected to be in the middle to upper $70s in the first quarter, in the upper $80s in the second and third quarter and finally in the mid $70s to close out the year.

Table 2. ISU 2011 Pork Production and Lean Hog Price Forecast

	Percent Change in per Capita Pork Supply	ISU Price Forecast Lean Hog Base $/cwt	12-27-10 Futures Price Adjusted for Iowa Basis
Jan- Mar 2011	-1%	75-77	77.09
Apr- Jun 2011	-0.5%	87-90	88.21
Jul- Sep 2011	-0.1%	87-90	85.38
Oct- Dec 2011	-1%	74-77	74.92

As with every forecast the moment it is made it is likely to be wrong. What factors will have the greatest impact on prices? First the general price inflation of all commodities, especially food and fuel. From a macroeconomic perspective, the food and fuel commodities are continually consumed by all and are very sensitive to inflationary trends. If inflation continues to build, hog, corn and feed prices will continue to rise. Second is the interest of speculative bodies entering the markets, which will heat up the futures market. Finally, pork exports are a major factor in total demand for the hog markets. As the US dollar experiences a weaker exchange rate, foreign markets have a purchasing advantage which drives up prices in the domestic market. Additional pork exports in 2011 are expected, building on the already near record volumes in 2010 which were up about 3 percent from the previous year. Pork exports had been running closer to 6 percent higher the first 7 months of the 2010, but slowed during Aug-Oct. Preliminary numbers indicate that Nov-Dec exports were up again from the previous year as additional pork supplies came available.

