IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

Department of Economics
October 2015 Ames, Iowa Econ. Info. 2066

Hogs & Pigs Report: As Expected Inventories Larger

USDA's September 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. The U.S. inventories of all hogs and pigs and market hogs were both record large, breaking the previous all hogs and pigs inventory record of September 2008 and the previous market hog inventory record of September 2012. These record inventories should not be too surprising given expectations coming into the report and the fact that U.S. industry has set records on a regular basis. With higher feed costs and porcine epidemic diarrhea virus in the rear-view mirror the industry is back on track in regards to herd numbers and productivity growth. Table 1 provides a summary of the September 1, 2015 hogs and pigs estimates for the United States and Iowa.

Table 1. USDA Quarterly Hogs and Pigs Report Summary

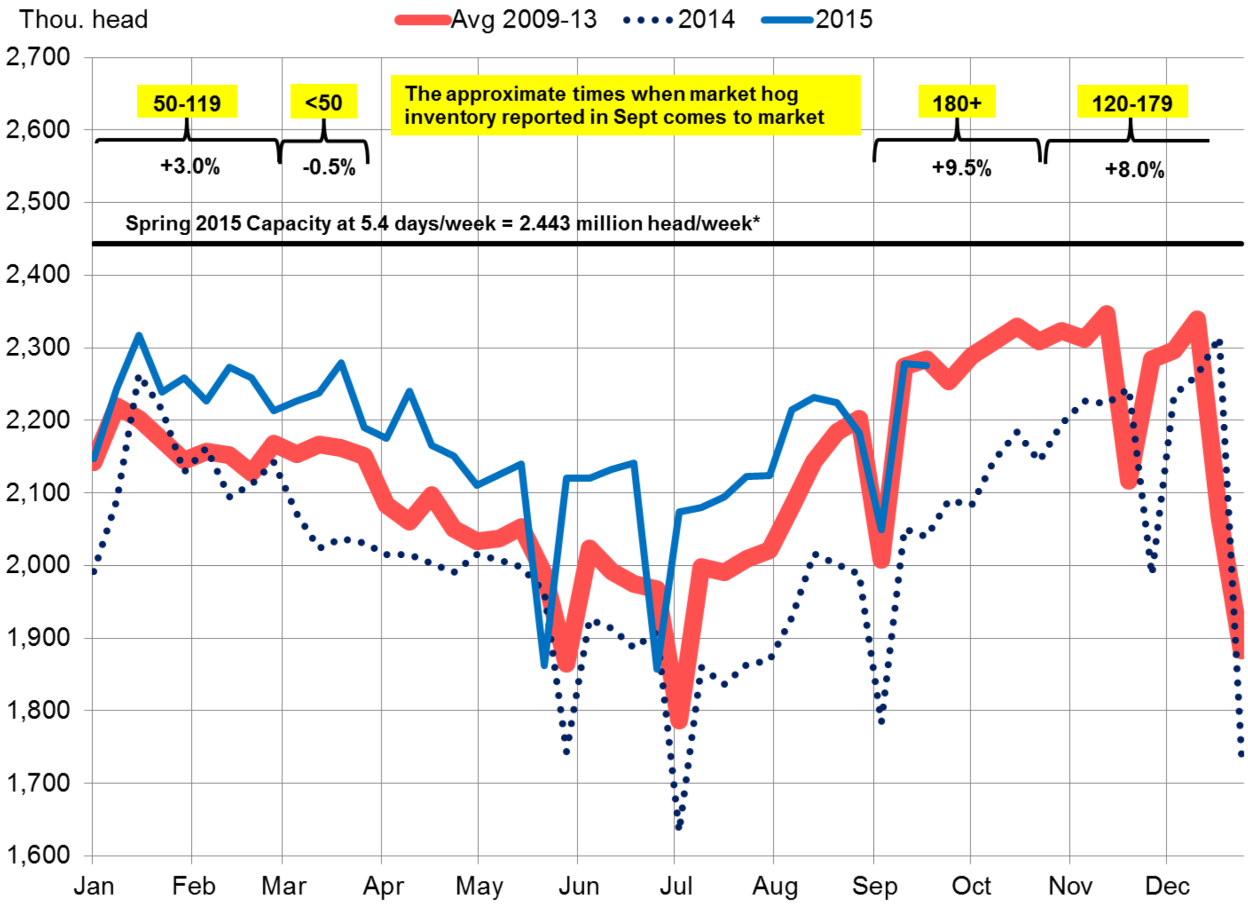
	United States			Iowa		
	2014	2015	2015 as % of 2014	2014	2015	2015 as % of 2014
Jun 1 inventory *						
All hogs and pigs	65,979	68,395	103.7	20,800	21,200	101.9
Kept for breeding	5,920	5,986	101.1	1,030	1,000	97.1
Market	60,059	62,410	103.9	19,770	20,200	102.2
Under 50 pounds	20,390	20,291	99.5	5,510	5,310	96.4
50-119 pounds	17,458	17,986	103.0	6,470	6,530	100.9
120-179 pounds	12,112	13,080	108.0	4,470	4,910	109.8
180 pounds and over	10,098	11,053	109.5	3,320	3,450	103.9
Sows farrowing **						
Jun - Aug	2,991	2,944	98.4	530	500	94.3
Sep - Nov [1]	2,994	2,920	97.5	510	490	96.1
Dec - Feb [2]	2,895	2,875	99.3	510	485	95.1
Jun – Aug pig crop *	30,402	30,585	100.6	5,671	5,400	95.2
Jun – Aug pigs per litter	10.16	10.39	102.3	10.70	10.80	100.9

