IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

Department of Economics
July 2015 Ames, Iowa Econ. Info. 2063

Interpreting the Hogs and Pigs Report: Perspective Makes a Difference

USDA's June Hogs and Pigs Report was full of information in the sense of telling us where the industry is and where the industry may be headed. While year-over-year comparisons are a popular way to evaluate changes in inventories, significant changes in one particular period can affect the interpretation of the report. The current report showed a big surge in inventory numbers compared to the PEDv-depressed levels a year ago. However, inventories are not that far out of line with June 2013 levels prior to PEDv. Table 1 provides a summary of the June 1, 2015 hogs and pigs estimates for the United States.

Table 1. USDA Quarterly Hogs and Pigs Report Summary

	2013	2014	2015	2015 as % of 2013	2015 as % of 2014
June 1 inventory *					
All hogs and pigs	65,188	61,568	66,900	102.6	108.7
Kept for breeding	5,884	5,855	5,926	100.7	101.2
Market	59,304	55,713	60,975	102.8	109.4
Under 50 pounds	19,145	18,254	19,455	101.6	106.6
50-119 pounds	17,068	15,801	17,181	100.7	108.7
120-179 pounds	12,414	11,491	12,810	103.2	111.5
180 pounds and over	10,678	10,166	11,529	108.0	113.4
Sows farrowing **					
December - February [1]	2,788	2,763	2,831	101.5	102.5
March - May	2,806	2,810	2,850	101.6	101.4
June - August [2]	2,890	2,991	2,915	100.9	97.5
September - November [2]	2,780	2,994	2,865	103.1	95.7
Pig Crop *					
December - February [1]	28,099	26,326	28,966	103.1	110.0
March - May	28,921	27,495	29,563	102.2	107.5
Pigs per litter					
December - February [1]	10.08	9.53	10.23	101.5	107.3
March - May	10.31	9.78	10.37	100.6	106.0

Full report: http://usda.mannlib.cornell.edu/usda/current/HogsPigs/HogsPigs-06-26-2015.pdf.
* 1,000 head, 1,000 litters, [1] December preceding year, [2] Intentions for 2015.

The total inventory of hogs and pigs on U.S. farms at the start of June was 66.900 million head, up 8.7% from one year earlier and up 2.6% from two years earlier. The breeding herd inventory, at 5.926 million head, was up 1.2% compared to 2014 and up 0.7% compared to 2013. The market hog inventory, at 60.975 million head, was up 9.4% from last year and up 2.8% from two years ago. Comparing to 2013, breeding and market hog levels for this report indicate continued modest growth in the industry.

The market weight breakdown gives a good indication on how the industry will unfold in the next several months. Market hogs over 180 pounds were up 13.4%, over 3% higher than expectations, but actually closer to slaughter numbers the industry has been seeing then the trade guesses. Market hogs in the 120-179 pound category were up 11.5%, 50-119 pounds up 8.7%, and under 50 pounds up 6.6% compared to year ago levels. Market hogs in the 120-179 pound category where 1.8% above trade expectations while market hogs under 50 pounds were 1.4% below expectations. Year-to-year percentage increases in market hog inventories are front loaded for the next several months.

The March-May pigs saved per litter, at 10.37 pigs, was up 6.0% compared to 2014. The March-May sows farrowing, at 2.850 million head, was up 1.4% compared to a year earlier. Thus netting a 7.5% increase in the March-May pig crop. However, the March-May pig crop was only 2.2% above 2013 levels.

June-August 2015 sows farrowing, at 2.915 million head, would be down 2.5% compared to a year ago and September-November 2015 sows farrowing, at 2.865 million head, would be down 4.3%. Comparison to 2014 levels alone has an impact on interpretation of these farrowing intention estimates. The market shock induced by the PEDv outbreak caused changes in livestock breeding decisions in 2014. The potential for large profits and the opportunity to offset losses from PEDv encouraged producers to maximize sows farrowing. June-August 2014 and September-November 2014 sows farrowing were the largest since the June-August 2009 period. Farrowing intentions for June-August and September-November are 0.9% and 3.1%, respectively, above 2013 sows farrowed levels.