Shane Ellis

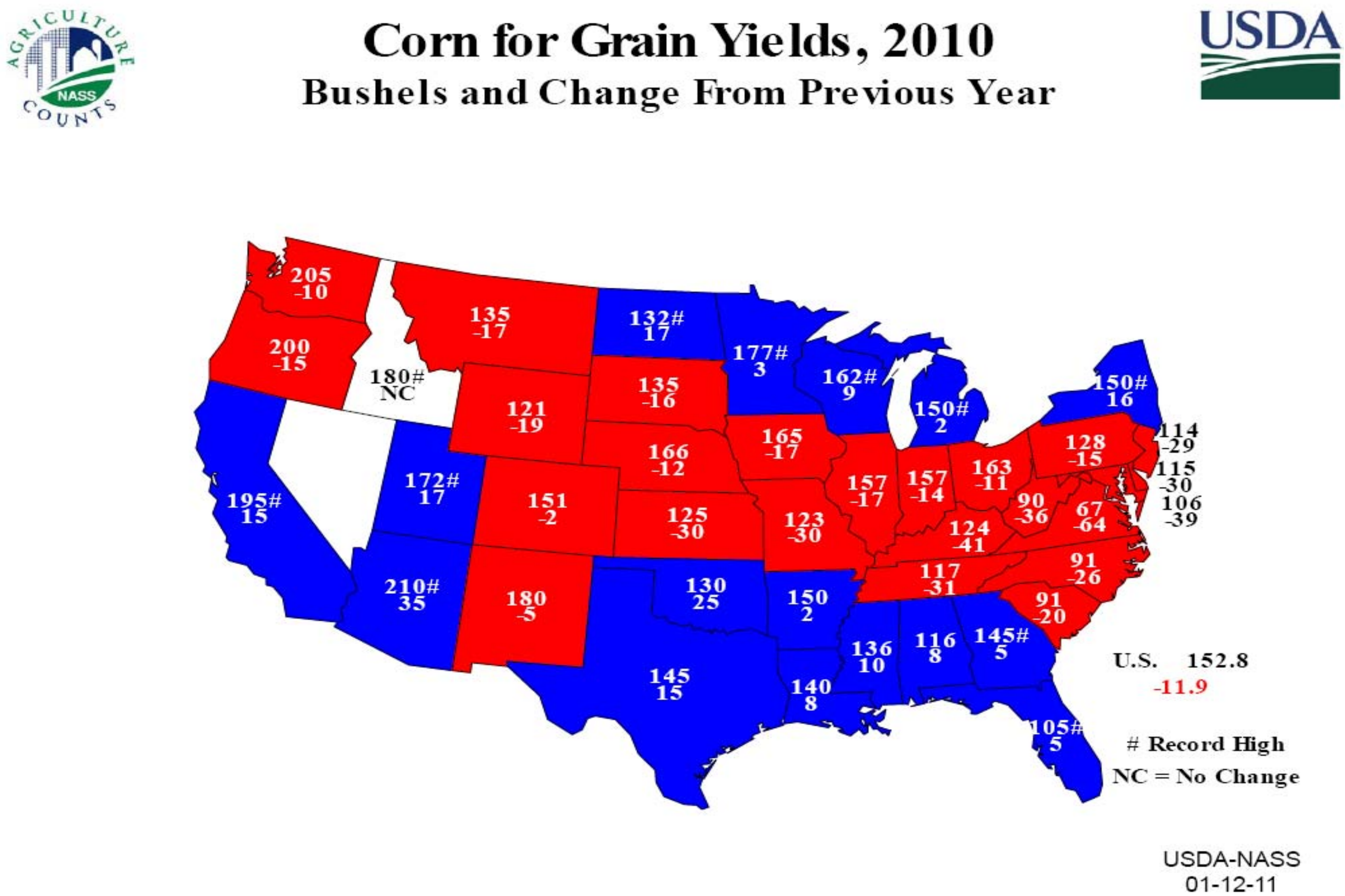
The New Year Starts Off Hot

Bulls have had the run over the last six months and USDA's mid-January reports did nothing to temper that run. The January numbers show smaller crops and high demand, a continued recipe for high prices. And with concerns still building on the outlook for the South American corn and soybean crops and the rumors that China may need additional corn, pressure and prices are still building in the crop markets. It takes larger supplies or fewer buyers to turn prices around. The updated reports gave us neither.

The January report is regarded as the final report on crop production. In this final report, USDA continued a trend, finding a smaller crop each time they looked at it. Corn production was lowered to 12.447 billion bushels and soybean production was reduced to 3.329 billion bushels. So over the course of this fall and winter, the national crops went from projected records to the 3rd largest corn crop and the 2nd largest soybean crop. These are big crops, but they seem small compared to the demands placed on them.

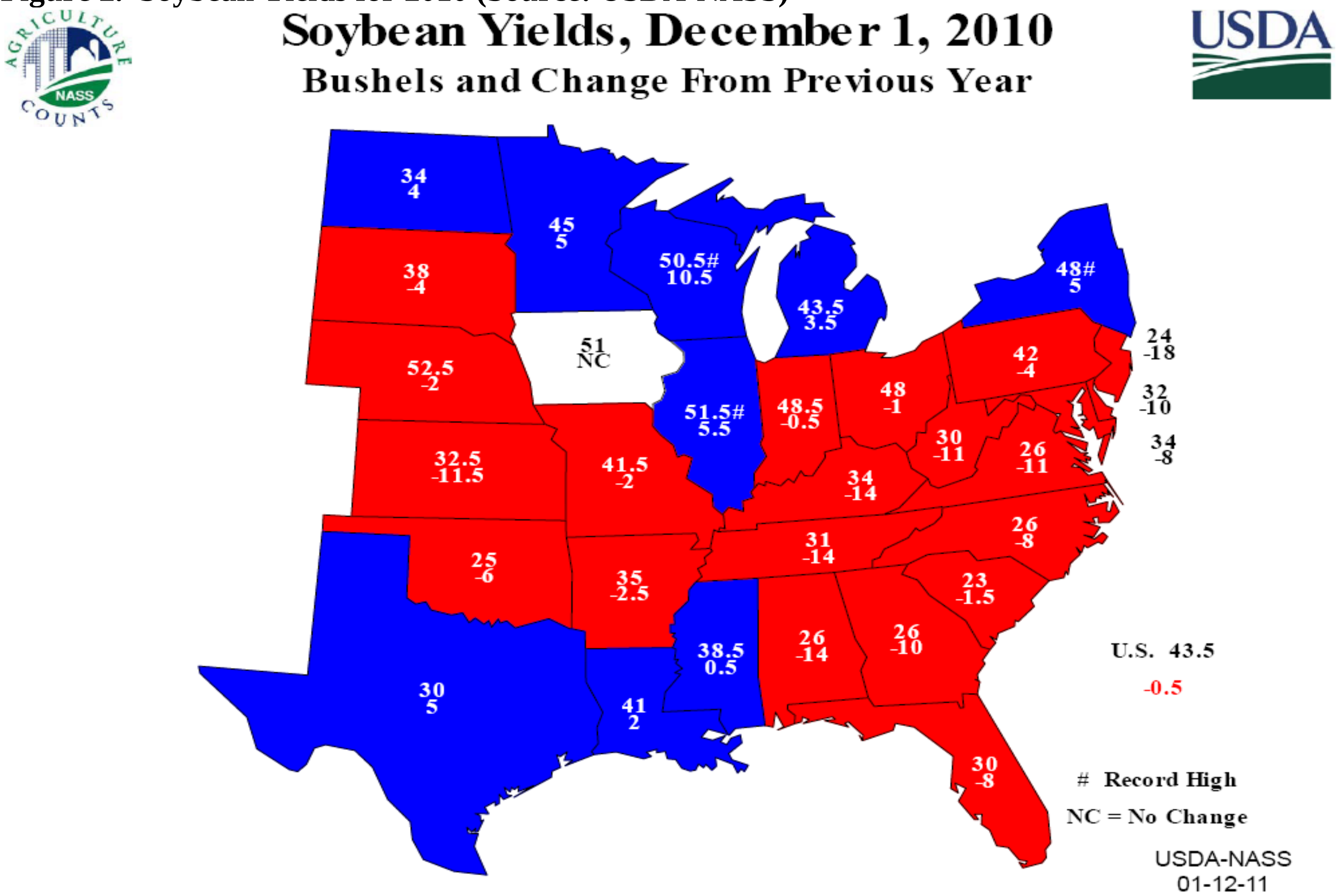
Figures 1 and 2 show the state level yield estimates for corn and soybeans. Compared to 2009, corn yields were lower across most of the country. Many of the top corn-producing states had average yields 15 to 30 bushels below 2009. Iowa's yield came in at 165 bushels per acre. However, there were some bright spots on the production side. Eleven states set yield records in 2010. Corn production was strong in the far northern Corn Belt, the Southwest, New York, Georgia, and Florida. The national average yield was 152.8 bushels per acre, 11.9 bushels below last year.