Full report: http://usda.mannlib.cornell.edu/usda/current/HogsPigs/HogsPigs-09-25-2015.pdf.
* 1,000 head, 1,000 litters, [1] Intentions for 2015; [2] 2013/14, 2014/15, and intentions for 2015/16.

The total inventory of hogs and pigs on U.S. farms at the start of September was 68.395 million head, up 3.7% from one year earlier. The breeding herd inventory, at 5.986 million head, was up 1.1% compared to 2014. The market hog inventory, at 62.410 million head, was up 3.9% from last year. Iowa's breeding herd, which represents 17% of the national breeding herd was down 2.9% compared to year ago levels. However, the Iowa breeding herd inventory, at 1 million head, is the same as in September 2013.

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 9.5%, fairly consistent with the 10.3% increase in commercial hog slaughter since the 1st of September. Market hogs in the 120-179 pound category were up 8.0%, 50-119 pounds up 3.0%, and under 50 pounds down 0.5% compared to year ago levels. Year-to-year percentage increases in market hog inventories are front loaded for the next several months suggesting that slaughter in the late-2015 and early-2016 will be ample and much larger than year earlier levels. This could put a few weeks of slaughter in the coming weeks close to slaughter capacity levels (figure 1). These larger supplies will likely apply some pressure to prices, but capacity itself should not be a major factor impacting prices this fall.

Figure 1. Hog Slaughter, Federally Inspected, Weekly



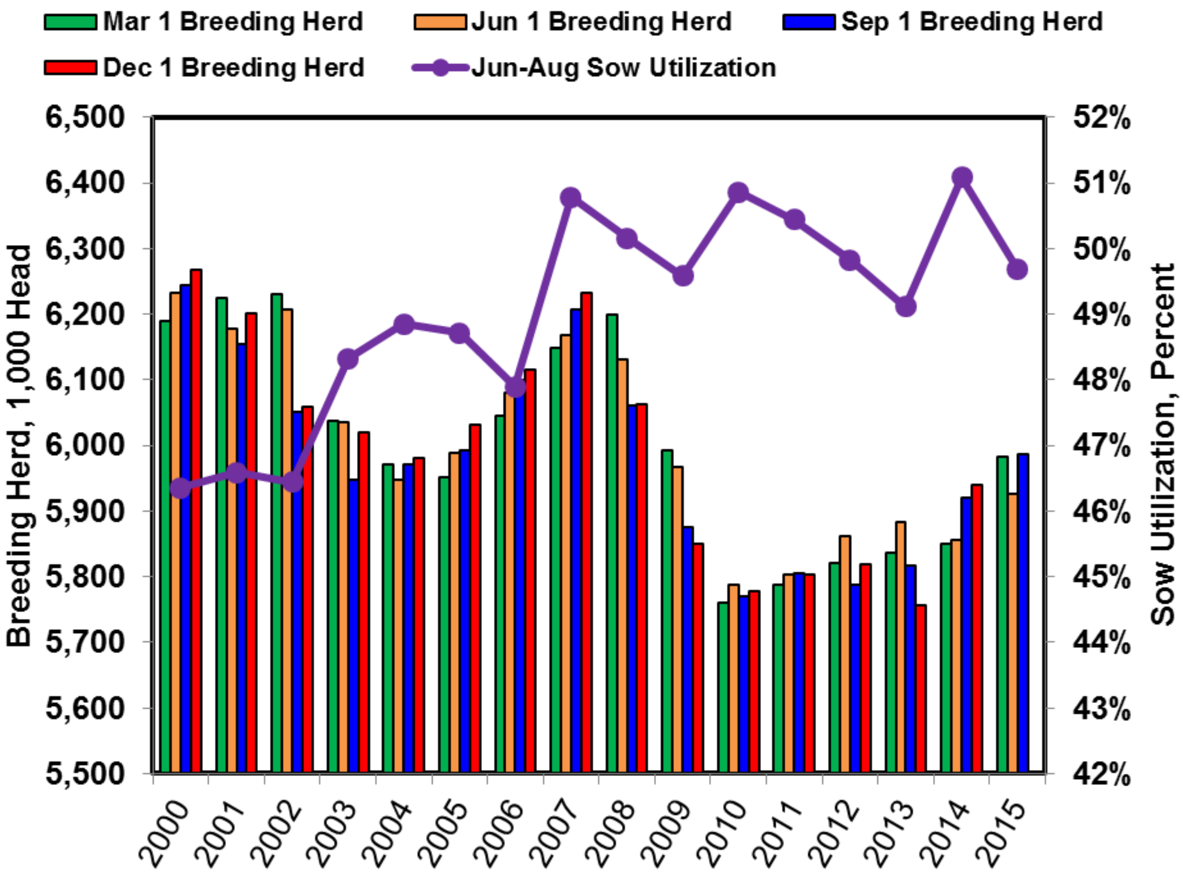
Data Source: USDA-AMS & USDA NASS.
* Steve Meyer, Vice President, Pork Analysis, Express Markets Inc. Analytics.

