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A Producer Perspective of the Hog Sector

USDA Agricultural Outlook Forum

February 24, 2012

Jon Caspers

Producer Issues 2012

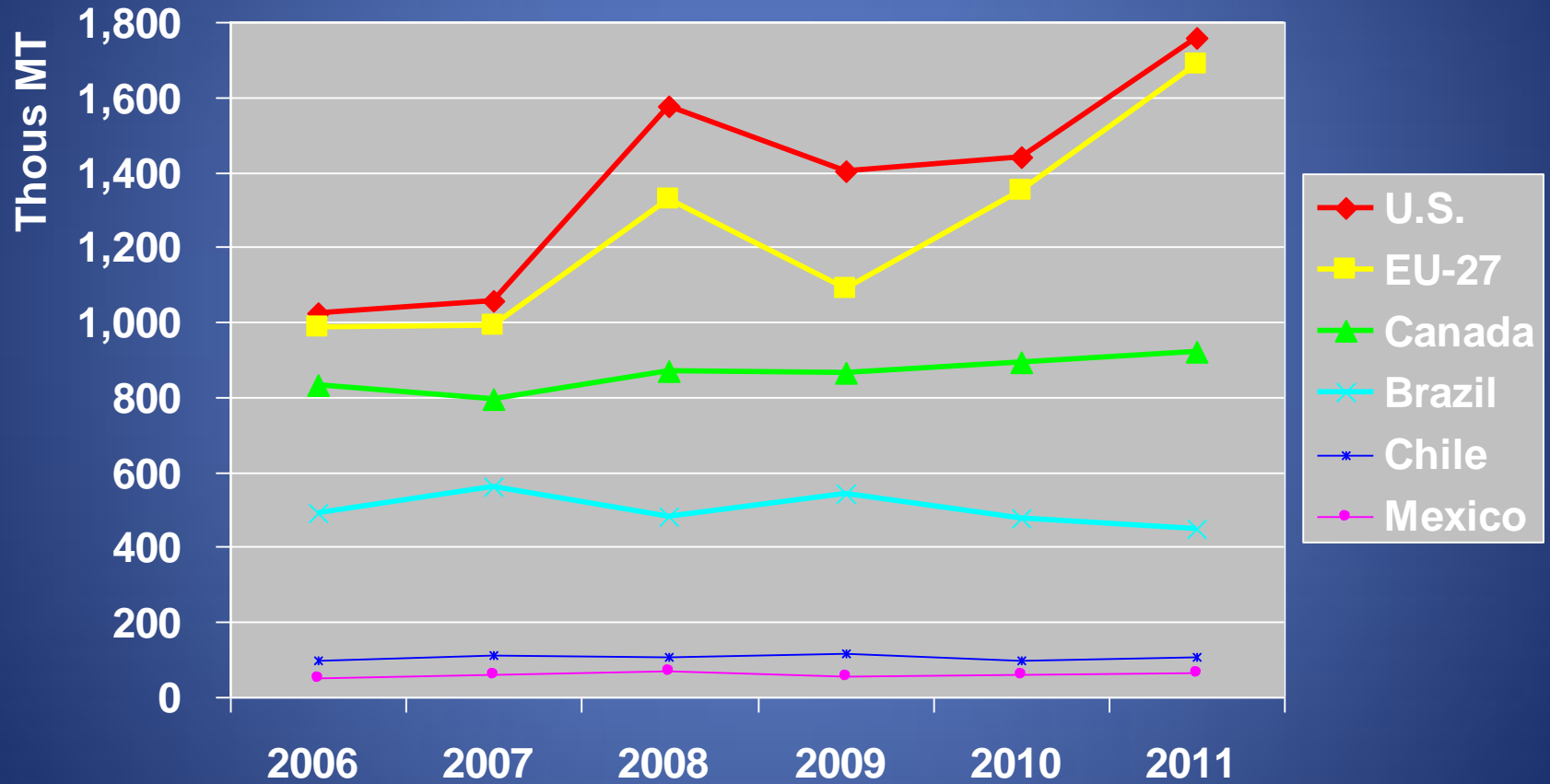
- Exports – Exchange rates, trade policy, disease status
- U.S. demand – U.S. economy
- Feed prices – S. American crops, moisture situation, 2012 acreage/yields