Figure 1. Corn Yields for 2010 (Source: USDA-NASS)



Soybean yields did not fall off nearly as much as corn yields, but most of the country did see lower yields. Three states had record yields, including Illinois. Iowa's soybean crop experienced significant disease pressure with the outbreak of sudden death syndrome. But Iowa's yield held 51 bushels per acre, the same as the previous year. Nationally, the average yield was 43.5 bushels per acre, down 0.5 bushels from last year.

Figure 2. Soybean Yields for 2010 (Source: USDA-NASS)



While the supply numbers have continued to shift, the demand update was relatively mild. Crop demands are still strong, but there were only a few changes in the demand picture. Corn feed demand was lowered 100 million bushels to a projected 5.2 billion bushels. Higher livestock prices have helped the industry manage with the higher crop prices/feed costs. But the ongoing crop price pressure will limit any discussion of renewed expansion. Feed's loss was ethanol's gain as corn demand via ethanol is projected at 4.9 billion bushels. Ethanol production remains at record pace and higher energy prices are providing ethanol the room to grow. Export demand was held steady at 1.95 billion bushels. Total corn use remains at 13.4 billion bushels of corn for the year. So corn demand is running roughly a billion bushels ahead of production.

The demand adjustments for soybeans were relatively small as well. Crush demand was reduced 10 million bushels to 1.655 billion. Seed and residual demand was reduced 7 million bushels. And export demand was held steady at 1.59 billion bushels. Soybean export pace so far this marketing year has been roughly 10% ahead of last year's record pace. China has continued to buy soybeans at an incredibly strong pace and remains the key market for the sector.

In total, the changes in the supply and demand numbers were relatively small. But given the already tight stock situation for both crops, the market impact of the changes was significant. The projected 2010/11 corn ending stocks are at 745 million bushels. That's just 5.5% of the total use of the crop, well below the typical level between marketing years. Roughly six months ago, the projections were these stocks would be above 1.7 billion bushels. Soybean 2010/11 ending stocks are projected at 140 million bushels. That's just over 4% of the total use of the crop. Soybean stocks in the U.S. have been very tight for three years running now. And that's after we've produced the two biggest soybean crops on record.

Given the tight stock outlook, prices have been marching upward. Chatter in the trade is about rationing these limited stocks over the marketing year and providing strong incentives for 2011 production. In USDA's season-average price projections, the corn price bounds were raised 10 cents per bushel, with a midpoint of $5.30 per bushel. If that price held, it would be the record high for the corn season-average price by over $1 per bushel. The current record is $4.20 per bushels from the 2007/08 crop. For their price outlook for soybeans, USDA kept their high price bound at $12.20 per bushel, but increase the low bound to $11.20. With a midpoint of $11.70 per bushel, that would be a record as well. Recent futures prices have pointed to even higher estimates for both corn and soybean season-average prices.

