IOWA STATE UNIVERSITY
University Extension

# Iowa Farm Outlook

Department of Economics
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## US Hog Industry Expanding Slowly, but is Iowa Going Hog Wild?

The June Hog and Pig Report reported swine inventories to be very near expectations with a half percent increase in total swine numbers. As of June 1 the national swine herd was near an even 65 million head. The national breeding herd increased slightly and is now at 5.8 million head while market hog numbers increased by 0.6 percent to the 59.2 million head. Litter size which has been increasing steadily for the past several years, continued that trend with a 2 percent increase from last year putting the average litter size to over 10 pigs per litter. Intensions are that farrowings will be down 2.6 percent this summer, compared to last year, and fall farrowings will also be reduced by 1.1 percent.

**Table 1. Summary of June 2011 Hog and Pig Report**

| | US | | | Iowa | | |
|---|---|---|---|---|---|---|
| | **2010** | **2011** | **% chg** | **2010** | **2011** | **% chg** |
| | Million Head | | | Million Head | | |
| **All Swine** | 64.65 | 65.00 | 0.5% | 18.90 | 19.80 | 4.8% |
| **Breeding** | 5.79 | 5.80 | 0.3% | 1.01 | 1.03 | 2.0% |
| **Market Hogs** | 58.86 | 59.20 | 0.6% | 17.89 | 18.77 | 4.9% |
| Under 50 lbs | 19.35 | 19.38 | 0.1% | 4.59 | 4.95 | 7.8% |
| 50-119 lbs | 16.90 | 16.86 | -0.2% | 5.71 | 6.00 | 5.1% |
| 120-179 lbs | 12.03 | 12.42 | 3.3% | 4.44 | 4.46 | 0.5% |
| 180+ lbs | 10.58 | 10.53 | -0.5% | 3.35 | 3.12 | -6.9% |
| **Pig Crop** | | | | | | |
| Dec-Feb | 27.60 | 27.99 | 1.4% | 4.53 | 4.75 | 4.8% |
| Mar-May | 28.73 | 28.85 | 0.4% | 4.68 | 4.94 | 5.7% |
| **Litter Size** | 9.81 | 10.03 | 2.2% | 9.95 | 10.3 | 3.5% |
| **Farrowing Intentions** | | | | | | |
| Jun-Aug | 2.944 | 2.867 | -2.6% | 0.475 | 0.475 | 0.0% |
| Sep-Nov | 2.881 | 2.848 | -1.1% | 0.480 | 0.475 | -1.0% |

Maybe Iowa swine production is not really going “hog wild” but there has been some modest increase in the state’s breeding swine and market hog populations since last year. Iowa’s inventory of market hogs increased nearly 5 percent and is now approaching 19 million head. The state’s breeding herd also increased 2 percent. This puts the state’s total swine inventory within close reach of the 20 million head mark. The Iowa pig crop in the past two quarters has been up nearly 4 and 6 percent respectively. In the last quarter the average litter size has increased to 10.3 pigs, a considerable 3.5 percent increase from the same quarter last year and tribute to the increasing efficiency of swine production in the state. Producer intentions in Iowa are to keep the number of sows farrowing during the summer months consistent with those of last year, but with litter sizes increasing by three percent, even steady breeding herd numbers still leads to modest “expansion” in the state’s industry. At the same time the industry in other states is holding their sow numbers steady and reducing farrowing intentions from last year.