If inventories are not that far out of line with June 2013 levels, why are hog prices lower than in 2013 and much lower than last year? Current inventories would translate to higher prices if everything else remained unchanged. We economists like to sound fancy by using the Latin phrase “ceteris paribus”, which translates to “with other things the same”. “All else” has not remained the same. Pork production in 2015 is forecasted to be 6 to 8% above 2014 and 4 to 6% above 2013. Heavier carcass weights have been a key contributor to larger pork production. Average carcass weights in 2015 are forecasted to be 213.1 pounds versus 213.9 pounds in 2014 and 207.2 pounds in 2013.

With the increased production, pork prices have moderated for consumers. Retail pork prices, as measured by USDA’s estimate of retail composite prices, peaked in 2014 at $4.02 per pound, a 10% increase for the year. The highest monthly prices were reached in September of 2014 at $4.22 per pound. Since that time, they have fallen each month to $3.70 per pound in April of 2015, a 14% drop from the peak. However, retail pork demand has remained strong. In fact, the per capita consumption increase has been enough to offset the price decrease and allow overall pork inflation-adjusted values to climb.

Tight supplies of two major competitor products (beef and poultry) were supportive to pork demand in 2014. Competitive meats will likely continue to have a differential impact in 2015. Expected expansion of 4 to 5% in poultry production will increase competition for pork. However, beef production is expected to be down 1 to 2% and that gives the pork industry the opportunity to gain a larger share of total red meat and poultry consumption that beef could be losing in 2015.

If there is a bearish tone to pork demand it’s in regards to the export market. Through April 2015 pork exports are down 7.4% compared to year ago levels. While shipments of U.S. pork were initially constrained by problems at U.S. West Coast port facilities, a longer term factor likely to slow exports is the high value exchange rate of the U.S. dollar. An appreciated value of the U.S. dollar can make U.S. pork products less competitive (i.e., more expensive) in foreign markets versus competing pork exported from countries such as Canada, Europe, and Brazil.

Table 2 contains the Iowa State University price forecasts for the next four quarters and the quarterly average futures prices based on June 26, 2015 settlement prices. The futures price forecasts are adjusted for a historic Iowa/Southern Minnesota basis. The table also contains the projected year over year changes in commercial hog slaughter. Taking the report as is, using pig crop numbers for December-February and March-May and farrowing intentions for June-August and September-November with commensurate pigs per litter to project supplies, one would expect hog slaughter in 2015.Q3 to be up about 8.94%, 2015.Q4 slaughter to be up 7.61%, 2016.Q1 slaughter to be up 1.73%, and 2016.Q2 slaughter to be down 1.34% compared to previous year levels.

Table 2. Commercial Hog Slaughter Projections and Lean Hog Price Forecasts, 2015-16

	Year-over-Year Change In Commercial Hog Slaughter (percent)	ISU Model Price Forecast ($/cwt)	CME Futures (06/26/15) Adjusted for Negotiated IA/So MN Basis ($/cwt)
Jul-Sep 2015	8.94	67-72	68.24
Oct-Dec 2015	7.61	60-65	61.92
Jan-Mar 2016	1.73	63-68	67.98
Apr-Jun 2016	-1.34	70-75	73.54