The breeding herd inventory, at 5.986 million head, was up 1.1% compared to one year ago. This is the largest breeding herd inventory since March 1, 2009 (figure 2). Breeding herd additions totaled 60,000 head during the June-August period. Sow utilization, June-August sows farrowing divided by the June 1 breeding herd, at 49.7% was below the 51.1% in June-August 2014 and below the 2009-13 June-August average of 50.0% suggesting hog producers are not farrowing all available sows and gilts.

The number of sows farrowing during June-August was 2.944 million head—above the first and second intentions for that quarter (figure 3). Thus, a few more hogs will be expected marketed in January through March than had earlier been anticipated. The second intentions for September-November were larger than the first intentions for that quarter. Although, September-November sows farrowing, at 2.920 million head, would be down 2.5% compared to a year ago. This lower "percentage of one year ago" is by-and-large caused by the large number of sows farrowing in 2014. The first intentions for December-February can be compared to the previous quarter or to the same quarter a year earlier to gauge forthcoming pig supplies. The level of intentions indicates producers are expected to decrease farrowings relative to the previous quarter but keep farrowings comparable to year ago levels.

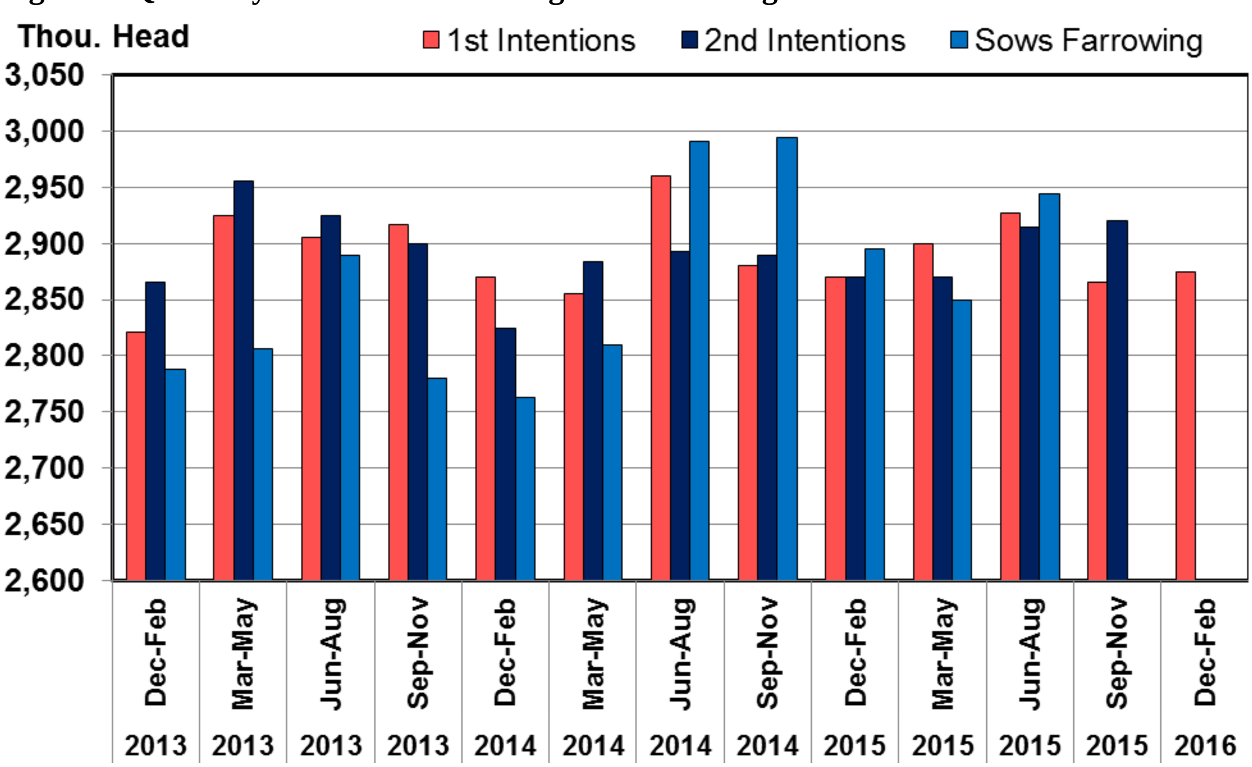
The June-August pigs saved per litter estimate, at 10.39 pigs, was up 2.3% compared to a year ago and further confirms a return to typical productivity growth (figure 4). In fact, for the last three reports, the pigs saved per litter estimate has set a new record for that quarter.