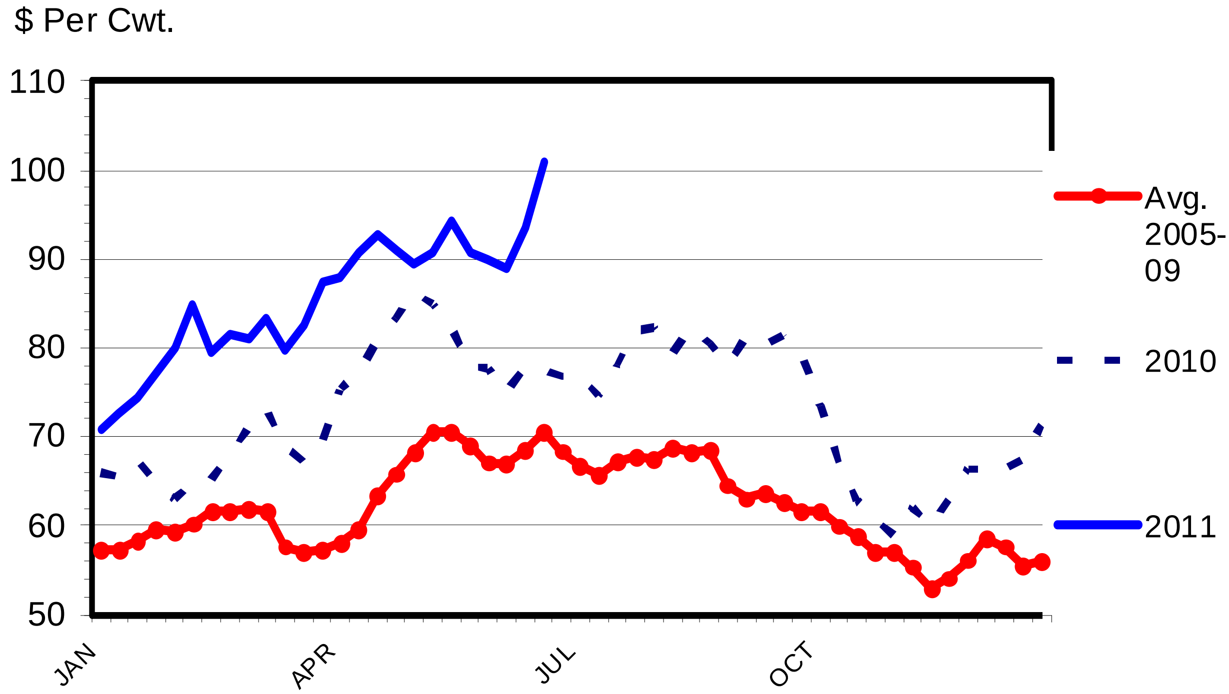
From current hog numbers and planned sow farrowing in the near future, it is expected that pork supplies will be higher during the summer months and then down slightly in the fourth quarter. Table 2 contains the forecasted pork supplies and lean hog prices for the next four quarter. These can be compared with the Iowa basis adjusted prices, which are running slightly higher than the ISU model price forecasts. In general lean hogs prices are expected to stay above $80/cwt for the next year.

**Table 2. Quarterly Pork Production and Hog Price Projections**

| | Change in Pork Supply | ISU Forecast Lean Hog Price | CME Futures on 6-24-11 with IA basis |
|---|---|---|---|
| 3rd Quarter 2011 | +1.0% | 87-90 | 91.96 |
| 4th Quarter 2011 | -0.5% | 80-83 | 82.49 |
| 1st Quarter 2012 | -1.2% | 82-85 | 84.12 |
| 2nd Quarter 2012 | +0.3% | 88-91 | 90.29 |

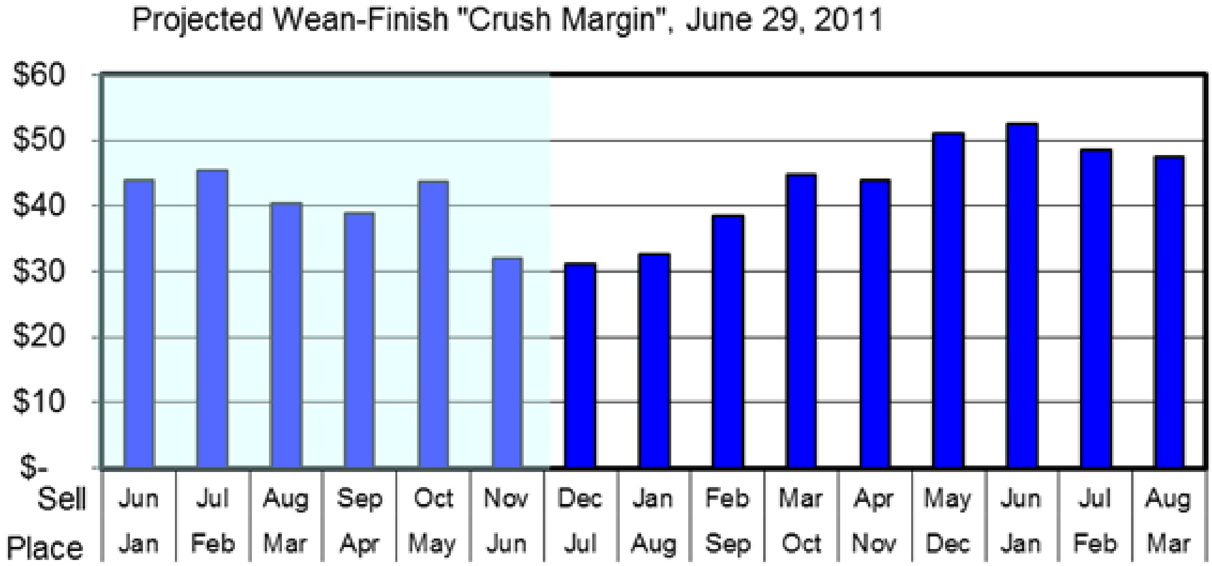
Recently there has been considerable strength in the hog market as illustrated in Figure 1. IA-So. Minn average lean hog base price broke the $100/cwt level. Seasonally, June is in the middle of the seasonal high point in the price cycle. Prices are expected to stay strong and remain above $95/cwt for the month and then start to tapper off by August. As seen last year, the number of hogs entering the market will increase by September and prices will be in the low to mid-$80/cwt in October.