Lee Schulz

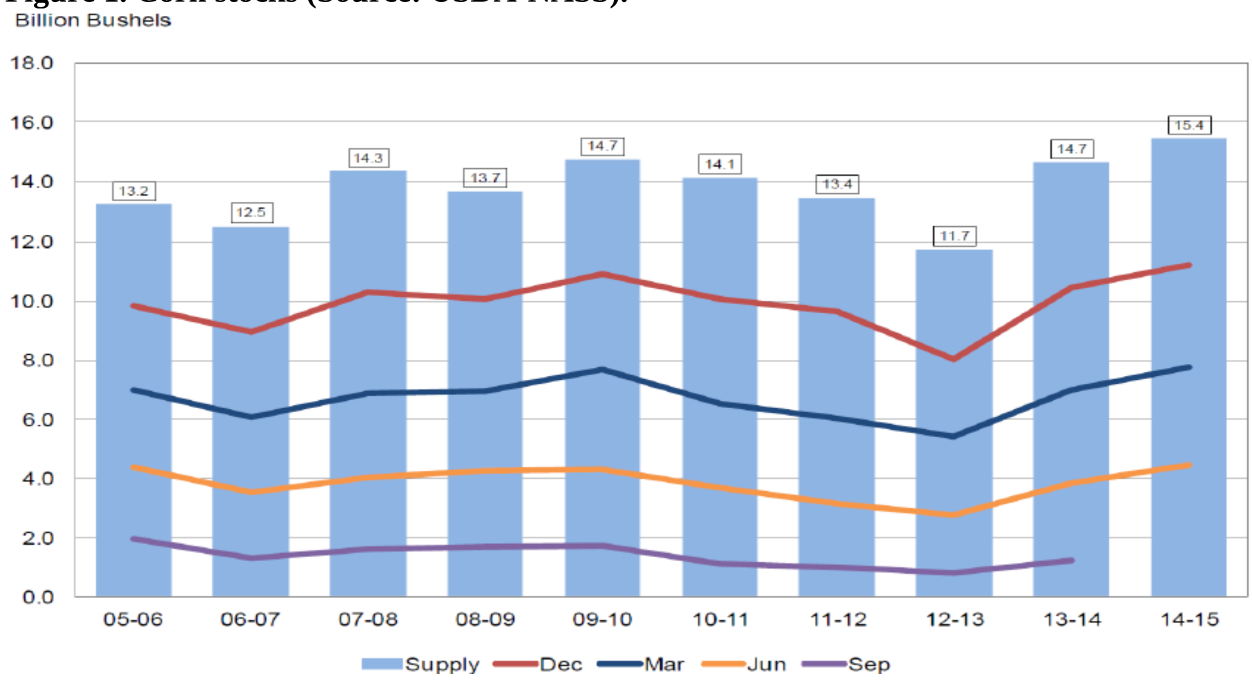
Heading into July with Price Fireworks

The USDA acreage and stocks reports at the end of June provided some positive news to the crop markets. Crop acreage was slightly smaller than expected and stocks were as well. This information, combined with the deteriorating crop conditions, have reinforced the recent higher crop prices. This price rally has offset much of the price drop from this spring. But a continuation of this rally depends on extended strength from the demand sectors and weakness in crop prospects.

Looking at the crops in the bins, USDA found significantly more crop being stored throughout the land, but it was smaller than originally feared. Over 4.4 billion bushels of corn were still in storage June 1st. For soybeans, there were 625 million bushels on hand. For both crops, the storage increase is for both on- and off-farm storage. The stocks report did confirm the sizable increase in on-farm stocks. Farmers are still holding more crop at this time of year than they have in quite some time. On-farm corn stocks are up 22% from last year. On-farm soybean stocks are up a whopping 126% from last year.

