IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

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September 2013 Hogs and Pigs Report Summary

On September 27 USDA released the Quarterly *Hogs and Pigs Report* as of September 1, 2013. Given the host of issues coming into the report, USDA's survey results will be dissected and debated for weeks if not months to come. Overall, the take-home contribution of this report was softening expectations for growth, at least in the short-term, and larger than expected hog supplies. Several final estimates were outside the range of pre-report expectations with a few major surprises regarding year over year changes. Growth in the breeding herd of 0.4 percent was 1.1 percent lower than the average of the pre-report estimates softening expectations for growth even with lower feed costs expected in the next 12 months. The inventory of market hogs weighing less than 50 pounds was up 0.9 percent, weighing 50 to 119 pounds was up 1.1%, and weighing 120 to 179 pounds was up 1.5 percent. Pre-report expectations were for these categories of market hogs to be down on average 1.2 percent, 1.1 percent, and 1.5 percent respectively. Market participants were watching these categories closely for an indication of the impact from Porcine Epidemic Diarrhea Virus, or PEDv, with many analysts expecting significant year over year declines in these market hog weight categories. However, according to the USDA data, PEDv has had only a very minimal impact on overall supplies.

A Rundown of the Estimates

Table 1 provides a summary of the September 1, 2013 estimates for the United States. The U.S. total hogs and pigs inventory, at 68.360 million head, was 0.3 percent more than a year ago. The breeding herd inventory, at 5.814 million head, was up 0.4 percent and the total market hog inventory was up 0.3 percent at 62.46 million head. The inventory of feeder pigs less than 50 pounds, at 20.085 million head, was up 0.9 percent and the inventory of feeder pigs 50 to 119 pounds, at 18.087 million head, was up 1.1 percent. Market hog inventory weighing 120 to 179 pounds, at 13.284 million head, was up 1.5 percent while inventory weighing 180 pounds and over, at 11.090 million head, was down 4.5 percent. The large year over year decline of 3.5 percent in market hog inventory weighing 180 pounds and over may stand out at first glance, but using 2012 as a benchmark is misleading as this was a time when producers were aggressively marketing hogs as they were trying to reduce feed usage.

June-August sows farrowing, at 2.925 million head, was down 0.1 percent and near the mid-point of June-August sows farrowing for the history of the data. The June-August pig crop, at 30.210 million head, was up 1.9 percent. This was the largest June-June pig crop in history dating back to 1973. The industry continues to realize tremendous progress in efficiency as producers have been able to increase pig crops while decreasing the breeding herd as a percent of the total hogs and pigs inventory. In fact, the June-August pigs per litter set a new all-time record high at 10.33, a 2.0 percent increase from the previous year.

The outlook for hog supplies in 2014 will be affected by producer intentions to farrow more sows in the coming months. Intentions are for September-November sows farrowing, at 2.900 million head, to be up 0.4 percent and December-February sows farrowing, at 2.870 million head, to be up 0.9 percent; netting about two-thirds of one percent increase in these five months. Projecting farrowing intentions out with projected commensurate pigs per litter it looks like the potential is there for a new record high for the September-November pig crop at 29.877 million head. This would be an increase of 364,000 head from the record set in 2007. A December-February pig crop projection of 29.115 million head would also be a record high, an increase of 96,000 from the record set in 2012-13. The point is pig crops remain and project to be very large compared to historical levels, record highs in possibly.