New crop prices are providing good incentives for 2011 plantings. And the competition among the crops is strong. Corn and soybeans are not the only crops with high prices. Wheat and cotton markets are also providing good prices and sizable expected returns for 2011 crops. We will likely see additional price strength as this competition for area heats up over the next couple of months. Overall, 2011 is shaping up to be a good year for crop returns, as long as we can produce a crop. Prices are stronger than costs (although costs are rising). In many ways, it's reminds me of 2007 and 2008. Looking forward, my concern is that 2012 may look like 2009 when costs caught up to prices and crop margins were squeezed.

Chad Hart

November Milk Production Up 3.1%

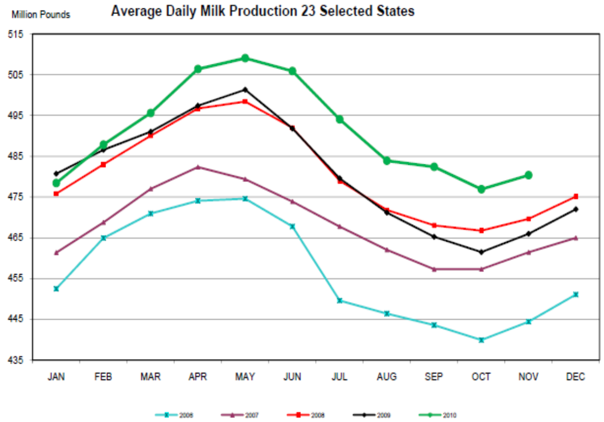
November 2010 23 major dairy states milk production increased 3.1%. Production per cow was up by 41 pounds from one year ago. Milk cow numbers were 57,000 more than Nov. 09 and the same as Oct. 2010. Oct 10 milk production was unrevised.

Iowa Nov 10 milk production was -3.3% compared to one year ago. Cow numbers were 11000 less compared to one year ago and milk production per cow was only 30 pounds higher than one year ago. Cheese production in Iowa during Oct 10 was 19,906,000 pounds, up -1.7% from Oct 10 and 6% higher than one year ago.

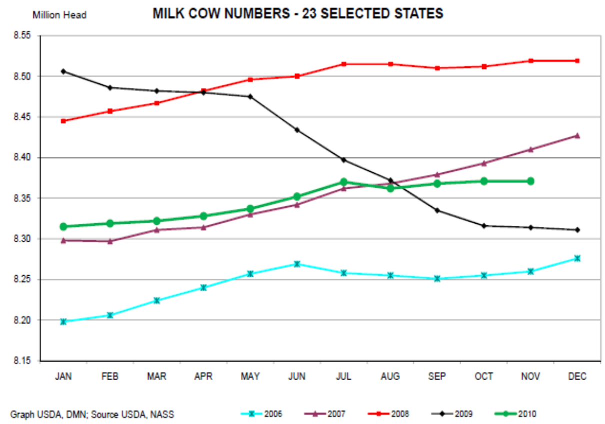
Milk Production: Selected Dairy States, November 2010

State	thousands 2009 cow numbers	thousands 2010 cow numbers	% change cow numbers	pounds 2009 milk per cow	pounds 2010 milk per cow	% change milk/cow	million pounds 2009 total milk production	million pounds 2010 total milk production	% change total milk
Iowa	215	204	-5.12%	1670	1700	1.80%	363	347	-4.46%
MN	469	470	0.21%	1545	1520	-1.62%	725	714	-1.41%
WI	1258	1265	0.56%	1630	1630	0.00%	2175	2062	-5.20%
IL	101	98	-2.97%	1510	1550	2.65%	153	152	-0.40%
CA	1765	1750	-0.85%	1775	1870	5.35%	3133	3273	4.46%
CO	116	122	5.17%	1860	1905	2.42%	216	232	7.72%
KS	113	121	7.08%	1725	1730	0.29%	195	209	7.39%
ID	548	572	4.38%	1790	1840	2.79%	981	1052	7.30%
AZ	168	182	8.33%	1840	1845	0.27%	309	336	8.63%
NM	317	319	0.63%	1970	1995	1.27%	624	636	1.91%
PA	538	541	0.56%	1560	1600	2.56%	839	866	3.14%
NY	611	611	0.00%	1605	1680	4.67%	981	1026	4.67%
TX	413	415	0.48%	1710	1750	2.34%	706	726	2.83%
23-State	8314	8371	0.69%	1681	1722	2.44%	13979	14111	0.94%
US 3rd quarter	9155	9123	-0.35%				46793	48071	2.73%