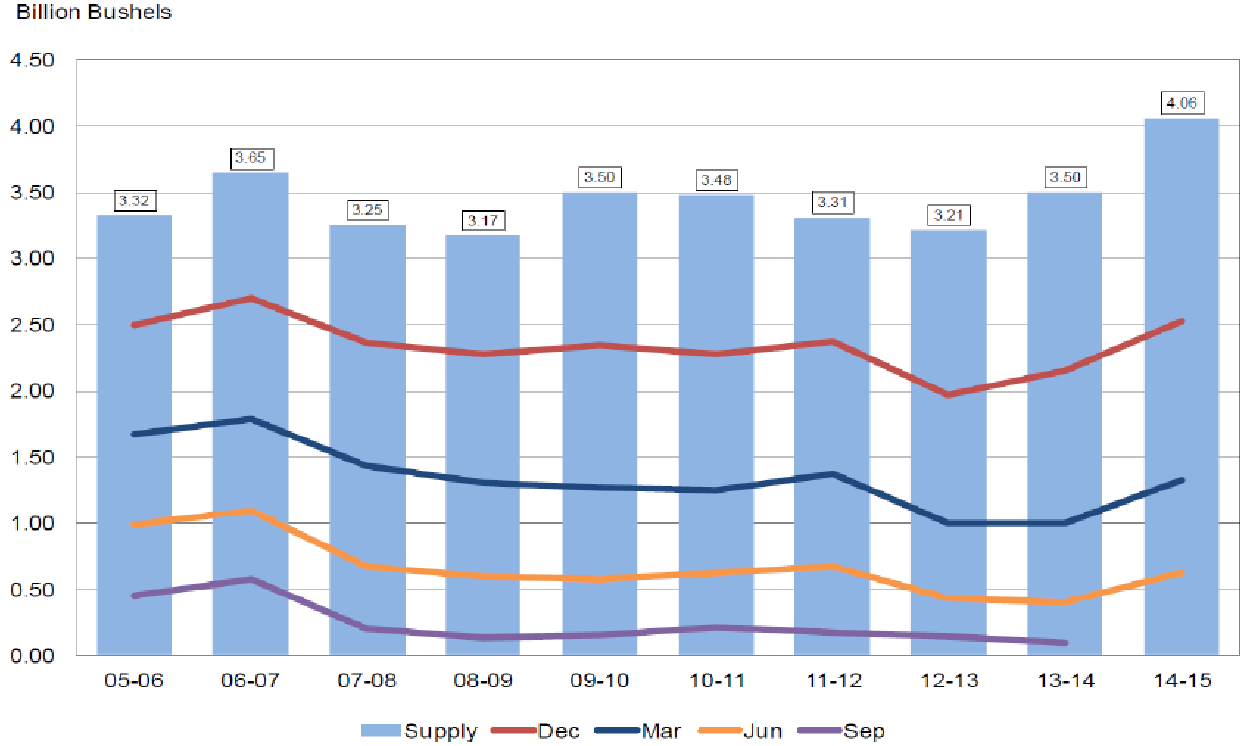
But the report also showed that demand has strengthened. Corn disappearance during the March-May period was 3.3 billion bushels. Year-over-year, corn disappearance is up 4%. The growth in the cattle and hog markets is more than offsetting the losses due to the avian influenza. Ethanol production has peaked as we enter the summer driving season. And exports have performed relatively well over the period.

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



Soybean disappearance during the March-May period was 701 million bushels. That is 19% above last year. Like with corn, the strength in the livestock sector has stimulated demand. And exports continue to set records. China leads the way, but we are seeing year-over-year growth from the European Union, Mexico, Japan, and Taiwan. So crop demand is working through the record crop production from last year.

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



The acreage report showed a sizable number of corn and soybean plantings, but a few less than the trade expected. Corn acreage was reported at 88.9 million acres, down 0.3 million from the March intentions and 0.4 million below expectations. The biggest shift from the March intentions to the June plantings was in Minnesota as 300,000 acres intended for corn was not planted. Indiana and Missouri also saw at least 100,000 acres drop from corn plantings. On the other hand, Illinois, Iowa, North Dakota, and Texas all added at least 100,000 acres to corn plantings, compared to intentions. Given USDA's current yield estimate, the drop in acreage reduces expected production by approximately 100 million bushels. And while the corn crop is still projected to be the 3rd largest on record, the deteriorating crop conditions have created concerns in the marketplace.

Those same concerns are held in the soybean market, along with questions about plantings. While the USDA did complete its acreage survey for soybeans, it found over 15% of the crop remained to be planted after June 1st. As most of the delays were in the states of Arkansas, Kansas, and Missouri, USDA is going to resurvey soybean producers in those states this summer to re-evaluate soybean acreage. Any change in the soybean plantings will be reflected in the August USDA reports. As it stands, soybeans were planted (or to be planted) on 85.1 million acres. That is up 1.4 million acres from last year and 0.5 million acres from the March intentions, but down slightly from trade expectations. Compared to the March intentions, Arkansas was down 150,000 acres, while Iowa, Kansas, and Ohio were all down 100,000 acres. However, the delays in planting, soybean acreage went up by 200,000 acres in Illinois and Minnesota and by 100,000 acres in Indiana, Missouri, Nebraska, and North Carolina. Given the current yield estimate, the 2015 soybean crop will be the 2nd largest on record, behind last year's.