Table 1. Summary of September 2013 USDA Hogs and Pigs Report: United States

	2012	2013	2014	2013 as percent of 2012	2014 as percent of 2013
	(1,000 head)			(percent)	(percent)
September 1 inventory					
All hogs and pigs	68,172	68,360		100.3%	
Kept for breeding	5,788	5,814		100.4%	
Market	62,384	62,546		100.3%	
Market by weight groups					
Under 50 pounds	19,900	20,085		100.9%	
50-119 pounds	17,899	18,087		101.1%	
120-179 pounds	13,090	13,284		101.5%	
180 pounds and over	11,495	11,090		96.5%	
Sows farrowing					
December - February [1,2]	2,864	2,844	2,870	99.3%	100.9%
March - May	2,982	2,921		98.0%	
June - August	2,928	2,925		99.9%	
September - November [3]	2,888	2,900		100.4%	
Pig Crop					
December - February [1]	28,550	28,662		100.4%	
March - May	30,077	30,111		100.1%	
June - August	29,654	30,210		101.9%	
September - November	29,320				
Pigs per litter					
December - February [1]	9.97	10.08		101.1%	
March - May	10.09	10.31		102.2%	
June - August	10.13	10.33		102.0%	
September - November	10.15				

The full report can be found at: http://usda01.library.cornell.edu/usda/current/HogsPigs/HogsPigs-09-27-2013.pdf
[1/] December preceding year.
[2/] Intentions for 2014.
[3/] Intentions for 2013.

Table 2 provides a summary of the September 1, 2013 estimates for Iowa. Iowa producers increased inventory of market hogs 2.0 percent while the breeding hog inventory was unchanged. Total hog and pig inventory at 21.200 million head, was up almost 2.0 percent from a year ago. Market hog inventories in Iowa provide further confirmation of the state's growth in finishing capacity. The inventory of feeder pigs less than 50 pounds, at 5.300 million head, was up 3.9 percent and the inventory of feeder pigs 50 to 119 pounds, at 6.490 million head, was up 2.5 percent. Market hog inventory weighing 120 to 179 pounds, at 5.000 million head, was up 4.2 percent while inventory weighing 180 pounds and over, at 3.410 million head, was down 4.5 percent. Producers in Iowa appear to be moderating their farrowing plans. Sows farrowed in June-August were 2.0 percent below year previous levels and farrowing intentions call for 5.0 percent decrease year over year in September-November. Sows farrowing in December-February are expected to be unchanged from 2012-13.

Commercial Hog Slaughter Projections and Lean Hog Price Forecasts

Table 3 contains the Iowa State University price forecasts for the next four quarters and the quarterly average futures prices based on September 27, 2013 settlement prices. The futures price forecasts are adjusted for an historic Iowa/Southern Minnesota basis. The table also contains the projected year over year changes in commercial hog slaughter, which is expected to see year over year increases.

Table 2. Summary of September 2013 USDA Hogs and Pigs Report: Iowa

	2012	2013	2014	2013 as percent of 2012	2014 as percent of 2013
	(1,000 head)			(percent)	(percent)
September 1 inventory					
All hogs and pigs	20,800	21,200		101.9%	
Kept for breeding	1,000	1,000		100.0%	
Market	19,800	20,200		102.0%	
Market by weight groups					
Under 50 pounds	5,100	5,300		103.9%	
50-119 pounds	6,330	6,490		102.5%	
120-179 pounds	4,800	5,000		104.2%	
180 pounds and over	3,570	3,410		95.5%	
Sows farrowing					
December - February [1,2]	475	475	475	100.0%	100.0%
March - May	495	495		100.0%	
June - August	495	485		98.0%	
September - November [3]	505	480		95.0%	
Pig Crop					
December - February [1]	4,893	4,916		100.5%	
March - May	5,148	5,198		101.0%	
June - August	5,173	5,141		99.4%	
September - November	5,202				
Pigs per litter					
December - February [1]	10.30	10.35		100.5%	
March - May	10.40	10.50		101.0%	
June - August	10.45	10.60		101.4%	
September - November	10.30				

The full report can be found at: http://usda01.library.cornell.edu/usda/current/HogsPigs/HogsPigs-09-27-2013.pdf