**Figure 1. Iowa-So. Minnesota Barrow and Gilt Lean Hog Price**




With the futures price of corn falling last month there is renewed hope in profitability for hog production. Below is a snapshot of the gross margins available from the futures on June 29th. As a benchmark, a $40/hd gross margin equates to a breakeven net profit. These “crush” or gross margins are calculated each Wednesday and are available at [www.econ.iastate.edu/margins](http://www.econ.iastate.edu/margins) .

**Figure 2. Hog Finishing Crush Margins based on June 29 Futures Settlement Prices**




*Shane Ellis*

## Recovering from the June Reports

It seems like every time USDA releases a report, the report shocks the markets. Last week's acreage and stocks reports did just that to the corn market as acreage and stocks were both higher than expectations. Soybean stocks were also higher, but within the pre-trade range. Soybean acreage shocked on the low side. By the end of the report day, July corn was down 69 cents per bushel, with all of the corn futures for the 2011 and 2012 crops down the limit. Soybean prices followed suit, dropping 27 to 32 cents per bushel. But since then the markets have been recovering over the 4th of July weekend as traders shift their concerns from acreage to yields.

As the acreage report showed, soybean plantings borne the brunt of the wet weather delays. Nationwide the USDA data showed 92.3 million acres are planted to corn, with an expectation that 84.9 million of those acres will be harvested. The pre-trade estimates ranged between 89.5 and 91.5 million acres, so corn plantings exceeded expectations by a sizable amount. On the flip side, soybean plantings were well below pre-trade estimates at 75.2 million acres. As it stands, corn plantings slightly exceed March planting intentions, whereas soybean plantings are 1.4 million acres below March intentions. Combining these acreage numbers with USDA's current yield projections leads to 2011 expected production of 13.474 billion bushels of corn and 3.225 billion bushels of soybeans. That boosts corn supplies by roughly 275 million bushels, but lowers soybean supplies by 60 million, compared to last month's estimates.

For corn, while the June acreage report had roughly the same numbers of acres as the March intentions, the regional shifts were significant. Figure 1 shows the March intentions and the June acreage versus 2010 plantings. The states with the largest shifts on the upside were Iowa (up 300,000 from intentions), Minnesota (up 200,000), and Nebraska (up 500,000). States that didn't plant as much corn as they intended include Illinois (down 300,000), North Dakota, Ohio, South Dakota, and Texas (all down 200,000). The western Corn Belt, with the exception of the Dakotas, added significant corn area, while the eastern Corn Belt was delayed.