Figure 3. Corn acreage (Source: USDA-NASS).

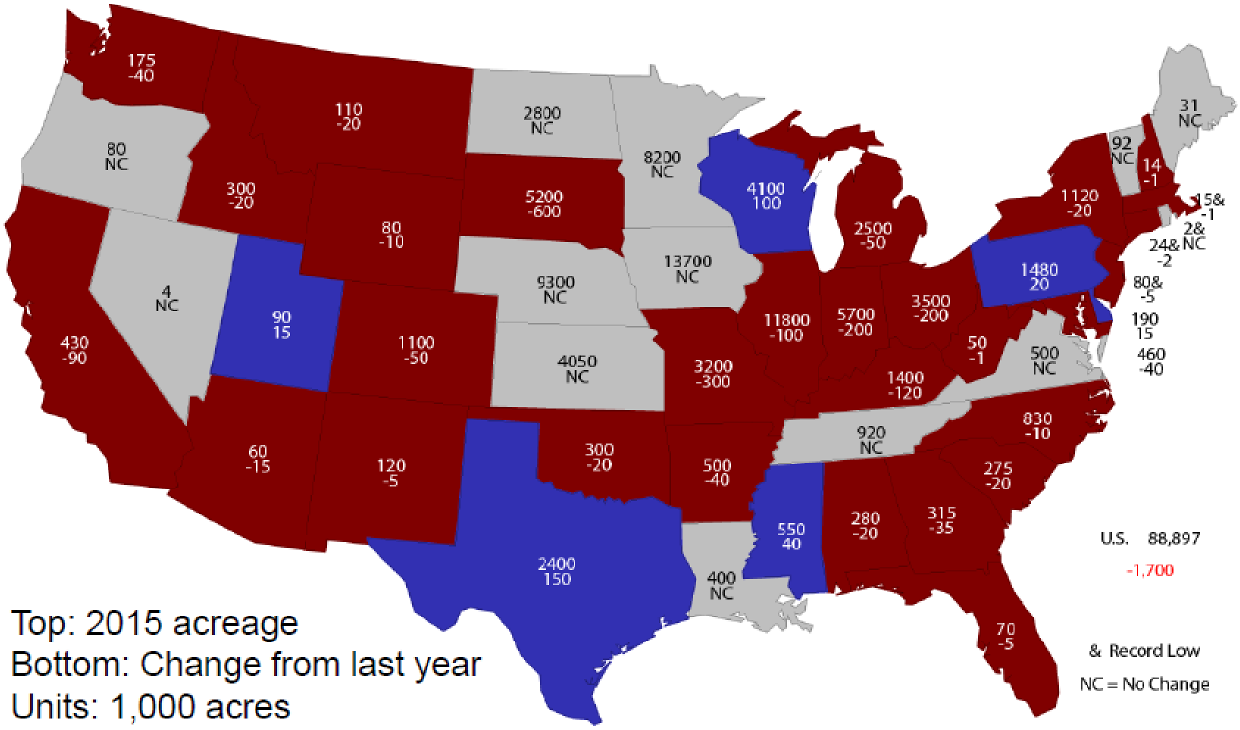
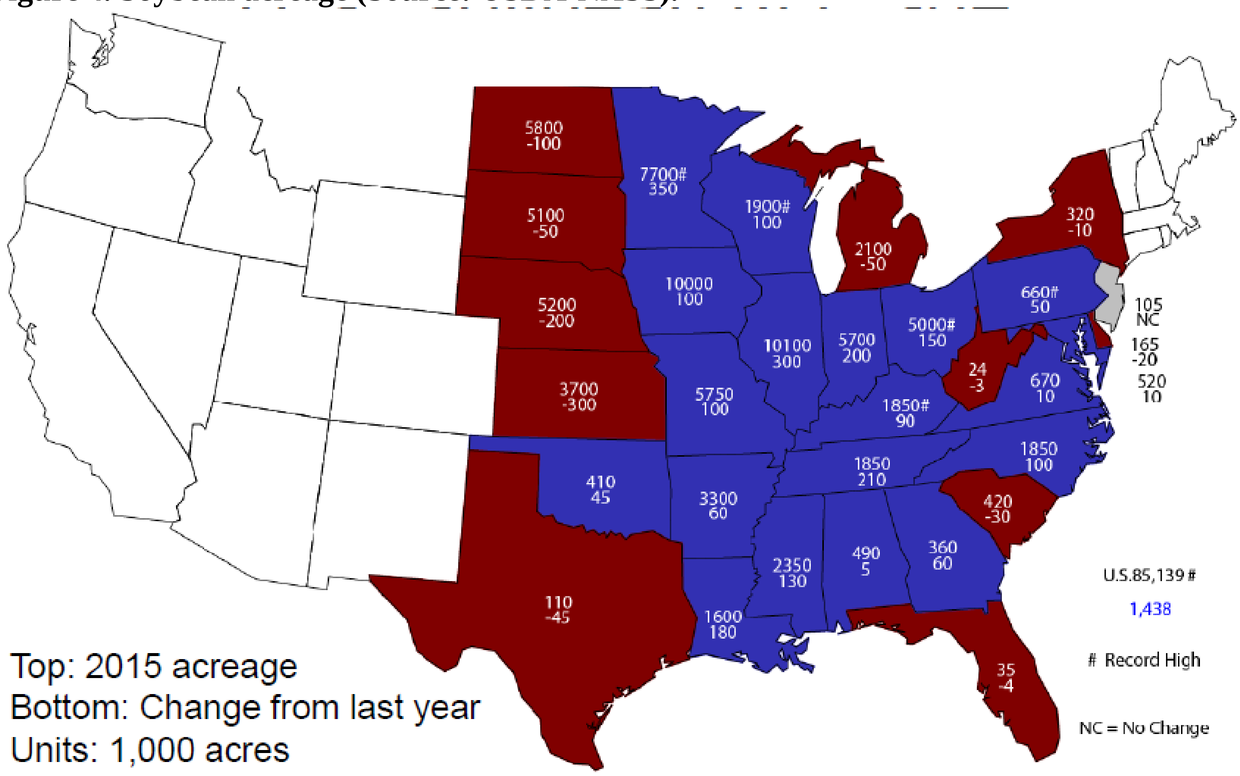