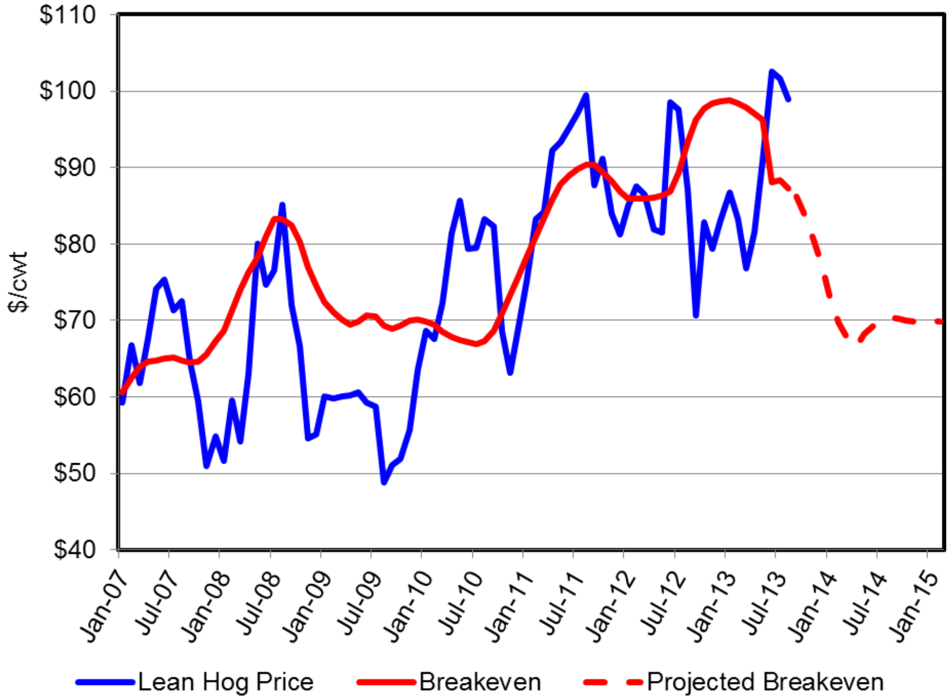
1/ December preceding year.
2/ Intentions for 2014.
3/ Intentions for 2013.

Table 3. Commercial Hog Slaughter Projections and Lean Hog Price Forecasts, 2013-2014

	Year over Year Change in Commercial Hog Slaughter	ISU Model Price Forecast	CME Futures (09/27/13) Adjusted for IA/So MN Negotiated Basis
	(percent)	($/cwt)	
Oct-Dec 2013	+1.1	85-88	85.81
Jan-Mar 2014	+2.9	83-89	86.22
Apr-Jun 2014	+1.8	88-92	90.17
Jul-Sep 2014	+3.4	82-88	85.05

The price outlook for hogs is good in comparison to the cost of production. Farrow to finish margins remain positive — and have been so to a degree for the last four months according the Iowa State University Estimated Returns. Figure 1 shows the computed breakeven levels with profitable conditions expected to remain given price forecasts. The projected breakeven cost for October is $83.85/carcass cwt. The figures for November and December are $80.49 and $77.15, respectively.

Figure 1. Lean Hog Price vs Breakeven – Farrow to Finish, Iowa, Monthly



Note: Derived using the Iowa State University Estimated Returns model. Estimates are developed to serve as a barometer of prices and costs and are not intended to represent any one operation.

Lee Schulz

Price Volatility Should Instill Action, not Emotions

Driving across Iowa crop conditions are variable, reports show the same conditions across the nation. Some top dairy producing states have experienced two years of extreme weather conditions. Continued drought or prevented planting acres have affected quantity and quality of feed available along with price, both will continue to be issues for some producers this year. However, some producers have recovered from the widespread drought last year by harvesting additional or rebuilding forage inventories. Feed input prices have varied over the past year; recently milk price has also reflected similar change in the market. While there are several factors affecting milk price, the relationship of corn and milk prices is one factor to watch.

