Analysis & Comments

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

January 21, 2010

Letter #3

www.lmic.info

Hog Situation and Outlook

Looking back at 2009, the hog and pork markets did not thrive as many had expected, as the industry was impacted by a variety of issues, most notably the worst domestic and international economic recession experienced in decades and the negative impacts from the H1N1 influenza issues in the international markets. As a result, notably larger per capita availability of pork (nearly two percent more) in the domestic market pulled hog prices below a year earlier during most of 2009.

At the beginning of 2009, hog prices were rather strong and the market appeared to be managing through the international financial crisis rather well. However, by the second quarter hog prices counter-seasonally crumbled, with prices remaining well below year-ago levels through most of the balance of 2009. For 2009, slaughter hog prices averaged slightly under $57.00 per cwt., the lowest yearly average price posted since 2003. Despite year-to-year declines in feedstuff prices, lower hog prices pressured estimated farrow-to-finish returns again in 2009, resulting in two consecutive years of severe financial losses by U.S. hog producers.

In last few weeks of 2009 and the first few weeks of 2010, pork and hog prices posted increases due to weather conditions, but apparently also due to some good product sales both domestically and overseas. Looking forward, domestic and foreign consumer demand will be vital to the recovery of hog prices in 2010 and beyond. Domestic pork production and beef production are forecast to tighten some in 2010; however, the chicken sector is expected to expand some in 2010. For 2010, slaughter hog prices are forecast to return pre-2009 levels and are forecast to ratchet-up again in 2011. Still, hog prices may remain volatile.   Of course, besides hog process, how quickly farrow-to-finish producers see red ink subside will depend on feedstuff costs, which are likely to remain rather high by historical standards.

A Look Back at 2009

Commercial hog slaughter in 2009 totaled about 113.6 million head, 2.9 million head or 2.4 percent less than the record level set in 2008, but still the second largest slaughter number ever posted. Average hog dressed weights posted a modest increase in 2009, up about one percent from 2008's at 203 pounds, the largest yearly increase occurred in the third quarter of the year supported by very mild weather conditions. Thus, commercial pork production in 2009 declined about two percent from 2008's. On a quarterly basis, pork production was smaller than the prior year each quarter in 2009, except for the third quarter which posted an increase of over one percent. However, even though total pork production was lower in 2009, the lack of export demand relative to 2008 pressured hog prices.

In 2008, U.S. pork exports were record large in response to a variety of economic factors; however by the fourth quarter of 2008, U.S. exports of pork began to subside as the global financial crisis intensified a trend that continued into 2009. U.S. pork exports also suffered in 2009 because of H1N1 influenza related restrictions imposed by several countries. U.S. pork exports for January through November[1] (latest data available) were down about 14 percent, with expectations that annual 2009 exports to average 14 to 15 percent smaller than in 2008. Nonetheless, when compared to prior years such as 2007, exports through October 2009 posted a 33 percent year-to-year increase. Of note, as 2009 progressed and the economic outlook improved so did U.S. pork exports, particularly to key trading partners such as Mexico.

In regards to imports, U.S. imports of pork were smaller for most of 2009, with January through November import tonnage just a tad larger than the prior year (less than half a percent), with an annual year-to-year decline expected to be down about three percent. If realized, 2009 pork imports would be the smallest annual amount posted in over a decade. Of note, U.S. pork imports from Canada for 2009 were larger than in 2008, as more hogs were being processed in Canada instead of the U.S. compared to prior years.

U.S. imports of feeder pigs and slaughter hogs from Canada declined in 2009, which contributed to the annual decline in U.S. hog slaughter. The decline in imports was mostly due to the continued contraction of the Canadian hog numbers; however exchange rates and the implementation of Country of Origin labeling in the U.S. did come into play as well. For calendar year 2009, feeder pig imports totaled about 5 million head compared to 6.7 million head in 2008, a decline of about 26 percent. Slaughter hog imports (barrow and gilts) totaled around 520 thousand head versus 1.6 million head in 2008 and the 2003-2007 average of 2.6 million head, significantly lower than prior years.

The modest decline in the domestic pork production in 2009 was more than counterbalanced by lower pork exports. That is, U.S. per capita availability of pork (retail basis) in 2009 was about two percent larger than the prior year. As a result, larger domestic pork supplies pressured hog prices lower in 2009.

