A Producer Perspective of the Hog Sector

USDA Agricultural Outlook Forum
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Jon Caspers
Producer Issues 2012

• Exports – Exchange rates, trade policy, disease status
• U.S. demand – U.S. economy
• Feed prices – S. American crops, moisture situation, 2012 acreage/yields
Producer Issues 2012

• Hog/pork supplies -- Productivity (farrowings, litter size), herd health, weights, packer capacity

• Industry Financial Condition – Volatility, Price Pressures, Risks
Exports
Top Pork Exporters

- U.S.
- EU-27
- Canada
- Brazil
- Chile
- Mexico

Graph showing the top pork exporters from 2006 to 2011, with data in thousands of metric tons.
Percent of Production Exported

U.S. production increasingly bound for export
Major Pork Importer Currencies Compared to the U.S. Dollar

Comparative Daily Exchange Rates: Relative to U.S. Dollar

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Major Pork Exporter Currencies Compared to the U.S. Dollar

Comparative Daily Exchange Rates: Relative to U.S. Dollar

- Chilean Pesos
- Brazilian Reals
- European Euros
- Canadian Dollars

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U.S. Demand
GDP growth: Improving again—but still slow
PC consumption fell sharply in 2011 . . .

. . . But demand is strong! How so?

**PORK PRICE-QUANTITY RELATIONSHIP**

Annual, Retail Weight, Deflated Retail Price

![Diagram showing the relationship between pork price and quantity per capita from 1991 to 2019.](image)
Feed Prices
Last Major Drought Was In 1988

U.S. CORN YIELD

After 4 drought-reduced crops from 1971 through 1988, there has not been a significant wide-spread drought in corn growing areas since 1988
But... How Long Will This Last?
Cost of Production Record High in ‘11 ... Forecast Near That in 2012

**ACTUAL & PREDICTED HOG PRODUCTION COSTS**

*Based on relationship between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal*
Hog/Pork Supplies
<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
<th>2011 as Pct of Pre-Report</th>
<th>Actual - Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories on December 11</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All hogs and pigs</td>
<td>64,925</td>
<td>65,931</td>
<td>101.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Kept for breeding</td>
<td>5,778</td>
<td>5,803</td>
<td>100.4</td>
<td>-0.4</td>
</tr>
<tr>
<td>Kept for market</td>
<td>59,147</td>
<td>60,128</td>
<td>101.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Under 50 lbs.</td>
<td>18,864</td>
<td>19,271</td>
<td>102.2</td>
<td>0.4</td>
</tr>
<tr>
<td>50-119 lbs.</td>
<td>16,519</td>
<td>16,895</td>
<td>102.3</td>
<td>0.8</td>
</tr>
<tr>
<td>120-179 lbs.</td>
<td>12,233</td>
<td>12,472</td>
<td>102.0</td>
<td>1.0</td>
</tr>
<tr>
<td>180 lbs. and over</td>
<td>11,531</td>
<td>11,490</td>
<td>99.6</td>
<td>-1.6</td>
</tr>
<tr>
<td>Farrowings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep-Nov sows farrowed</td>
<td>2,874</td>
<td>2,894</td>
<td>100.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Dec-Feb Intentions</td>
<td>2,843</td>
<td>2,865</td>
<td>100.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Mar-May Intentions</td>
<td>2,917</td>
<td>2,890</td>
<td>99.1</td>
<td>-1.7</td>
</tr>
<tr>
<td>Sep-Nov Pig Crop1</td>
<td>28,488</td>
<td>29,014</td>
<td>101.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Sep-Nov pigs saved per litter</td>
<td>9.91</td>
<td>10.02</td>
<td>101.1</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

*Thousand head **Thousand litters
Litter size growth 2.0% over past 4 years

PIGS SAVED PER LITTER, U.S.

Average Growth Rate, 1994 thru 1997 = 1.7%

Average Growth Rate, 1998 thru Q2-07 = 0.5%

Average Growth Rate, Q3-’07 thru Q3-’11 = 2%
Weights remain large and GROWING... Genetics, fixed costs, matrixes.
Packer margins under pressure

PORK PACKERS' EST'D GROSS MARGIN

$/Head

2011
2012
Average '06-'10

J  F  M  A  M  J  J  A  S  O  N  D
Industry Financial Condition
ACCUMULATED PROFITS
IOWA FARROW-TO-FINISH OPERATIONS
(Sum of the profits from selling one pig per month since January 1991)

Top to Bottom: Sept '07 to Feb '10
Lost $639.68
81% of peak amount

Peak in Sept '07 = $786.87
8 years

December '11 = $366.42

Source: Paragon Economics, Inc. using data from Estimated Costs and Returns, Department of Economics, Iowa State University
Volatile Markets

• High feed costs have been a huge challenge for producers
  – Continued tight supplies increase price and availability risks

• Increased production/pork supplies in 2012
  – Will demand hold? – economy, consumers
  – Fall 2012 slaughter capacity?
Pork Price Volatility in 2011

$/pound

$1.77
$3.21
$1.52
$3.00
$1.97
$2.89
$0.77
$1.10
$0.00
$0.50
$1.00
$1.50
$2.00
$2.50
$3.00
$3.50

Korea
China
Japan
U.S.

Low
High

Source: USMEF wholesale estimates, KMTA, ALIC, USDA/AMS pork cutout
Risks

• The U.S. economy
• World economy
• $US vs. other currencies
• 2012 corn and soybean crops
• Oil prices – corn is hitched to it
Risks

• HSUS - McDonald’s, state activities
• RFS waiver/reduction plan
• Export disruption
  – Foreign animal disease – unlikely but HUGE impact
  – Another “swine flu” type scare
Conclusion

- Little incentive / interest in expansion
  - Continued incremental growth
  - Producers focused on productivity improvements
  - Industry still recovering from 98-99 and 08-09
- Lender liquidity – capital available if interest / ability to expand
- Increased use of hedging / risk management
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From information, knowledge