Corn prices have come down from historical highs since a year ago due to larger number of acres planted and expected yield potential. However, the growing season has resulted in variable yield expectations. The resulting price of new crop corn also has potential variability due to existing playing cards yet this crop year. One factor is timing of the first frost; in areas where crops were planted late an early frost could impact the final stages of crop development and result in a yield hit. The date of an early frost is dependent upon location within the U.S., in northeast Iowa the average date by when a killing frost occurs is between October 9 and 17. Another factor is the growth in demand from the livestock industry, with more demand from the poultry and pork sectors an increased number of bushels are used for feed purposes. Increased demand from the ethanol and export industries as well can create a bullish push on corn prices after harvest. However, the weather could hold off as it has most of the summer and allow the crops to develop before the first frost resulting in record yield potential for some states across the Corn Belt. The potential for corn price to increase, decrease, or remain stable still remains a question based on where supply and demand hit at and post-harvest this fall.

Many dairy producers across the Midwest have seen higher than average milk production over the summer months due to the cooler weather. Milk production has seen increases in most regions; however, states in the

West have seen decreased milk production from last year over the summer months. With the overall increased milk production by 2.6 percent from last year, dairy product inventories have also increased. With school being back in session and suppliers anticipating holiday product sales be enough to put bullish moves on milk prices? But global supply and demand and value of the dollar relative to foreign currencies also continue to affect dairy prices.

Corn and milk prices have seen large movements in the past year. U.S. All Milk price varied $5.90 ($16.20 in June and July to $22.10 in November) in 2012, 36.4 percent change; this is the second highest price variance within a calendar year in the past 20 years. All Milk price has varied $0.90 so far in 2013. While national corn price varied $1.56 from $6.07 to $7.63 in 2012, 25.7 percent price change. However, there is only $0.36 variance in the 2012 corn marketing year, September through August. New crop corn is expected to be in the range of $4.40 to $5.20 per bushel range according to the September WADSE report, expected prices received by the producer will vary.

With variability on both sides, where are milk margins or income over feed costs at currently? Prices continue to change; margins have further compressed from softening of milk prices over the past few months, but the outlook due to feed prices is positive. I challenge producers to ask themselves, what has our operation done to secure profit margins for my operation? With changing input prices, have I recalculated cost of production for my dairy operation? Current costs of production will assist the producer in making the right marketing decisions. Finally, I encourage producers to remember it is margins that create profits and opportunities.

Kristen Schulte

Stocks Show Demand Slowdown

With the release of the Grain Stocks report, we are about to put the final numbers around the 2012 corn and soybean crops. And those final numbers show that we have a little bit more left of the 2012 crops than the market expected. Corn stocks were estimated at 824 million bushels, down 17% from last year, but that was still 10% higher than the highest trade estimate. Disappearance of corn over the June to August was 1.94 billion bushels. 4th quarter disappearance was 2.16 billion bushels in 2012. So corn demand continued to be sluggish this summer as users waited for the new crop to come in. The drop off in disappearance was wide spread as ethanol, feed, and export demands were very quiet over the summer. As Figure 1 shows, corn ending stocks are at a decade wide low. But the June-August corn disappearance was at a decade wide low as well. While the corn stocks number was well above the highest trade estimate, the corn market remained somewhat calm as futures were off only 10-12 cents.

Soybean stocks were estimated at 141 million bushels, down 17% from last year, but up 16 million bushels from last month. USDA revised the 2012 soybean crop estimates by increasing harvested acres by 60,000 acres, yields by 0.2 bushels per acre (for a national average of 39.8 bushels per acres), and production by 19 million bushels. The increases were spread throughout the country. These adjustments basically explain the increase in soybean stocks from last month's estimate. Soybean disappearance in the 4th quarter fell off the table, as it was down 41% from last year's levels. As with corn, the summer disappearance of soybeans was at a decade wide low. The soybean market reacted much more sharply than the corn market did. Soybean futures fell roughly 35 cents per bushel on the nearby contracts and 20-25 cents per bushels for the late spring and summer 2014 contracts.