Figure 2. U.S. Breeding Herd Disposition and Utilization



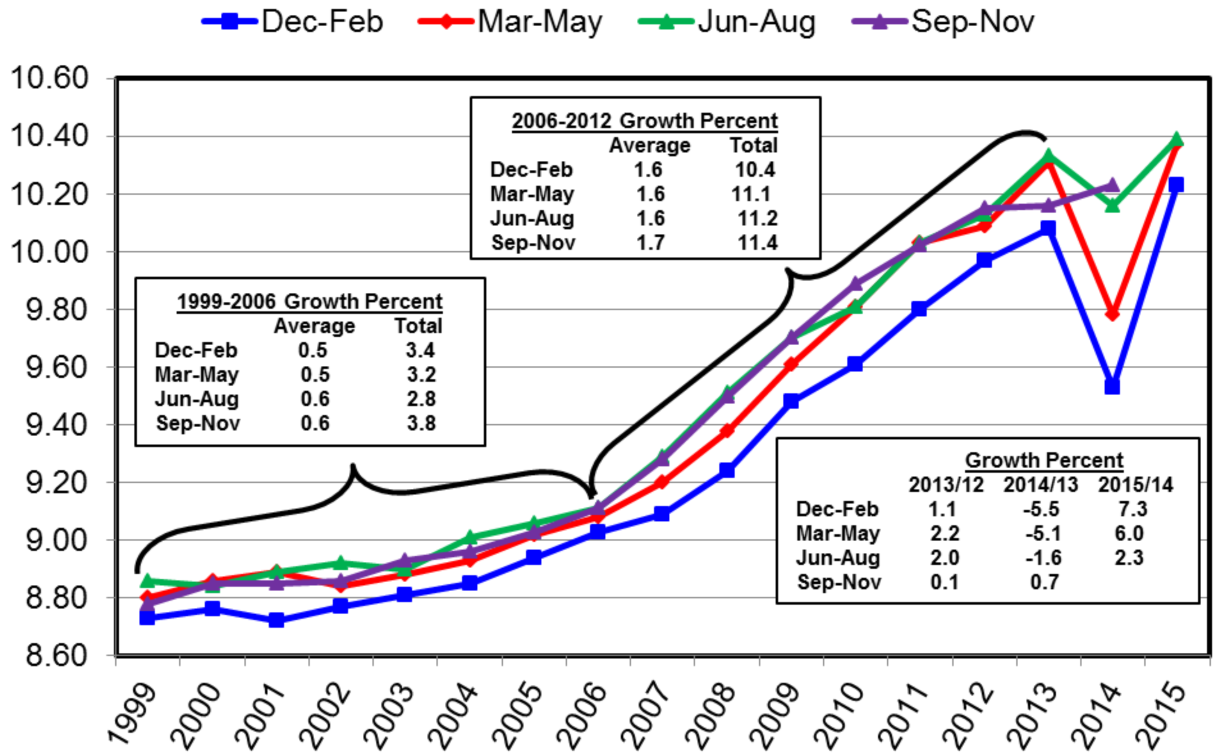
Data Source: USDA-NASS.

Figure 3. Quarterly U.S. Sows Farrowing and Farrowing Intentions



Data Source: USDA-NASS. * December of the preceding year.

Figure 4. Quarterly U.S. Pigs Saved Per Litter



Data Source: USDA-NASS.