Figure 4. Soybean acreage (Source: USDA-NASS).



So supplies are large, but so are demands. And the markets are hoping that the recent news of possibly shrinking supply and building demand continues. The push in prices has raised the estimates for the season-average prices for corn and soybeans. For the 2014 crops, USDA has estimated prices of \$3.65 per bushel for corn and \$10.05 per bushel for soybeans. Based on the futures prices from June 30, the 2014 season-average prices project to be \$3.79 per bushel for corn and \$10.14 per bushel for soybeans. So the futures markets are a little more bullish on the old crops than USDA.

For the 2015 crops, USDA's early season-average price estimates are $3.50 per bushel for corn and $9.00 per bushel for soybeans. The June 30 futures prices suggest season-average prices of $4.11 per bushel for corn and $9.91 per bushel for soybeans. The bullishness continues for the new crops as well.

Chad Hart

Dr. Chad Hart	Dr. Lee Schulz
Associate Professor of Economics	Assistant Professor of Economics
Extension Crop Marketing Specialist	Extension Livestock Economist
478F Heady Hall	478 Heady Hall
Phone: (515) 294-9911	Phone: (515) 294-3356
Fax: (515) 294-0221	Fax: (515) 294-0221
chart@iastate.edu	lschulz@iastate.edu
www2.econ.iastate.edu/faculty/hart/	www.econ.iastate.edu/people/faculty/schulz-lee