Of the 23 dairy states, five had less milk than one year ago. MO had the largest decline in milk production, -8.1%, and larger than the previous month's decline; they lost 1000 cows more than last month's drop, 9000. But MO cows did produce 30 pounds more milk per cow. The second largest milk drop was IA with -3.3% due to 11000 fewer cows but gained 30 pounds of milk per cow. Four states had 7%+ gains in milk production, AZ, CO, ID and OR. WI had 7000 more cows but did not add any more milk per cow.



Source: Dairy Market News



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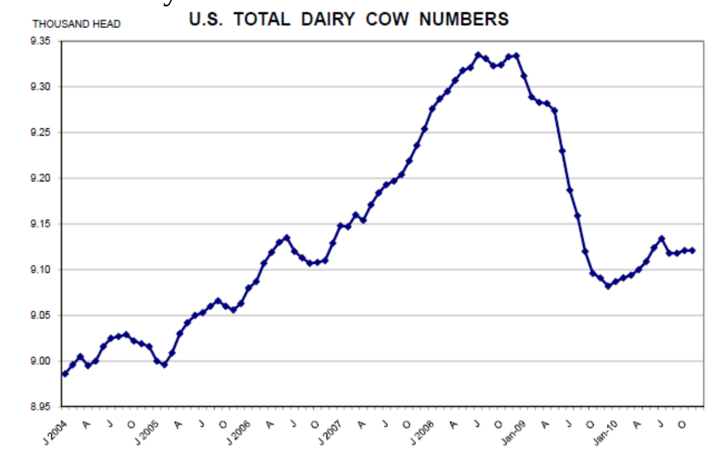
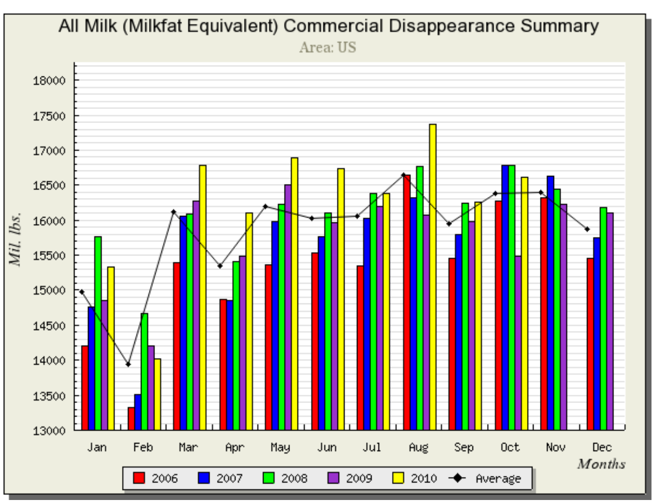


Source: Source: Dairy Market News

USDA's "Livestock Slaughter" report said dairy producers sent 241,000 dairy cows to slaughter during Nov 2010, 10000 more than Oct 2010 and 32000 more than one year ago. During Jan-November, US dairy producers culled 42000 fewer dairy cows than one year ago. There are still a lot of dairy replacement heifers we are working through. The latest cattle inventory, July 10, indicated an increase of 35 from one year earlier.

Demand or Disappearance

Fluid milk demand is still lower than one year ago. YTD fluid milk is -1.7% and for the Aug-Oct period it was of 2.6%. Organic fluid milk demand rose by 11.7%. Without this strong organic milk demand, conventional milk consumption would have declined by 2.1%. YTD commercial disappearance of all dairy products is up 2.8%. All categories of dairy products rose except fluid milk.

