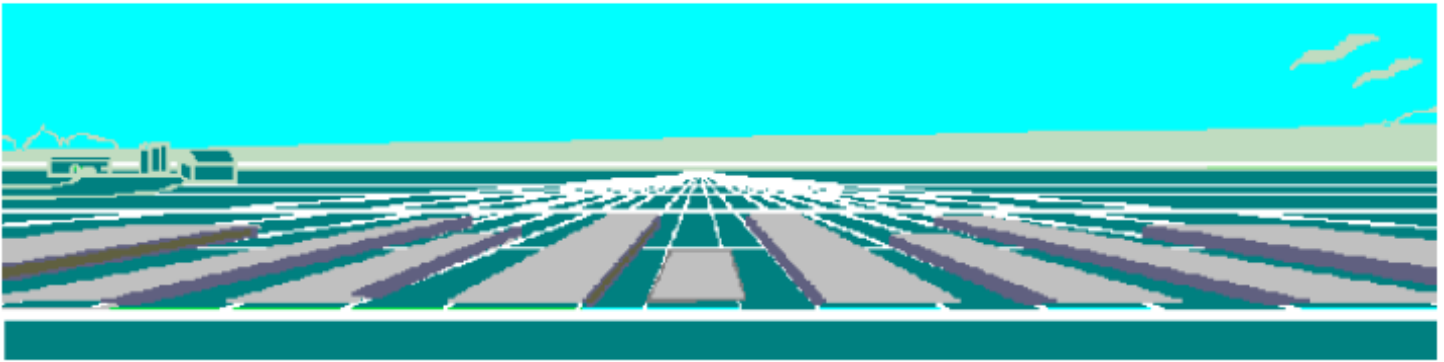


Iowa Farm Outlook



July 2, 2007

Ames, Iowa

Econ. Info. 1961

June Hog and Pig Report Summary: Expansion Continues

The June Hog and Pig Report, released on June 29, showed a continued steady expansion in the pork industry. The national swine inventory increased 1.7% from a year ago, and is now estimated to be almost 62.8 million head. This is the fourth consecutive year that June inventories have increased. The national swine breeding herd increased 0.9% and is now at just over 6.1 million head. Market hog inventories increased 1.8% to number over 56.6 million head. The continued expansion in the national herd has occurred despite increased feed costs. Table 1 contains a summary of swine inventories reported in the US and Iowa.

Table 1. Summary of June 2007 Hog and Pig Report, US, Iowa

	US		Iowa	
	Million Hd.	% change	Million Hd.	% change
All Hogs	62.75	1.7%	17.80	7.2%
Breeding Herd	6.12	0.9%	1.08	0.0%
Market Hogs	56.63	1.8%	16.72	7.7%
Under 60	21.18	1.8%	5.19	6.8%
60 - 119	13.89	1.5%	4.63	9.2%
120 - 179	11.62	1.2%	3.80	7.6%
180 & over	9.93	3.0%	3.10	7.3%
Sows farrowing				
Dec - Feb	2.89	1.6%	0.45	-2.2%
Mar - May	2.97	1.3%	0.46	-1.1%
Jun - Aug	2.96	1.6%	0.46	-1.1%
Sep - Nov	2.96	0.4%	0.47	-2.1%
Pig Crop				
Dec - Feb	26.21	2.1%	4.01	-2.2%
Mar - May	27.14	2.1%	4.23	1.7%
Pigs per Litter				
Mar - May	9.15	0.8%	9.00	0.0%

Iowa's breeding herd was steady with June 2006 at 1.08 million head. In total the US added 56,000 head to the breeding herd. The states that added breeding herd were 20,000 each in MN and MO, 10,000 each in IL and MI, and 5,000 in KS and TX. States not in the top 17 states added 21,000 breeding animals in total. States that experienced a reduction in breeding herd inventories were IN, NE, SD, and WI. Although some continued

expansion was anticipated, the growth from year ago was perhaps a little less disciplined than in the past. Despite higher feed prices producers nationally are increasing their sow numbers, and Iowa is leading the pack at what it does best, finishing hogs. Iowa had the largest increase in market hog inventories, adding 8% or 1.2 million head in the last year. The next largest increase was MO that added 280,000 head. Eight of the top 17 states added a total of 275,000 more market hogs to inventory. The US in total added only slightly more than 1 million head, thus most of the remaining states reduced inventory.

Production and Market Outlook

Current production conditions are lending themselves to “bear-ish” undertones in the pork market. The increased inventory of market hogs alone suggests that pork supplies are building. Add to that the potential for heavier slaughter weights as corn becomes cheaper, and we have a very strong case for increased production. There is also anticipation that the increased availability of vaccine for circovirus will improve hog weight gain and survival. Considering all of these factors, pork production in the third and fourth quarter of the year will be noticeably higher than a year ago. The market is expected to respond with prices slightly below those of a year ago. Table 2 contains the average hog price in the past four quarters. It also contains the price forecasts from ISU and the CME futures adjusted for Iowa basis. With the increased production, hog prices will be down from a year ago.