Estimated gross pork packer margins (live to cutout spread) plummeted in the fall of 2008 due to a number of economic factors (i.e. recession, significant declines in the pork byproduct value and wholesale pork prices) and remained well below the prior year for most of 2009. At the beginning of 2009, pork packer margins averaged just under $16.00 per hog in January, by June packer margins had declined to around $11.00 per hog, the lowest monthly margin posted since the summer of 2003. However, by the fall of 2009, packer

[1] There is about a two-month time lag in the release of monthly U.S. trade data.

margins had improved and surpassed the prior year supported by improved wholesale pork prices. In fact, by December 2009, estimated pork packer margins were at $32.79 per hog, a level not reported since the summer of 2008. For 2009, estimated pork packer margins averaged nearly $20.00 per hog, 27 percent lower than in 2008 and about $5.00 per hog less than the 2003-2007 average. Nonetheless, below year ago pork packer margins were a key contributing factor to lower slaughter hog prices during 2009.

In 2009, slaughter hog prices (National Weighted Average Base) averaged $56.87 per cwt. versus $64.83 per cwt. in 2008, a near $8.00 per cwt. annual loss. The decline in slaughter hog prices began in the second quarter and was further sparked by mostly export market response to H1N1 influenza and continued further into the summer months as pork production was at its largest. Typically, slaughter hog prices seasonally peak in the spring quarter however in 2009 hog prices crumbled. Subsequently hog and pork prices were unable to gain any support until late in the fourth quarter of the year. On a weekly basis, hog prices peaked in May at $62.60 per cwt., bottomed-out in late August at $49.87 per cwt., and by mid-December hog prices had climbed back to low $60's per cwt. range. Slaughter hog prices struggled for most of 2009 and posted their lowest annual average since 2003.

As a result, hog producers posted a second year of losses in 2009, despite lower feedstuff prices. According the Iowa State University's estimated returns for a farrow-to-finish, hog producers posted a loss of $26.04 per head in 2009, compared to a negative $21.53 per head in 2008 and the largest per head loss since 1998. Since the fall of 2007, hog producers have lost money in all but two months as of the end of 2009.

Hog and Pig Numbers Decline

In December, USDA-NASS reported that as of December 1, 2009 there were a total of 65.8 million hogs and pigs in the U.S. versus 67.1 million head in 2008, a two percent year-to-year decline. The December report confirmed that U.S. hog producers entered a contraction phase during 2009 in response to negative returns the last two years, with further declines in the hog and pig inventory expected to continue in 2010.

As of December 1st, the U.S. breeding herd was reported at 5.85 million head, over three percent smaller than 2008's and six percent less than in 2007. During the September to November quarter, producers farrowed two percent less sows than a year earlier, but with another record number of pigs per litter (9.70), the pig crop was even with the prior year. That is despite efforts by U.S. hog producers to reduce the number of breeding sows, continued gains in sow efficiency counteracted some of the decline in hog numbers. According to the December report, producers intend to only farrow two to three percent less sows in the winter and spring quarters than the prior year, but that number may change as hog prices strengthened in late December and into 2010. The number of market hogs and pigs as of December 1st totaled 60 million head, down two percent from 2008 and the prior quarter (September 1, 2009).

Canadian hog producers have continued to reduce the number of hog and pigs, a process that started much earlier and has been more dramatic in regards to year-to-year declines than in the U.S. As of the October 1, 2009[2], the total number of hogs and pigs in Canada was down seven percent from 2008 and the nearly 18 percent smaller than 2007's. The Canadian breeding herd was nearly five percent smaller on October 1st than the prior year with the number of sows farrowed down over five percent, while the number of market hogs was nearly eight percent smaller. Additional declines in the Canadian hog and pig inventory were expected during the fourth quarter of 2009, with the inventory as of January 1, 2010 forecast to be well below a year ago.

A Look Ahead to 2010

Many of the issues that influenced the pork and hog markets during 2009 will continue to have an influence on the market in 2010. An important factor going into 2010 will be the recovery of U.S. and international economic conditions, which will impact domestic and foreign demand for U.S. pork, as well as less competition from competing meats and poultry.

The continued decline in the U.S. as well as the Canadian hog inventory will result in tighter hog numbers and pork production in 2010, which should be beneficial to hog prices in 2010. However, feedstuff prices will more than likely continue to be a factor in producer profitability, especially if industrial demand (i.e. ethanol) for corn continues to develop based on government policies. In general, volatility will remain a factor on slaughter hog prices in 2010.