**Figure 1. Corn planting shifts in 2011 (change from 2010 acreage, in 1,000 acres)**

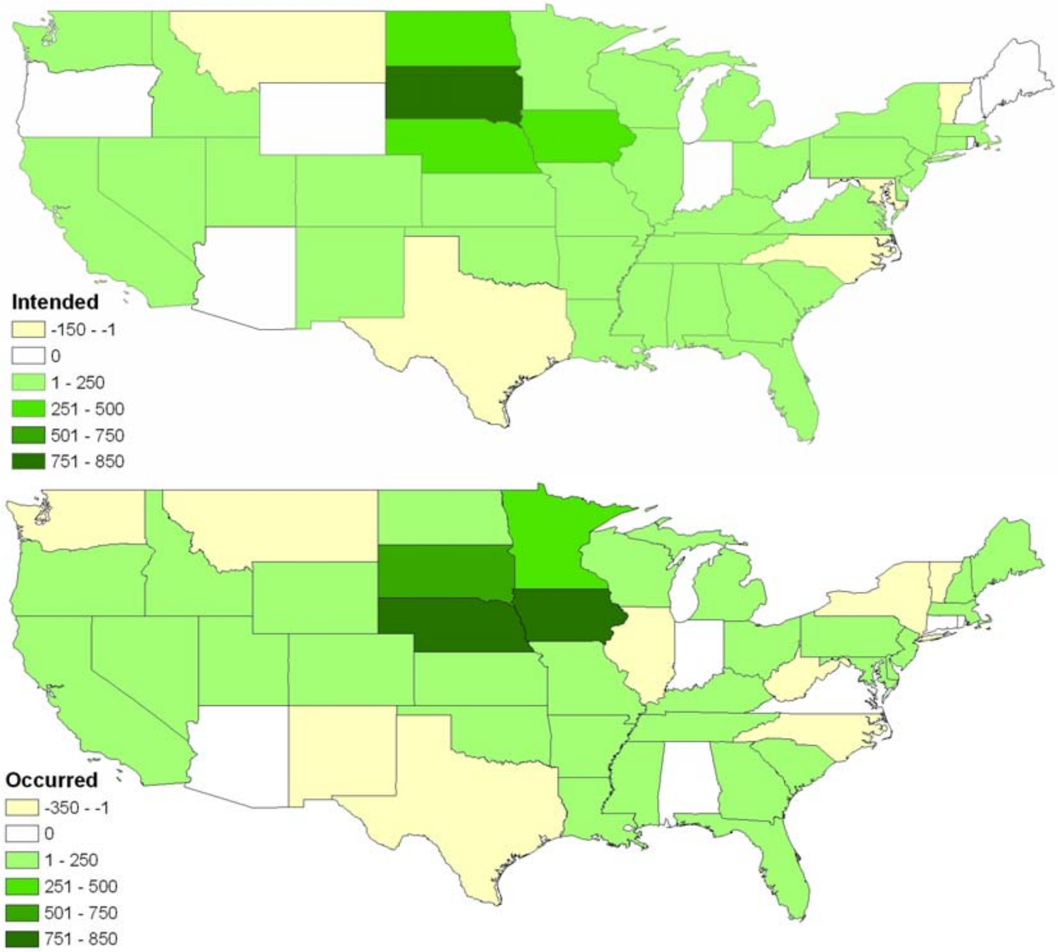
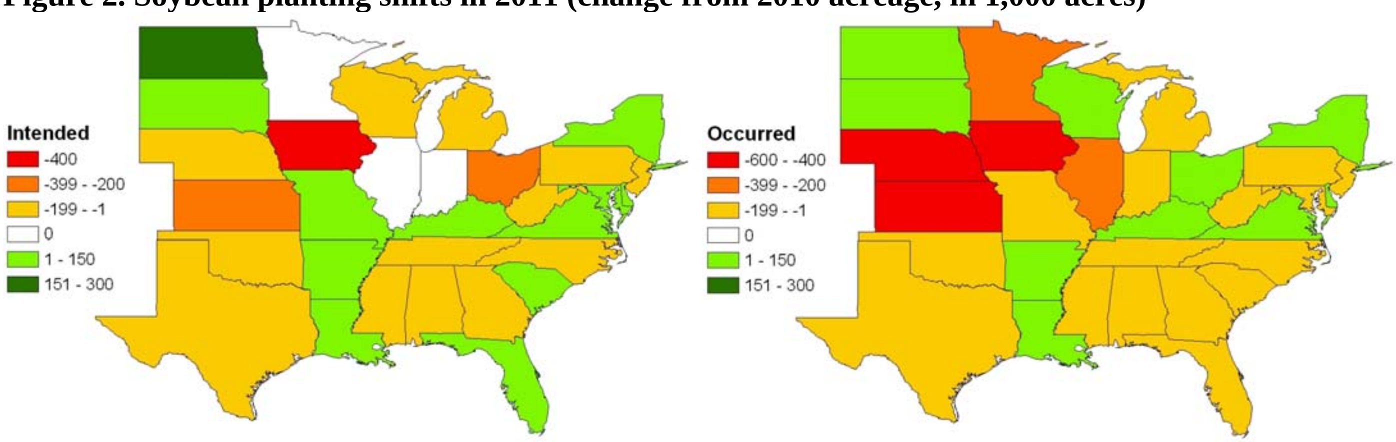



Figure 2 shows the acreage shifts for soybeans. Only 4 states planted more soybeans than their March intentions: Kentucky, Ohio, Tennessee, and Wisconsin. Most of the major soybean producing states planted significantly less acreage than the March intentions. Illinois, Iowa, Minnesota, Missouri, and Nebraska all reported at least 200,000 less acres planted to soybeans than earlier intentions. There are a couple of wildcards in the acreage picture. One, USDA is going to resurvey Minnesota, Montana, and the Dakotas in July to recheck acreage estimates there. Two, flooding continues along the Missouri River that could pull down harvested acre estimates as we approach fall.