Part of the retreat in crop disappearance was due to the lackluster pace of U.S. corn and soybean exports over the summer. The world corn market moved away from U.S. corn very quickly in 2012 as the drought set in and prices rose. And corn exports never really picked up after that. For the marketing year, the U.S. exported roughly 735 million bushels. That is the lowest corn export amount over the past 35 years (and possibly more).

Figure 1. Corn Stocks (Source: USDA-NASS).

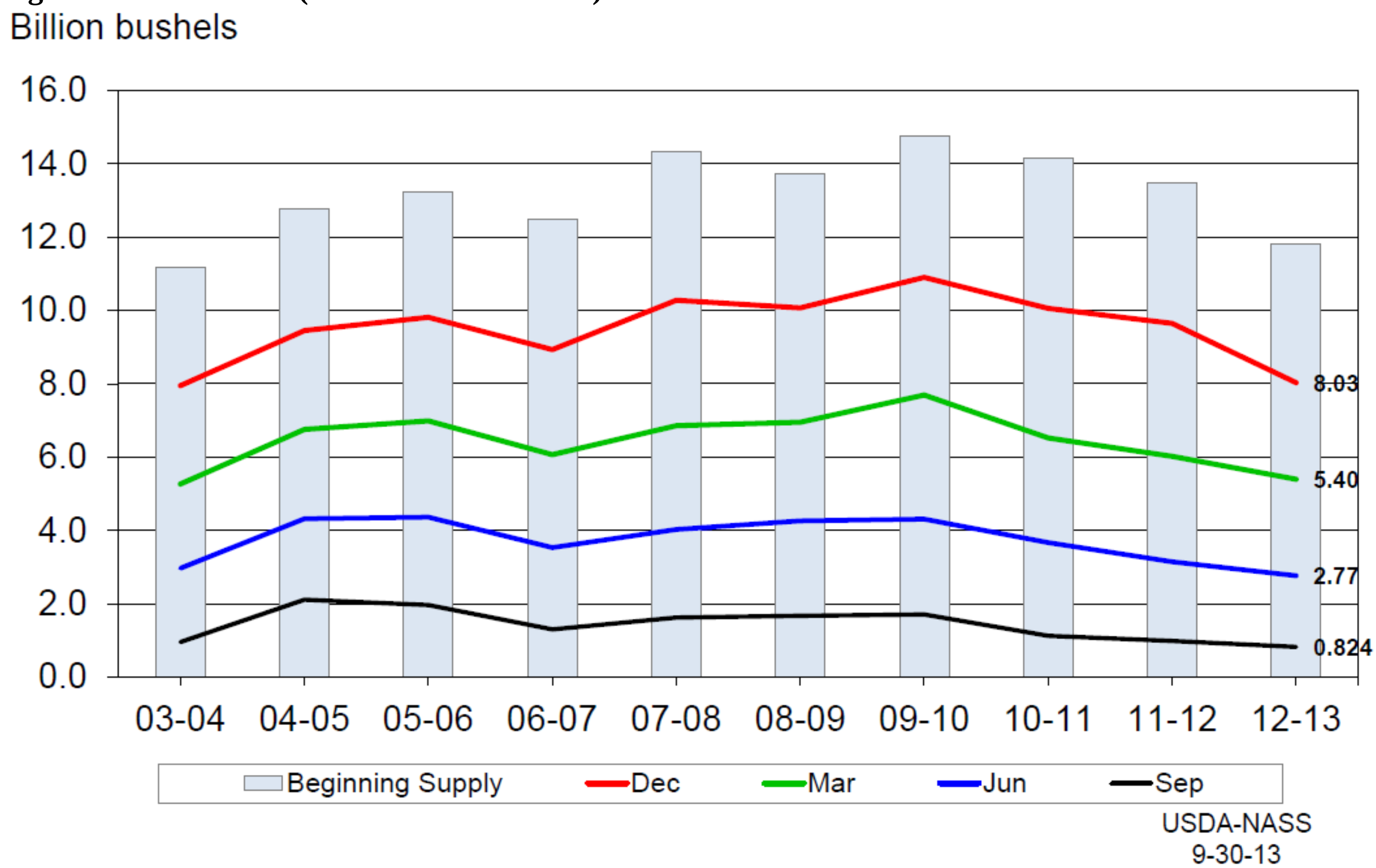
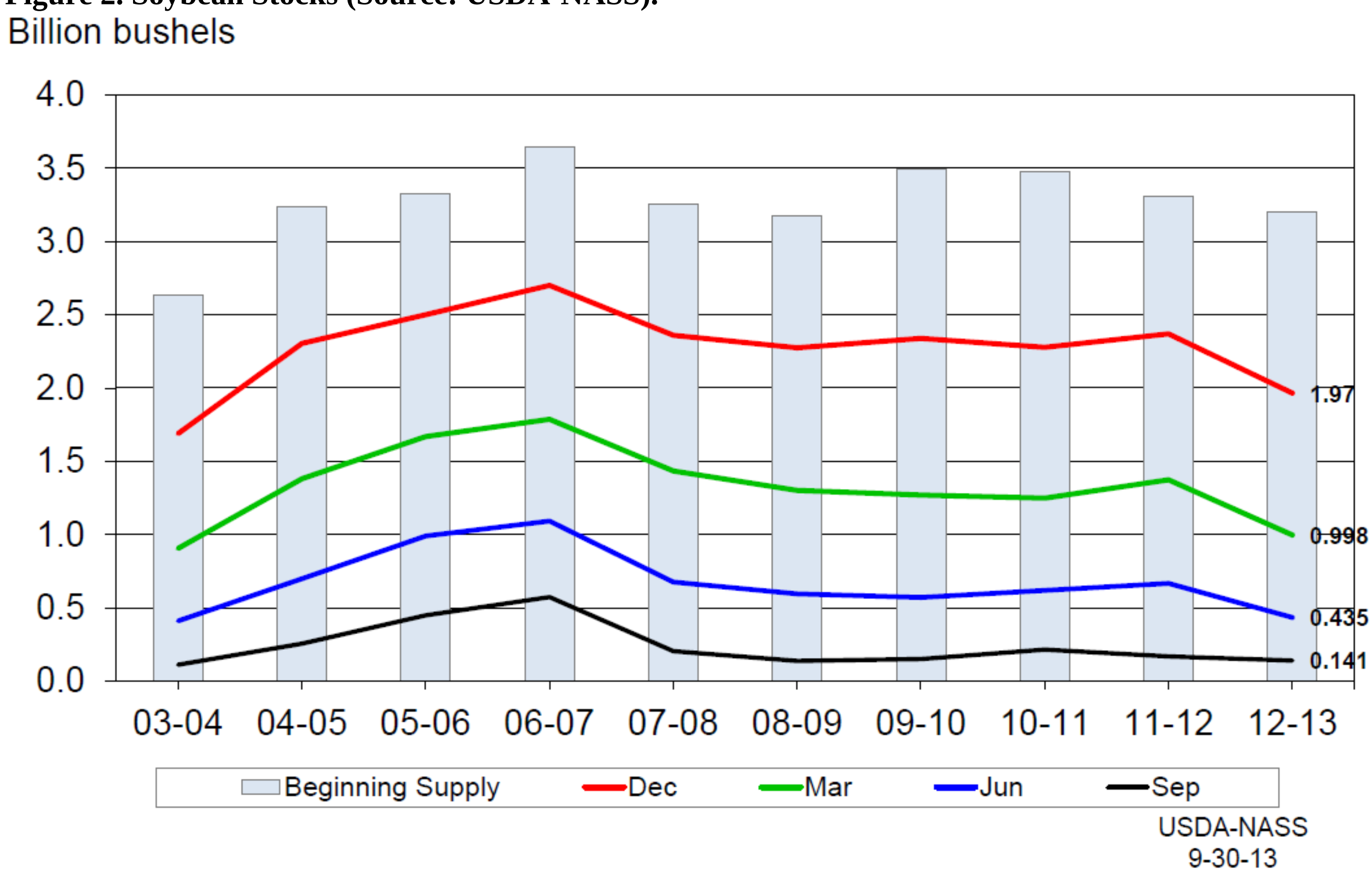