As the global economy improves, foreign demand for U.S. pork should continue to grow, while U.S. pork production modestly declines in 2010. In addition, feeder pig and slaughter hog imports are expected to follow the below year ago trend seen in 2009, as the Canadian herd continues to contract. Likewise, pork imports are forecast to be smaller from Canada as well. Therefore, the decline in pork production coupled with larger exports and smaller imports suggest an additional decline in the U.S. per capita availability of pork (retail basis) in 2010. As a result, the per capita availability of pork in 2010 is forecast to be the lowest amount since 1997. This combined with a comparable situation in the beef complex and some moderate growth in the poultry industry, implies the U.S. per capita availability of red meat and poultry in 2010 will be the lowest since 1997.

At the onset of 2010, futures prices for hogs indicated a return to profitability during the summer months, however such prices would require a return to pre-2009 demand levels (domestic and international) as well as record wholesale pork prices. If realized, hog prices could average higher in 2010 than current forecasts, however if domestic and/or global demand for pork does not improve, hog prices will more than likely struggle during 2010.

Slaughter hog prices are forecast to return to a more normal season pattern in 2010, unlike 2009. Current forecasts suggest slaughter hog prices (National Weighted Average

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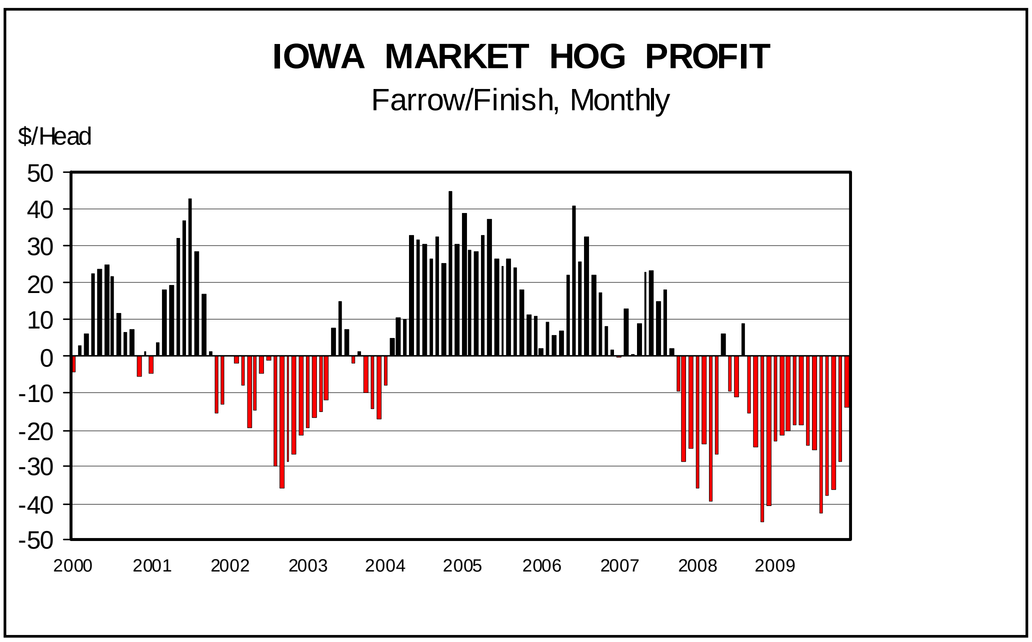
[2] As of this Analysis and Comment, the January 1, 2010 Canada Hog and Pig Inventory report had not been released.

Base) will average about five to six percent higher in the first quarter of 2010, with prices improving to the mid and upper $60's per cwt. range into the second and third quarters. Hog prices are expected seasonally soften to the mid $60's per cwt. range in the fourth quarter of 2010. On an annual basis, slaughter hog prices are forecast to average 13 to 14 percent above 2009's, which would be comparable to pre-2009 annual prices.