Table 2 contains the Iowa State University price forecasts for the next four quarters and the quarterly average futures prices based on September 25, 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 March-May and June-August and farrowing intentions for September-November and December-February with commensurate pigs saved per litter to project supplies, one would expect hog slaughter in 2015.Q4 to be up about 6.13%, 2016.Q1 slaughter to be up 1.74%, 2016.Q2 slaughter to be down 0.37%, and 2016.Q3 slaughter to be down 0.74% 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 ($/cwt)	CME Futures (09/25/15) Adjusted for Negotiated IA/So MN Basis ($/cwt)
Oct-Dec 2015	6.60	66-71	67.28
Jan-Mar 2016	1.74	68-73	71.38
Apr-Jun 2016	-0.37	74-79	76.53
Jul-Sep 2016	-0.74	73-78	72.60

Lee Schulz

Preparing for Harvest

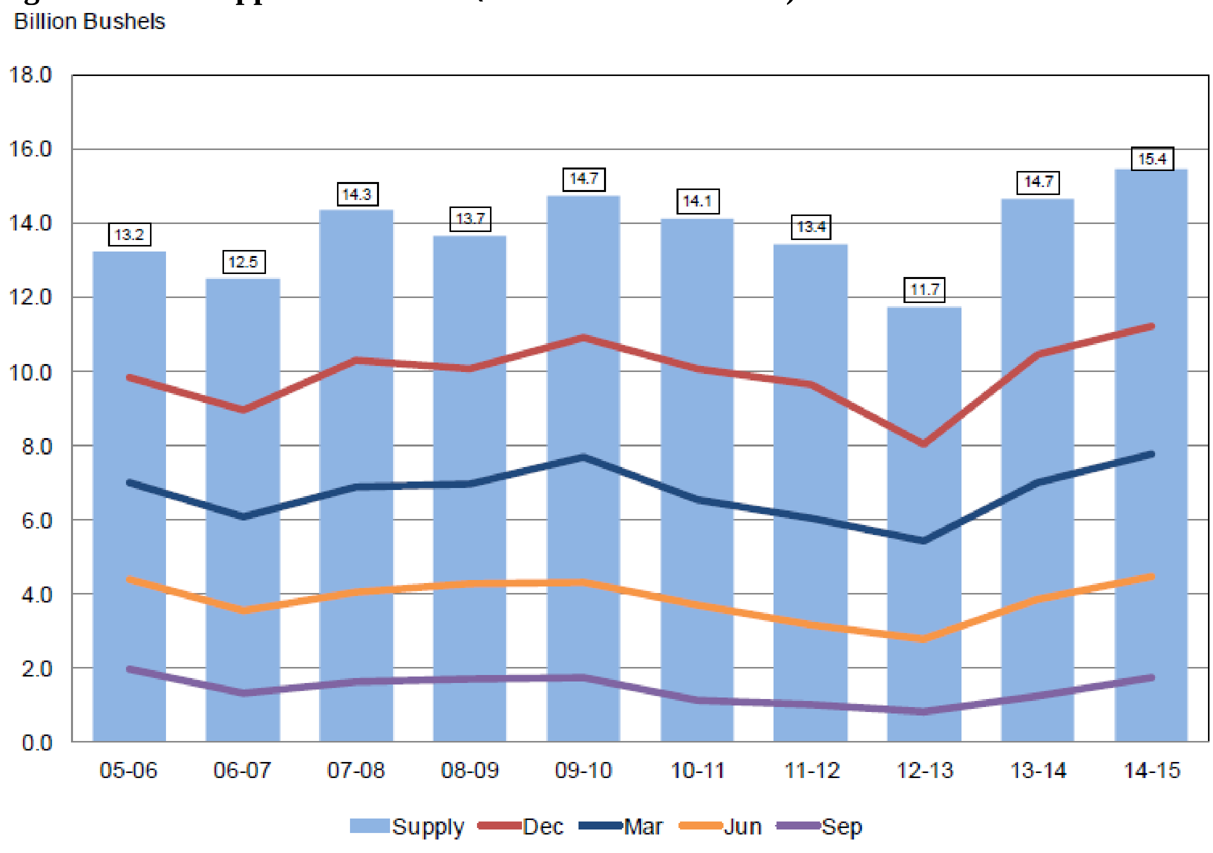
The crop harvest is now underway. And for corn, like most other operations related to the crops this year, it is running somewhat behind schedule. As of September 28, 18 percent of national corn crop was harvested. That is 5 percent behind the 5-year average. And the delay is wide spread across the country. For soybeans, the harvest is actually running a little ahead.

Nationally, 21 percent of the soybean crop has been harvested. That is 5 percent ahead of the 5-year average. Early yield reports have been mixed, but the pattern aligns with USDA's recent yield estimates with lower crop yields for southern and eastern Corn Belt and higher yields for the northern and western Corn Belt.