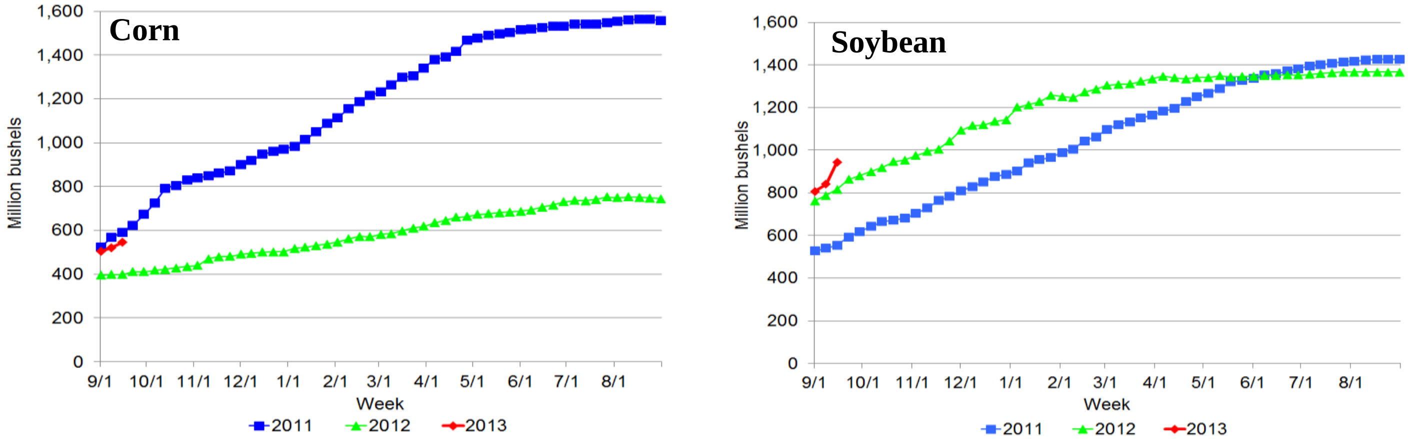
Figure 2. Soybean Stocks (Source: USDA-NASS).



The pullback in world demand for U.S. corn was broad based. All of the top 10 U.S. corn importers for the 2011 crop reduced their imports for 2012 crop. Japan is our largest market, but demand there fell by over 30%.

The Mexican market was cut in half, as was the Chinese market. The South Korean market shed over 80%. The soybean export market for the 2012 crop started off strong. But as the marketing year played out, exports dried up with the South American crops replacing U.S. soybeans. Once the calendar moved to April, U.S. soybean exports stopped. Again, the pullback was broad based as 4 of the top 5 markets declined year over year.