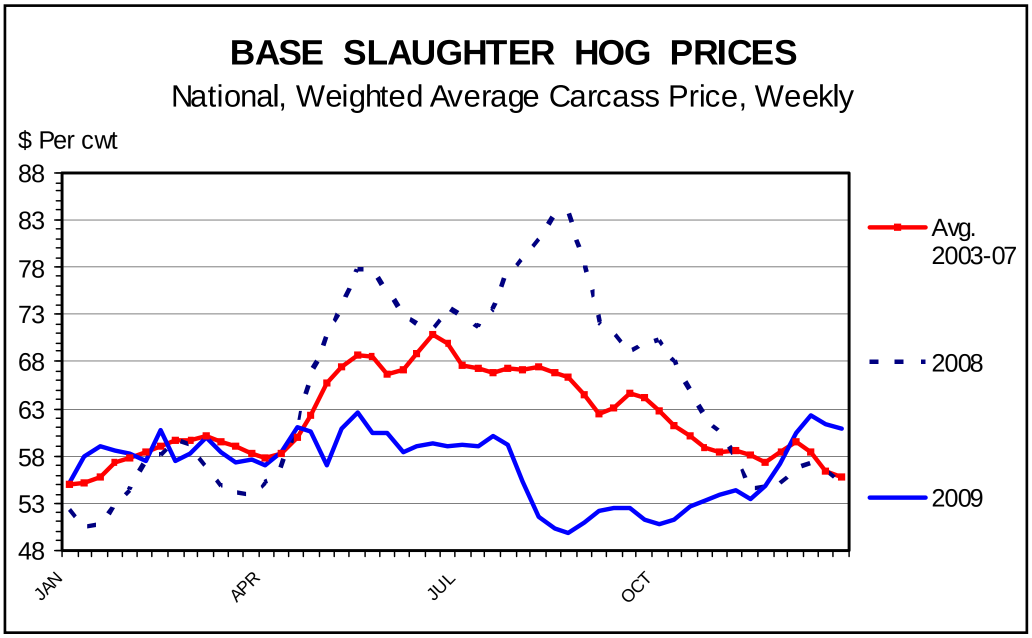
Looking Further Ahead to 2011

In looking ahead to 2011, there are number of factors that may or may not impact the hog and pork markets that are uncertain at this time. For example, when will the U.S. economy fully recover and how strong will economic growth be or could there be another recession? Will there be another flu pandemic or similar situation that restricts trade regulations and impacts global demand for pork and pork products?

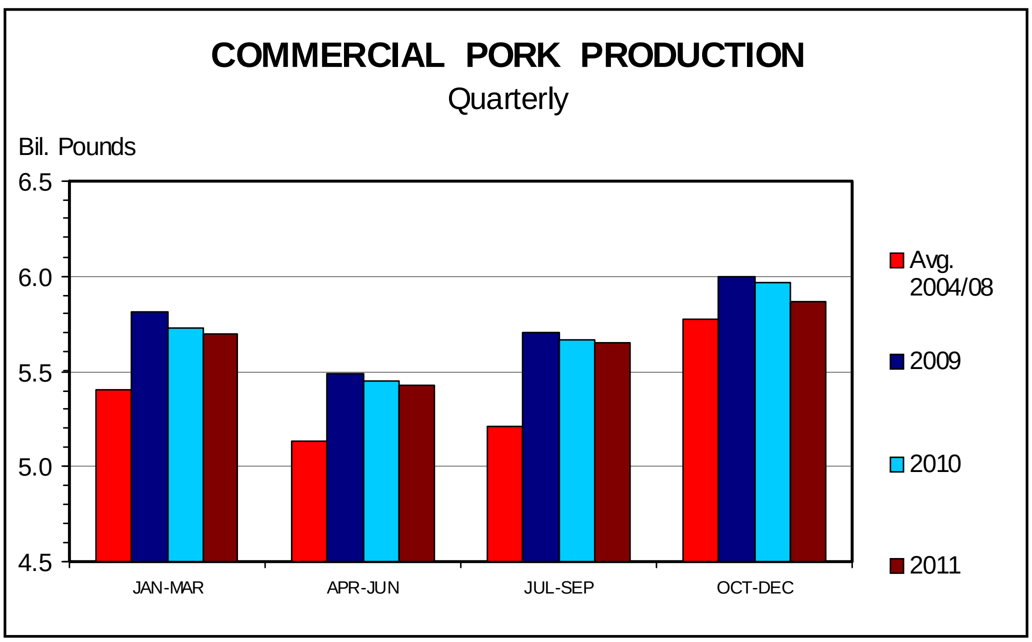
Preliminary forecasts for 2011 assume moderate economic growth in the U.S., increasing oil and thus higher corn prices than in 2010. Hog supplies are expected to gradually decline, while beef production is expected to tighten, however poultry production will probably be expanding. For 2011, annual average slaughter hog prices are forecast to average in the mid $60's to low $70's per cwt. range, which would be the first time the annual national average base price surpassed $70.00 per cwt.



Data Source: Iowa State University



Data Source: USDA-AMS, Compiled by LMIC



Data Source: USDA-NASS, Compiled by LMIC, Forecasts by LMIC