Hog Outlook 2009-10: The Candle at the End of the Tunnel

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Iowa State University

Overview

- Recent prices and returns
- Demand side a concern
  - Smaller supplies of competing meats
  - Exports below 2008 record levels
  - Consumer income
- Supply side slowly declining
  - Production
  - Costs
- Managing margins and risk
Estimated Returns to Farrow to Finish Hog Production, $/Head, Iowa State University Extension

- $60
- $40
- $20
- $-
- $20
- $40
- $60

Jan-01 Jul-01 Jan-02 Jul-02 Jan-03 Jul-03 Jan-04 Jul-04 Jan-05 Jul-05 Jan-06 Jul-06 Jan-07 Jul-07 Jan-08 Jul-08

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University Extension

HOG CUTOUT VALUE
$ Per Cwt.
Weekly

Jan
Apr
Jul
Oct
2003-07
Avg.
2008
2009

Cutout value down $15
By-product value $1 lower
$16/cwt or $32/head less value to that packer

HOG BY-PRODUCT VALUE
Live Animal Basis, Weekly

$ Per Cwt.
6.5
5.5
4.5
3.5
2.5

Livestock Marketing Information Center
Weekly Hog Spot and Futures Prices

H1N1 hits the press
Pulls the rug from under producer profitability

Nearby
ISM Spot
Jun
Aug
Oct

BARROW AND GILT PRICES
Iowa - So. Minnesota, Carcass Base Price, Weekly

No summer rally, $15 of $16 decline back to hog producer
**EARLY WEANED PIG PRICES**
National, 10 Lbs, Delivered, Weekly

Steady to lower than 2008 when corn was at record high

**FEEDER PIG PRICES**
40-50 Pounds, Weekly

Average of spot market less than $15/head on weaned pigs.
Spot prices reported as low as $6/head on weaned pigs.

**TOTAL RED MEAT & POULTRY PRODUCTION**
Quarterly

Average of spot market less than $15/head on weaned pigs.
Spot prices reported as low as $6/head on weaned pigs.
Reported retail prices have worked higher over time but declined in recent months.

Relative prices at retail do not show much change over time. Retail featuring is likely the battle ground.
Demand Summary

- Retail pork prices comparable to other meats
  - Focus on featuring
- Exports has been growth area
  - 2009 on pace to be second best year ever
  - But, less than record in 2008
June 1 Inventory

- All H&P: -2.0%
- Breeding: -2.7%
- Market: -1.9%
- < 60#: -2.4%
- 60-119#: -2.0%
- 120-179#: -2.4%
- 180#+: -0.1%

Dec-May

- Farrowings: -2.8%
- Pigs/litter: 2.5%
- Pig crop: -0.4%

Sows Farrowed

Pigs per Litter

Litters per Breeding Animal

Pig Crop
### Change in Barrow and Gilt Slaughter from Year Earlier

<table>
<thead>
<tr>
<th>Period</th>
<th>Total US B&amp;G Slight</th>
<th>CND Import B&amp;G Slight</th>
<th>US Finished B&amp;G Slight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-May 08</td>
<td>9.1%</td>
<td>-25.3%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Jun-Aug 08</td>
<td>7.6%</td>
<td>-53.7%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Sep-Nov 08</td>
<td>1.5%</td>
<td>-68.1%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Dec-Feb 09</td>
<td>-1.4%</td>
<td>-79.1%</td>
<td>3.6%</td>
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<tr>
<td>Mar-May 09</td>
<td>-3.4%</td>
<td>-73.9%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Jun-Jul 09</td>
<td>1.1%</td>
<td>-57.9%</td>
<td>1.9%</td>
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### BARROW AND GILT DRESSED WEIGHT

Federally Inspected, Weekly

![Graph showing dressed weight data from January to October for 2008 and 2009, with averages for 2003-07.]
Sow Slaughter in US

<table>
<thead>
<tr>
<th>Month</th>
<th>Total US</th>
<th>CND Import</th>
<th>US</th>
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<tbody>
<tr>
<td></td>
<td>Sow Slaught</td>
<td>Sow Slaught</td>
<td>Sow Slaught</td>
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<tr>
<td>Mar-May 08</td>
<td>10%</td>
<td>59%</td>
<td>3%</td>
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<tr>
<td>Jun-Aug 08</td>
<td>10%</td>
<td>29%</td>
<td>8%</td>
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<td>Sep-Nov 08</td>
<td>0%</td>
<td>43%</td>
<td>-7%</td>
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<td>Dec-Feb 09</td>
<td>-7%</td>
<td>52%</td>
<td>-16%</td>
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<td>Mar-May 09</td>
<td>-15%</td>
<td>-14%</td>
<td>-15%</td>
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<td>Jun-Jul 09</td>
<td>-10%</td>
<td>31%</td>
<td>-18%</td>
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## ISU and Futures Forecast

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<th>ISU 6/26</th>
<th>Futures Forecast</th>
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<tr>
<td>Jul-Sep ‘09</td>
<td>42-45</td>
<td>41</td>
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<td>Oct-Dec ‘09</td>
<td>40-43</td>
<td>40</td>
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<td>Jan-Mar ‘10</td>
<td>44-47</td>
<td>45</td>
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<td>Apr-May ‘10</td>
<td>48-51</td>
<td>52</td>
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### Estimated Returns to Farrow to Finish Hog Production

Estimated Returns to Farrow to Finish Hog Production, $/Head, Iowa State University Extension

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ISU Estimated Costs and Selling Prices, Farrow to Finish
($/cwt Live Wt)

April 1 Futures prices and historic basis

July 17 Futures prices and historic basis

Reported
Projected

ISU Estimated Costs and Selling Prices, Farrow to Finish
($/cwt Live Wt)

Feed
Variable
Total
Hog Price

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Accumulated Return Relative to Total Cost per Head Marketed Per Month

Projected based on July 17 futures

Equity position at end of Dec 2008 equal to Jan 2006

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Carcass weight 200 pounds
Pig price 50% of 5 month out lean hog futures
Corn 10 bushels per pig
SBM 150 pounds per pig

Projected Wean-Finish "Crush Margin", July 15, 2009

Wean-Finish Crush Margin ($/head) by Sales Month
Pigs on Feed: Cash Pig, Corn & SBM Price at Placement and Wednesday Lean Hog Futures Prices

Wean-Finish Crush Margin ($/head) by Sales Month
Pigs Placed in Next 5 Months: Wednesday Futures Prices for Lean Hogs, Weaned Pig, Corn and SBM

Wean-Finish Crush Margin ($/head) by Sales Month
Pigs Placed 6-11 Months Out: Wednesday Futures Prices for Lean Hogs, Weaned Pig, Corn and SBM
Hog Summary

- Significant financial stress
- Red ink expected through winter 2009
- USDA reports herd liquidation underway
- US sow slaughter not reflecting reduction
- Exports that blessed 2008 weaker in 2009
- Look for opportunities to protect a margin particularly in fall and early winter
- May be a “chronic”

Thank you!

Any Questions?
www.econ.iastate.edu/faculty/lawrence/