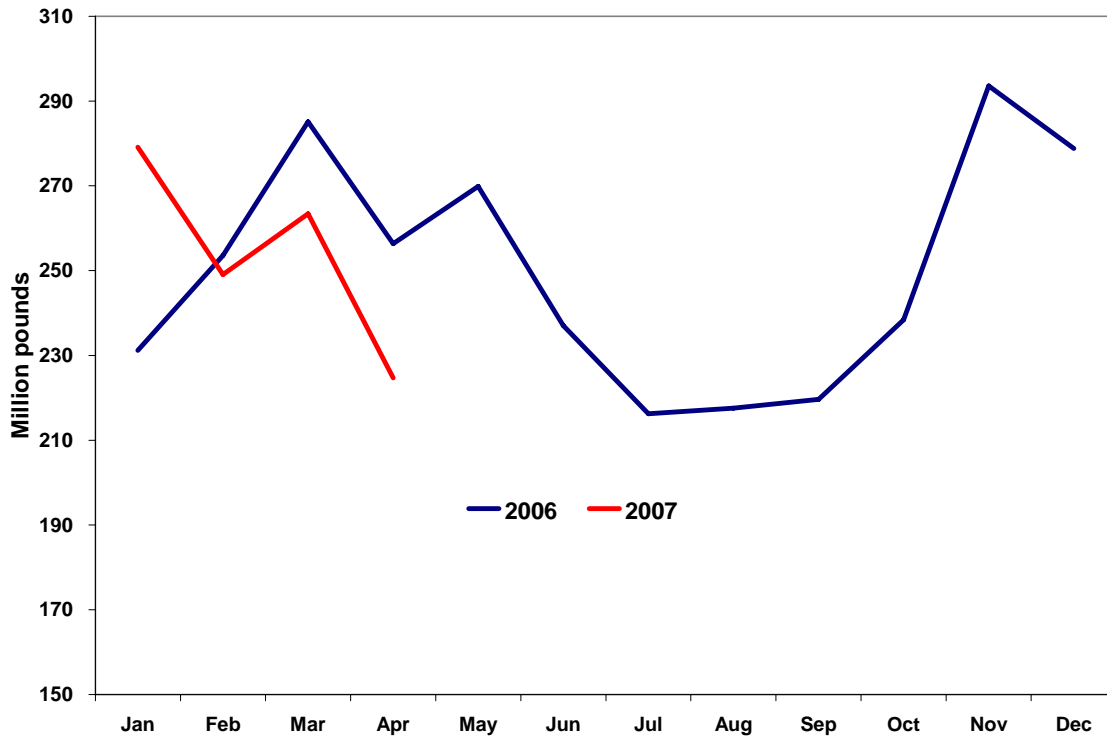
Table 2. Average Market Hog Price Forecasts

Quarter	Year previous	6/29/07 Futures (IA Live \$/cwt)	ISU Price Forecast (Live \$/cwt)	Production change (%)
July-Sept	\$53.88	\$52.28	51-53	2.0
Oct-Dec	\$47.27	\$45.86	44-46	2.5
Jan-Mar	\$47.23	\$46.29	46-49	0.2
Apr-Jun	\$54.37	\$51.19	52-55	0.5

Profitability may be reduced from the lower prices, but Iowa farrow to finish operations are estimated to have \$48-51/cwt breakeven cost in the next two quarters if corn and soybean meal prices don’t dramatically change. There should be opportunity for producers to remain profitable through the summer and into the early fall, but the late fall and winter months could show some red ink. Judging from the recent crop reports, slightly lower corn price and higher soybean meal price are anticipated going into the late summer. Producers should consider taking advantage of any breaks in the market to secure lower feed costs.

Demand for meat has been a strong factor in supporting live animal prices. As the opportunities to market more volume have developed there has been more aggressive purchasing of live animals. For the pork market, growing exports have helped give the green light for increased production. However, there has been a down turn in monthly exports from a year ago. Figure 1 depicts how record high pork exports at the beginning of the year have turned downward and are now well below those of a year ago. Year to date exports are now 1% lower than this time last year. Domestic demand has also been fairly steady with a year ago as higher meat prices have put a mild damper on the consumer purchases.

Figure 1. US Pork Exports, 2006-present



Revisions to Estimated Returns Series

In early 2007 we released a revised Estimated Returns Series that updated the production assumptions for hog and cattle production. Once we released the hog numbers we were made aware of additional cost variations we had missed and the industry was not as profitable as we predicted. We went back to the drawing board, found producers and consultants that were forthcoming with record systems, and we amended the Estimated Returns Series for hog production. The bottom line of the newly amended series tracks the original series closely, but has slightly higher net returns. Please review the amended series at http://www.econ.iastate.edu/faculty/lawrence/Lawrence_website/livestockreturns.htm

Industry Structure Study Released

The 2007 survey of US pork producers indicated that nearly two-thirds of US hogs are produced by less than 200 firms marketing 50,000 or more hogs per year. We estimate that 27 operations marketing at least 500,000 hogs a year sold 43% of US hogs in 2006. The next 164 operations marketing between 50 and 500 thousand hogs a year sold 21% of US hogs. Another 21% were marketed by 1,450 firms with annual sales of 10-50 thousand head. The remaining 15% of hogs were sold by firms marketing less than 10,000 hogs a year and this size category is losing market share as larger operations expand. Producers in all size categories are planning growth over the next three years. Production and marketing characteristics, cost of production, and plans for the future are reported by size category. See the full study at <http://www.econ.iastate.edu/research/publications/viewabstract.asp?pid=12828>

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