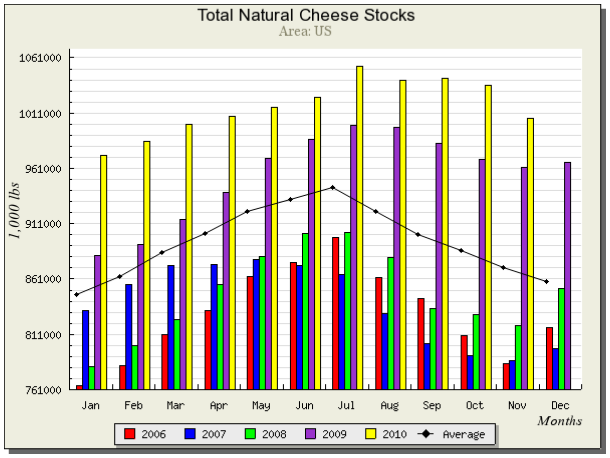


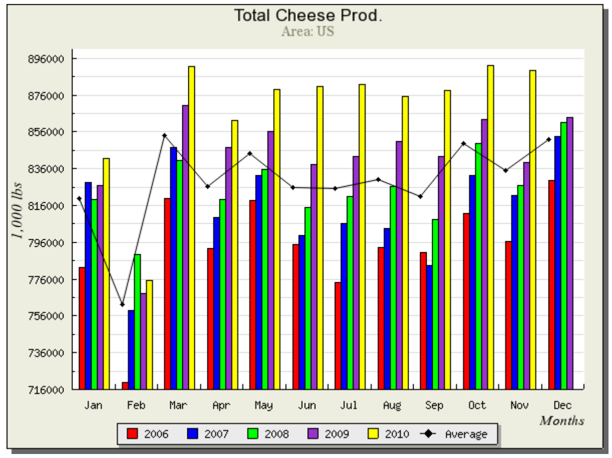
Source: Understanding Dairy Markets, U of WI

Dairy Product Manufacture: October 2010

Product	thousands pounds	Oct 09 % change	Sept 10 % change	YTD % change
Butter	121,559	7.50%	6.8	-2.4
Cheese, total	892,625	3.50%	1.6	3
Cheddar	274,146	4.10%	6	0.5
Other American	89,520	4.10%	-6	
Swiss	29,940	11.50%	6.4	
Italian Style	369,004	3.10%	0.9	5.4
NDM	115,286	24.20%	5.5	1.7
Sour Cream	102,345	-1.30%	7.9	2
Yogurt	351,220	13.50%	-9.8	8.4
Dry Whey, total	79,048	-3.30%	1.2	1.5
Lactose	74,020	15.80%	-2.8	23.3
WPC	35,362	-1.30%	-1	1.3
Frozen	1000 gal			
Ice cream, regular	61,264	-10.70%	-17.3	-2.9
Ice cream, lowfat	27,924	-1.60%	-16.6	5

Source: Dairy Products





Source: Understanding Dairy Markets, U of WI Source: Understanding Dairy Markets, U of WI

"Cheese stocks have remained large compared to the 5-year average. And at just over 1 billion pounds, the largest inventory since Nov 1984." That comment continues to haunt the dairy markets. We remain above 1 billion pounds of cheese in stock. We have been above that mark for 7 of the 11 months of 2010. Except for February, we have manufactured in excess of 800 million pounds of cheese monthly since Sept 07. The most recent USDA "Dairy Products" report said Nov 10 cheese production was 889.6 million pounds, a record, and up 65 from one year ago. Butter production was up 9.8% and NDM/SMP was 8.8% higher.

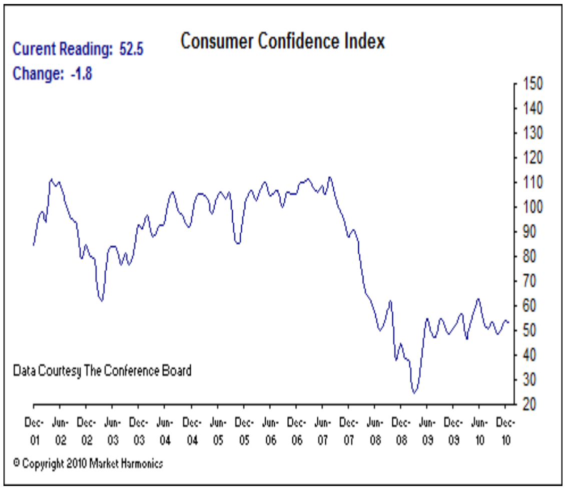
YTD only one category of dairy export, food prep blends, is lower in export volume. Cheese exports are in excess of 140357 metric tons YTD. That is up by 62% from one year ago. Aug-Oct shipments to Mexico were up 18%, South Korea +89% and Japan up by 135%. Total cheese exports account for 3.65 of YTD cheese production. That is 1.3 percentage points higher than 2009. In rank order of importance for cheese exports are: Mexico, Canada, the Caribbean, and Central America. During 2009, Mexico bought nearly 40% of all cheese exported by the US.