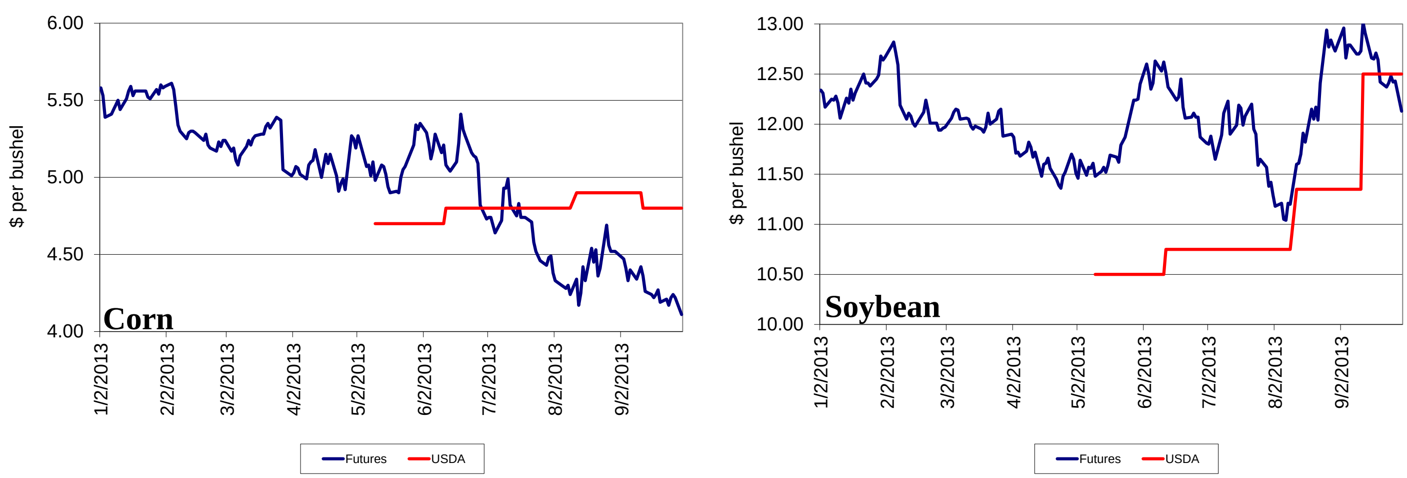
Figure 3. Exports (Source: USDA-FAS).



However, the export picture for the current marketing year is starting out with a strong rebound. As the graphs in Figure 3 show, the early corn export sales have recovered to parallel the sales pattern for the 2011 crop. The early soybean export sales are actually running ahead of the last two years. For corn, the leading markets have been China and Mexico. Early sales to China are running 215% higher than last year. Mexican sales are up by over 50%. Overall, current corn exports are nearly 40% ahead of last year's pace. For soybeans, China remains the key market as China represents roughly two-thirds of U.S. soybean exports. And early soybean sales to China are running nearly 28% ahead of last year. But there is additional support from other markets as well. Mexico, Indonesia, and Taiwan have also expanded their early soybean purchases.

But exports aren't the only area where we expect increased demand. USDA is projecting a fairly significant rebound in corn feed demand, approaching levels the market hasn't seen since 2009. Corn demand via ethanol is also projected to increase this marketing year as ethanol margins have improved. Food and industrial use of corn is projected to reach a five year high. If there is a weak spot in crop demand recovery from the USDA projections, it is in the domestic crush demand for soybeans, which is expected to decline slightly this year. But even there, we could see a rebound, depending on the strength of soybean oil demand from the biodiesel industry and soybean meal demand from the livestock industry. With the pork and poultry sectors looking to expand around 3% in 2014, overall feed demand could help both the corn and soybean markets.

Figure 4. Projected Season-average Prices.



Prices over the month of September were on a downward trend. With each report during the month, the trade expected lower production and stock numbers, but received higher numbers. And higher supplies typically translate into lower prices. Corn has taken the bigger hits thus far. In the early summer, futures were indicating season-average prices in the $5 range. But in September, those indications had lowered to $4.10-4.30 price range. That is below USDA's current range for the 2013/14 season-average price. For futures to line up with the USDA projections, corn demand will need to charge back up. The early indications are good. Soybean prices have been less impacted. In fact, the current futures-based projection for the 2013/14 soybean season-average price is holding above $12 per bushel. That is roughly where it was just before planting and during July. USDA has had to significantly raise its projection over the past several months. USDA started at $10.50 per bushel and is now at $12.50 per bushel. Comparing these price estimates to 2013/14 production costs, corn may be looking at a breakeven, at best, year. Soybeans still have a good dollar's worth of margin. So just as corn led the run to higher prices back in 2006, with the other crops catching up in later years, corn is likely leading on the way down as well. And just as demand was the key feature for higher crop prices over the six years, demand will determine how long and how far the price slide will go.

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