As these crops are coming in, USDA reported on how much of last year's crop was left in the bin. The Grain Stocks report was released at the end of September. It showed that 1.73 billion bushels of corn were still in storage on September 1, with nearly 600 million bushels remaining on the farm. Compared to last year, farmers are holding 28 percent more corn, while off-farm stocks grew 48 percent. So there is plenty of corn still available as we move into harvest. Corn disappearance during the summer was strong, with an increase of 100 million bushels over last year. Lower corn prices have helped hold demand up against the headwinds from lower energy prices, concerns about the global economy, and the strength of the U.S. dollar.

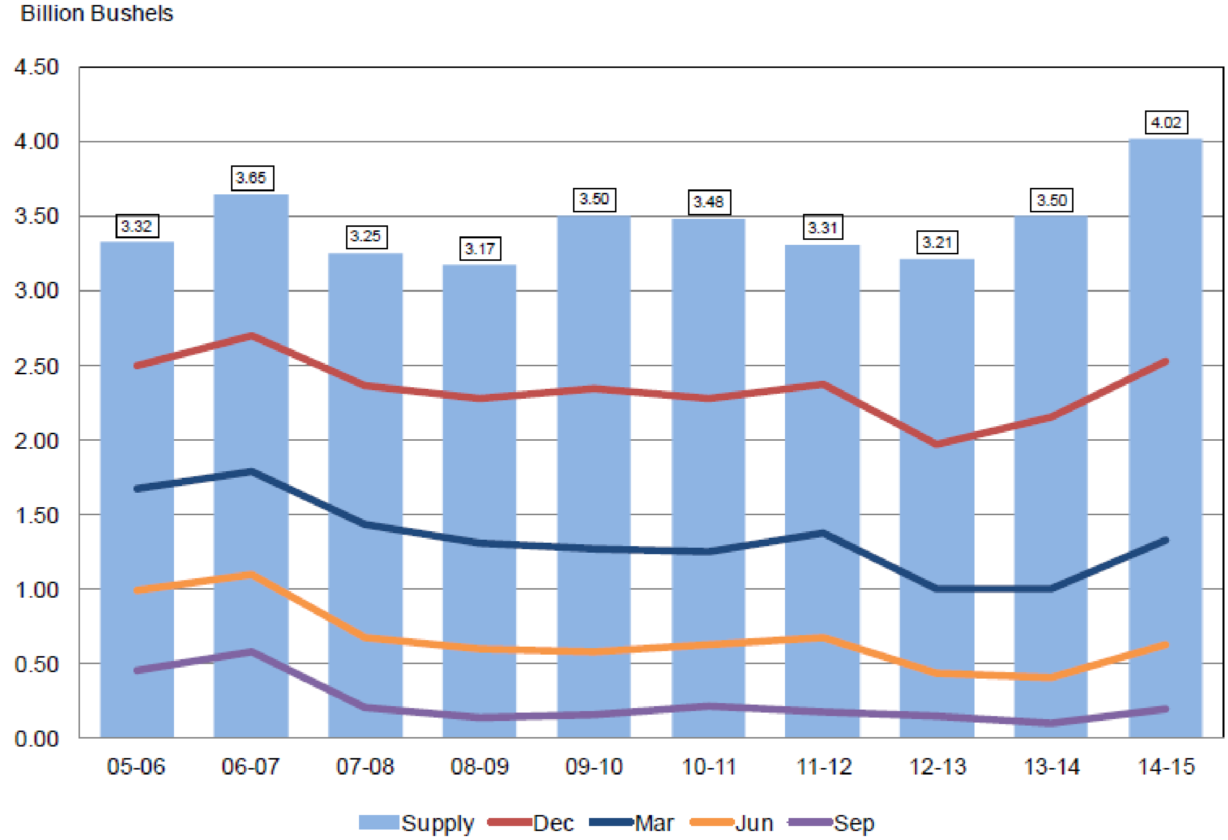
Figure 1 shows the supply and stock shifts over the past decade. Over the past two years, stock levels have grown sizably. This growth is mainly due to record production. While demand has also been at record levels, the production run has outpaced it and corn stocks have risen. The last time corn stocks approached these levels was the 2009/10 marketing year. And our price levels are similar as well.

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



Soybean stock levels have also been on the upswing. The USDA found 191 million bushels of soybeans still in storage on September 1. That is more than double what we had in 2014. And in this case, farmers are holding relatively more soybeans on-farm than off. On-farm stocks grew 133 percent, while off-farm stocks are up 101 percent. But again, the growth in stocks is not due to a lack of demand. Summer disappearance for soybeans equaled 436 million bushels. That is nearly 40 percent higher than last summer. As Figure 2 shows, we started the 2014/15 marketing year off with a tremendous amount of soybeans. Record demand worked through the vast majority of them, but in the end, supplies exceeded demand.