**Figure 2. Soybean planting shifts in 2011 (change from 2010 acreage, in 1,000 acres)**

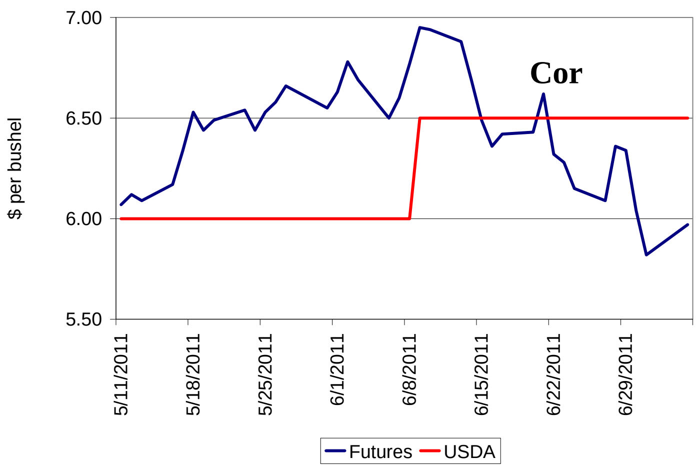


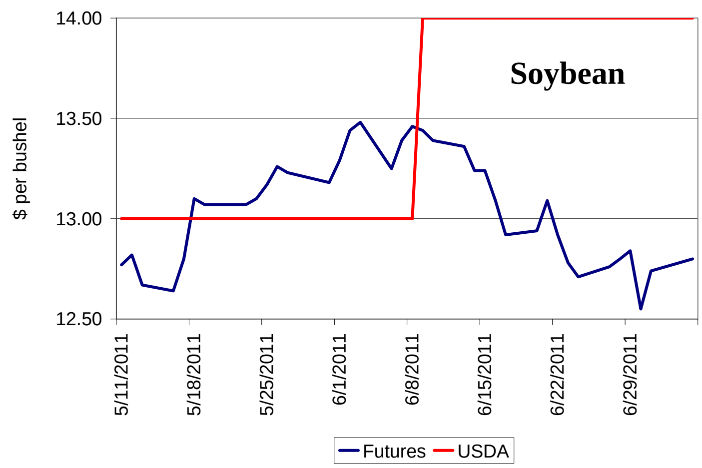

Both corn and soybean supplies also received a boost from the stocks reports as the June 1 numbers show higher crop stocks than expected. Soybean stocks came in at 619 million bushels, roughly 20 million above expectations. Corn stocks were at 3.67 billion bushels, 350 million above expectations. For both crops, disappearance during the March-May period was less than last year, showing demand did slow down with the higher prices. Soybean disappearance was at 630 million bushels, down 10 percent from last year. Corn disappearance was at 2.85 billion bushels, down 15 percent. Relatively more of the crops are being held off-farm this year, compared to last year. Corn stocks are higher in the northern Corn Belt, especially Minnesota and Wisconsin. The higher soybean stocks are spread throughout the country.

Looking the combined impact of the reports, overall traders saw 625 million more bushels of corn than they expected, but 40 million less bushels of soybeans. So at this point, the corn and soybean markets are facing opposing conditions. Corn stocks are projected to rebound from lows at the end of this summer with increased production and smaller demand. Soybean stocks are projected to get even tighter, in line with the last three years of small ending stocks.

In general, prices had been moving down since mid-June. The acreage and stocks reports just accelerated that trend. Both corn and soybeans had given up roughly a dollar per bushel in June. Just before the reports, futures indicated 2011/12 season-average prices of $6.34 per bushel for corn and $12.84 per bushel for soybeans. The trading following the report sent these estimates down to $5.82 and $12.55, respectively. But with the turn of the calendar to July, the markets have begun to bounce back on rumors of Chinese purchases. By the close of business on July 5th, the corn market has regained 15 cents to reach an estimated season-average price of $5.97. The soybean markets had nearly recovered all of the losses from the reports, with an estimate of $12.80. These estimates are much closer to USDA's May price estimates than they are to the June estimates. Now we'll see if USDA has any more surprises left with the July demand update.

**Figure 3. 2011/12 Season-average Price Estimates**

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