Analysis

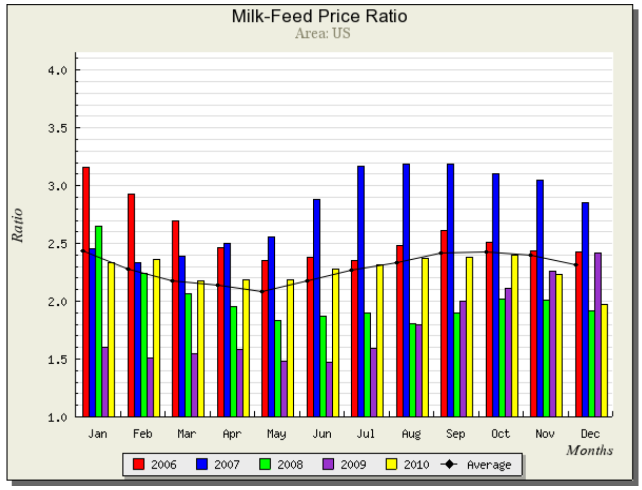
The Milk-Feed Price ratio continues to decline the past two months. It had remained mostly level from Aug-Oct. This is an indicator of the financial pressure that dairy producers will be under for the next few months. The pressure appears that it will come mostly from higher feed costs if the futures markets are a reasonable predictor of future prices.

Foodservice operators assessment of current conditions has deteriorated compared to the prior month. The indices are less than 100 meaning poorer foot traffic than they would like to see. Forty-five percent reported lower foot traffic than one year ago while 36% reported higher traffic. Daily Livestock Report indicates this is negative for the pork and beef markets. Since dairy tends to be complimentary with beef and a major restaurant menu ingredient, the comment is appropriate for the dairy industry as well.

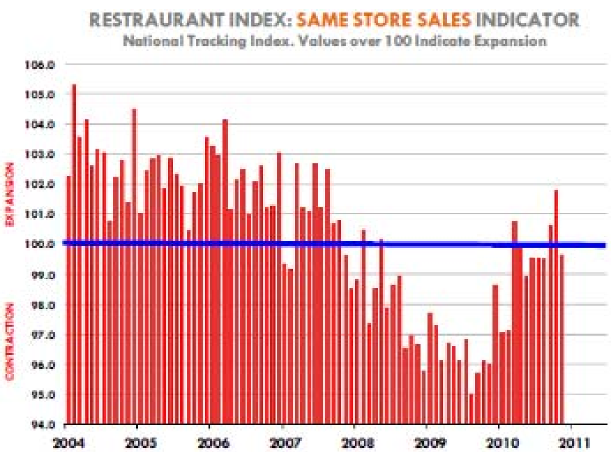
Both USDA and Robert Cropp, U of Wisconsin dairy economist, expect dairy markets to perform better in the latter half of 2011. Cow numbers are expected to end 2011 with fewer dairy cows than the end of 2010. Milk product exports are uncertain though because of uncertainty over Mexican dairy product tariffs. They are the largest importer of US cheese. Even so USDA is projecting commercial disappearance to increase by 3%, which is an increase of 0.2% from 2010.



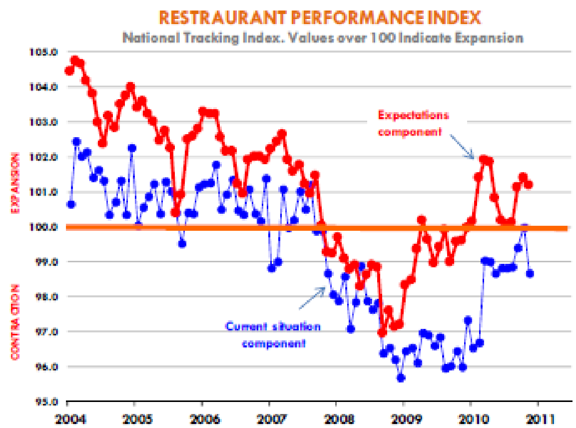
Source: Market-Harmonics.com



Source: Understanding Dairy Markets, U of WI



Source: Daily Livestock Report



Source: Daily Livestock Report

Source: Barchart.com July 2011 Class III Milk Futures

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