

December 2008 Hog and Pig Report Down 2 Percent

The US swine industry continued on its course of retraction in the last months of the year. Swine inventories in nearly all classifications are on the decline. Total hog and pig numbers declined 2.2 percent to 66.7 million head. The inventory of breeding swine declined 2.4 percent to 6.1 million head, while market hog numbers were down 2.1 percent from last year at 60.6 million head. In Iowa, market hog numbers were up 2.2 percent at 18.7 million head while sow numbers declined a percent to 1.1 million head. The decreased pig crop in the fourth quarter of 08 and reduced imports from Canada have driven feeder pig inventories down more than 5 percent. With farrowing intentions down in the next six months the retraction of the industry continues. Table 1 summarizes the December report for the nation and Iowa.

Table 1. Summary of December Hog and Pig Report

	US Inventory		Iowa Inventory	
	Million head	% change	Million head	% change
All Hogs	66.7	-2.2%	19.8	2.1%
Breeding Herd	6.1	-2.4%	1.1	-0.9%
Market Hogs	60.6	-2.1%	18.7	2.2%
Under 60	21.3	-5.5%	5.2	-10.7%
60 - 119	15.1	-0.5%	5.3	9.0%
120 - 179	12.7	0.5%	4.5	10.8%
180 & over	11.5	-0.4%	3.7	4.2%
Sows Farrowing Intentions				
Dec - Feb	2.97	-3.3%	0.48	-5.9%
Mar - May	3.01	-1.6%	0.48	-7.7%
Pig Crop				
Jun - Aug	29.3	0.5%	4.79	7.4%
Sep - Nov	28.4	-3.7%	4.75	-5.4%
Pigs per Litter				
Sep - Nov	9.5	2.4%	9.5	2.2%

Losses through 2008 were culminated by nearly record high losses in the fourth quarter. For the year, the average monthly losses for farrow to finish operations will be over \$21/hd (*Iowa Estimated Returns*). December losses are expected to be nearly \$40/hd, the largest December loss since 1998. Although hog prices are expected to be slightly higher in the coming year the declining cost of corn and other feeds may provide an opportunity at a few months of profitability. Based on December 30 grain futures, the average breakeven cost for farrow to finish production is estimated to be \$53/cwt for live hogs in 2009, which is near the predicted average hog price.

Market outlook

While the supply of pork is expected to decrease with the retraction of the industry there are several factors that will impact overall demand and prices. Changes in export volumes could push pork back on to the domestic market. Although it is expected that production and hog imports will decrease from last year, the supply of pork to the domestic market may depend on whether exports continue to increase or maintain the volumes of the past year. Table 2 contains the ISU production and price projections for the coming year.

Table 2. December ISU and Futures Forecasts

	Change in Supply	ISU Price Forecast \$/cwt live	Dec. 30 CME Futures Forecast adjusted for basis, \$/cwt live
Jan-Mar '09	-2%	43 - 46	43.68
Apr-Jun '09	-2%	57 - 61	55.95
Jul-Sep '09	-2%	59 - 63	55.64
Oct-Dec '09	-2%	45 - 48	46.73

Key demand drivers that economists watch include: price of substitutes, consumer income and preferences and exports. Generally, beef and poultry supplies and consumer income are predictable and preferences are stable year-to-year leaving exports as the wild card in forecast. Pork exports grew significantly in 2008 and utilized 21 percent of commercial pork production through October. The upheaval in the US and global economy is causing significant uncertainty in consumer income, purchasing patterns and trade flow. Demand factors were often considered relatively constant and supplies were difficult to predict, however times have changed and supplies are now more predictable than demand factors.

The supply and price of substitutes for pork, primarily beef and poultry, are favorable for pork demand. USDA predicts the production of chicken, turkey and beef as well as pork to be lower in 2009. Egg set and chick placements have been running below year earlier levels since spring 2008 and chicken supplies began to decline relative to 2007 levels after Labor Day and are expected to continue. Beef supplies will finish 2008 about equal to 2007 and is forecast decline in 2009. The lower supplies of chicken and beef are expected to lead to higher prices of these meats at the grocery and restaurant checkout and should be favorable for pork as consumers will be less likely to switch meats if all prices are higher.

Sow slaughter has decreased suggesting that the contraction is slowing. For the year, US sow slaughter is up 5.6 percent, but actually declined since September and particularly after the first of November. However, the change is more pronounced in the US. The number of sows imported for slaughter from Canada increased dramatically in 2008 compared to 2007, especially late in the year. The number of US sows slaughtered has decreased 15.2 percent since the first of November. Reported sow slaughter in Canada has also decreased from 2007 levels, but the sow buyout program makes it difficult to compare slaughter numbers. The September-December period is after the buyout ended

and Canada exported nearly 57,000 additional sows to the US from the year before, but slaughtered 5400 fewer sows in Canada suggesting that liquidation is still occurring in Canada.

Table 3. Sow Slaughter and Imported Sows for Slaughter, 2008 and Change from Same Period in 2007

	Total Sow Slaughter in US	Canadian Sows Slaughter in US	US Sows Slaughtered
January-December 15			
1000 head	3368.3	561.5	2806.8
% Change	5.6%	35.8%	1.0%
September-December 15			
1000 head	989.1	182.8	806.4
% Change	-1.4%	45.3%	-8.1%
November-December 15			
1000 head	380.7	78.7	301.9
% Change	-6.8%	49.8%	-15.2%

Meat trade relations with Mexico were a little rocky over Christmas. Thirty US meat packing plants were delisted as eligible to export to Mexico, but by the end of the weekend 20 of those plants were permitted back on the list with 5 more anticipated shortly. Because these actions happened over the holiday weekend impact on trade was minimal. However, it does start us to thinking about the impact that foreign demand has on out markets. In the period from Jan-Oct of 2008 more than 4 billion pounds of pork was exported. That is an increase of more than 60 percent from the same period in 2007 and accounts for 21 percent of the 19.4 billion pounds of pork that the US produced. What once made up a small fraction of US pork utilization, foreign markets have become a major factor with strong market influence. This has presented opportunity but also expanded demand risk exposure. For example, if exports were to return to 2007 levels more that 8 percent of US production would be pushed back on to the domestic market and further depress prices.

*John Lawrence
Shane Ellis*