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



Based on the stock numbers for soybeans, USDA revised their soybean data for the 2014 crop. The planted acreage estimate was lowered to 83.3 million acres. The national yield estimate was reduced to 47.5 bushels per acre. And the production estimate was dropped to 3.93 billion bushels, a reduction of 42 million bushels. So last year's record soybean crop was a little smaller than first estimated.

The combination of these higher stock levels and the current high production estimates for this year lead to projections that stock levels could remain high throughout the remainder of the current marketing year. Given USDA's September crop estimates, the ongoing harvest will bring in the 3rd largest corn crop and another record soybean crop. So supplies remain plentiful. But demand is weakening, even with the lower prices we have now.

Current USDA demand projections for corn show overall usage holding steady with last year. Corn usage for ethanol is projected to be higher, but drops are expected in feed & residual usage and exports. And it's the export market that I'm watching closely. Earlier, I talked about demand concerns rising due to lower energy prices, concerns about the global economy, and the strength of the U.S. dollar. Combine that with strong global corn production over the past couple of years (we weren't the only ones producing more corn) and you get a scenario for lowering corn exports.

And the early sales on corn exports slow the sluggish start to the export season. Of our major export markets, only Mexico is showing a year-over-year increase. Corn sales to the Pacific Rim and South America have fallen off. Overall, corn trade is down nearly 30 percent from last year. In 2014, Colombia and Peru provided a needed boost to our corn exports. This year, the sales to those countries are good, but not quite at last year's pace. Currently, corn trade is down roughly 150 million bushels. But USDA's projections foretell only a 25 million bushel drop by the end of the marketing year. So the official numbers project a recovery from current sales. But this would be one key area to watch as the marketing year unfolds.

Figure 3. 2015/16 export sales for corn (Source: USDA-FAS).

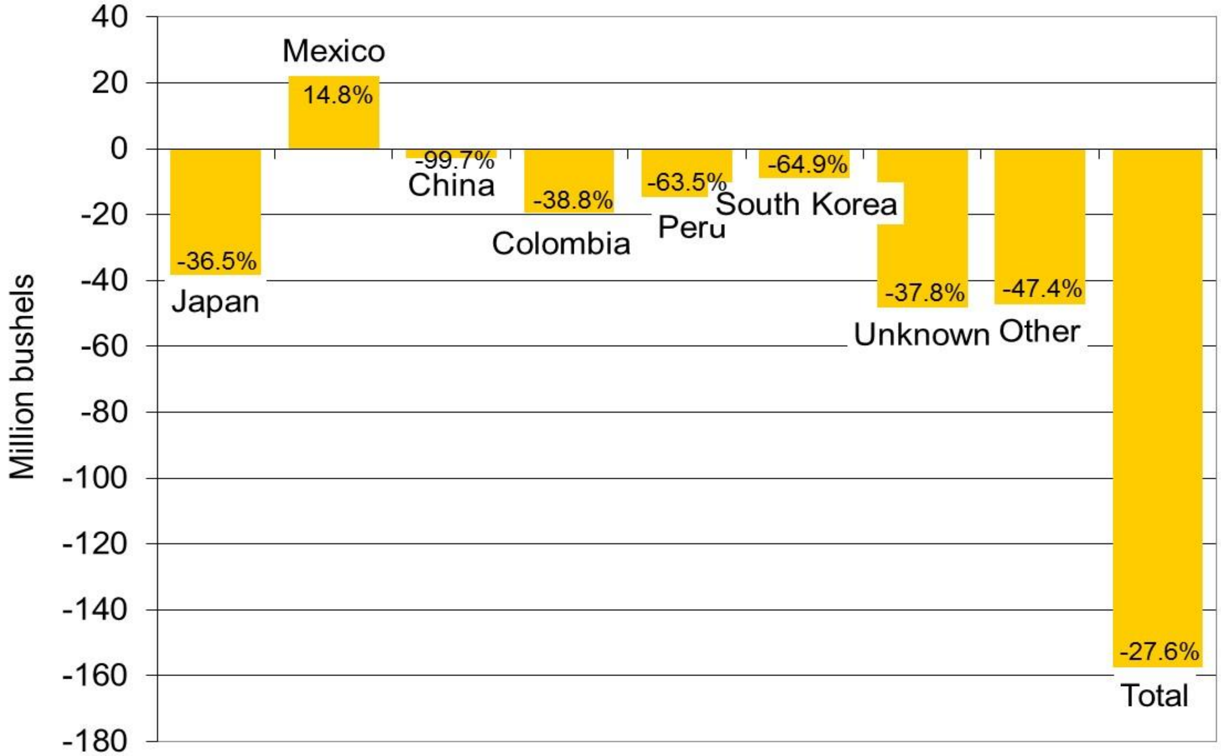
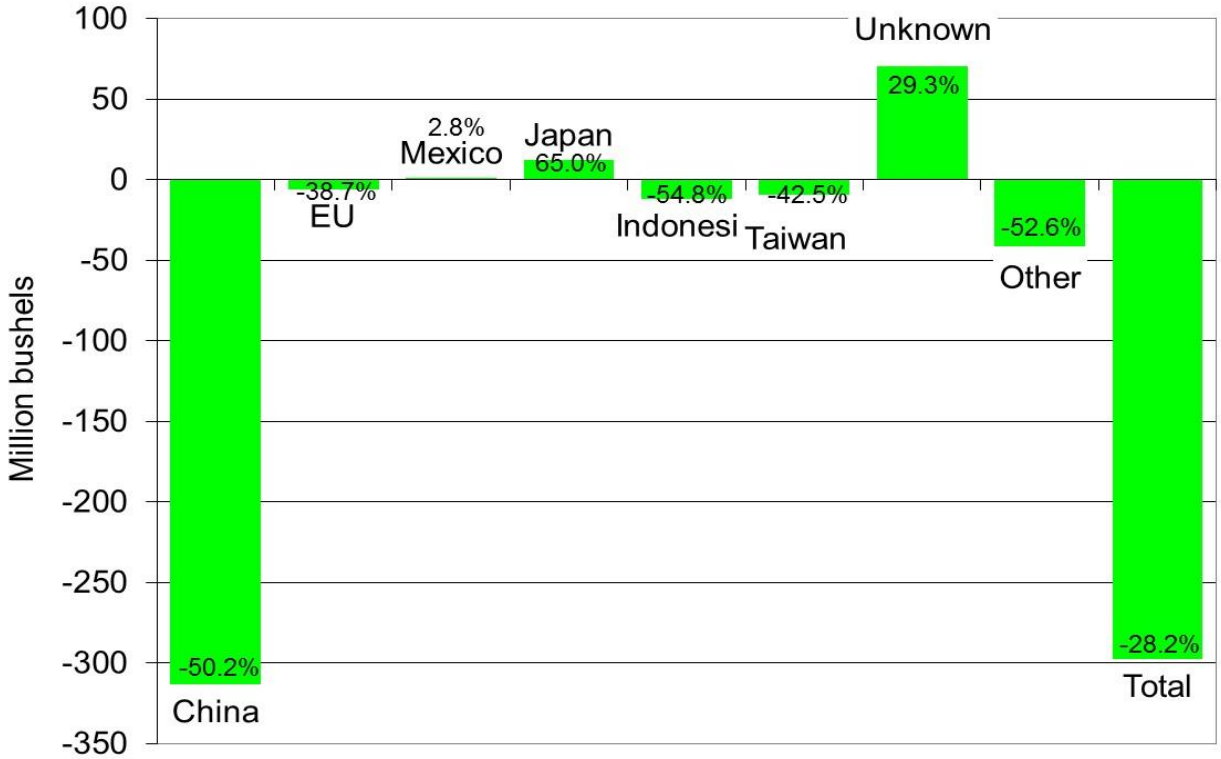


Figure 4. 2015/16 export sales for soybeans (Source: USDA-FAS).



For soybeans, the market remains as it has been, dominated by China. The data shown in Figure 4 does not include the most recent agreement between the U.S. and China, but it does indicate the potential gap that could occur in the soybean market as China slows. Over the past ten years, the Chinese soybean market has expanded such that it pulls in roughly 25 percent of the U.S. soybean crop. Export demand is roughly on par with domestic crush usage. So the soybean market is much more sensitive to international demand pressures. And given the dominance of China in the market, it is also highly sensitive to Chinese news. Worries about the Chinese economy and the slowdown in soybean advance sales have set the soybean market back.

Current futures indicate the trade is a little more bearish than USDA. The September midpoints for USDA's season-average price range were $3.75 per bushel for corn and $9.15 per bushel for soybeans. The season-average prices indicated by futures at the end of September were $3.68 for corn and $8.32 for soybeans. That lower price outlook extends into the 2016 crop year as well. Futures point to cash corn prices in the $3.90 range, with soybeans hovering around $8.40.

Margin management will be crucial over the next couple of years. Costs have not fully retreated yet to match the lower prices. Controlling costs, lowering them where you can, will improve the bottom line. And while we tend to fixate on the big ticket items, such as land (cash rent), cost management is needed in all areas to balance out returns in these trying times. So now is the time to consider or reconsider seed choices, fertilizer plans, and tillage options. Small changes in many areas can result in big improvements in the budget.

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