Producer Issues 2012

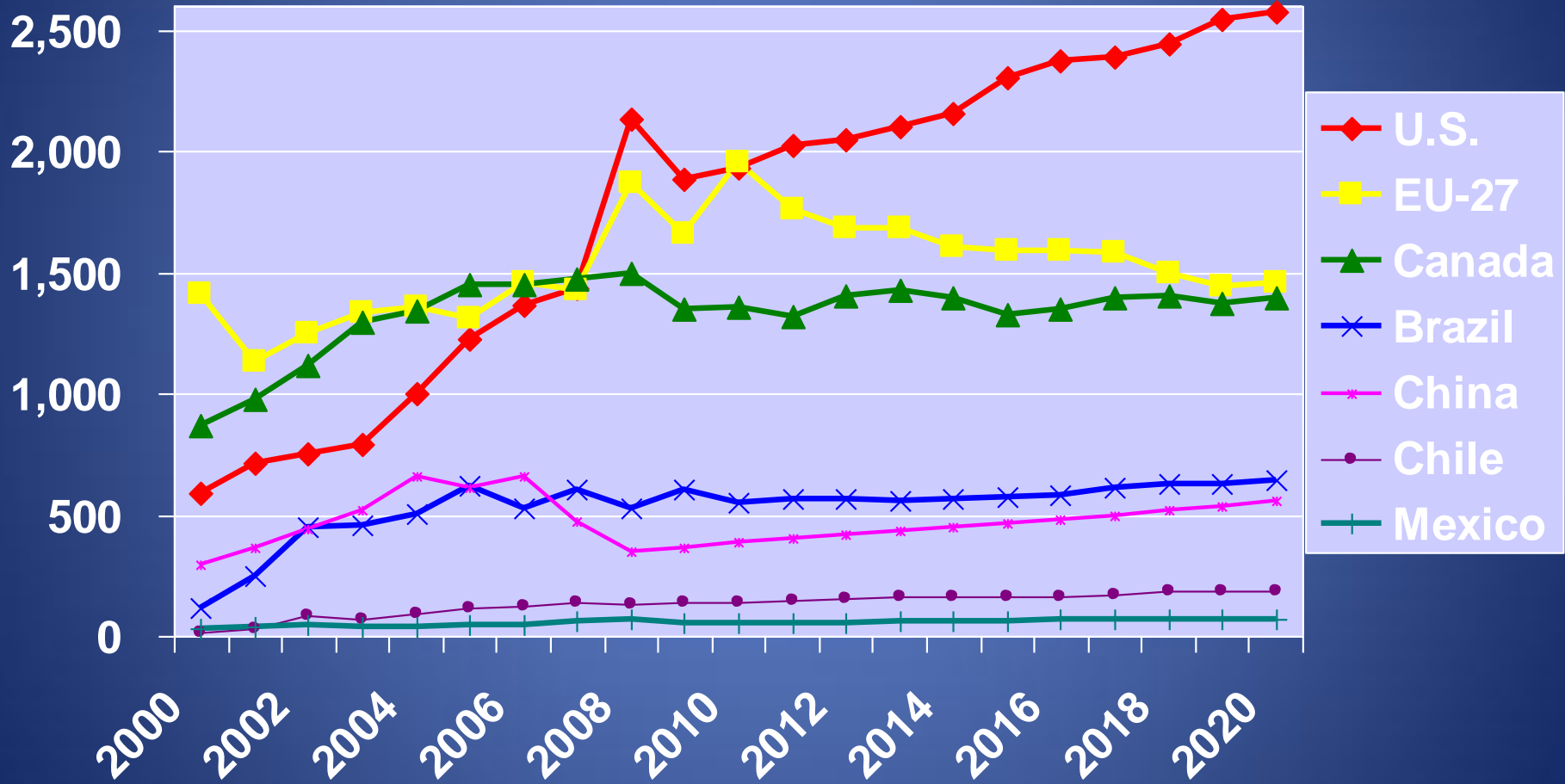
- Hog/pork supplies -- Productivity (farrowings, litter size), herd health, weights, packer capacity
- Industry Financial Condition – Volatility, Price Pressures, Risks

Exports

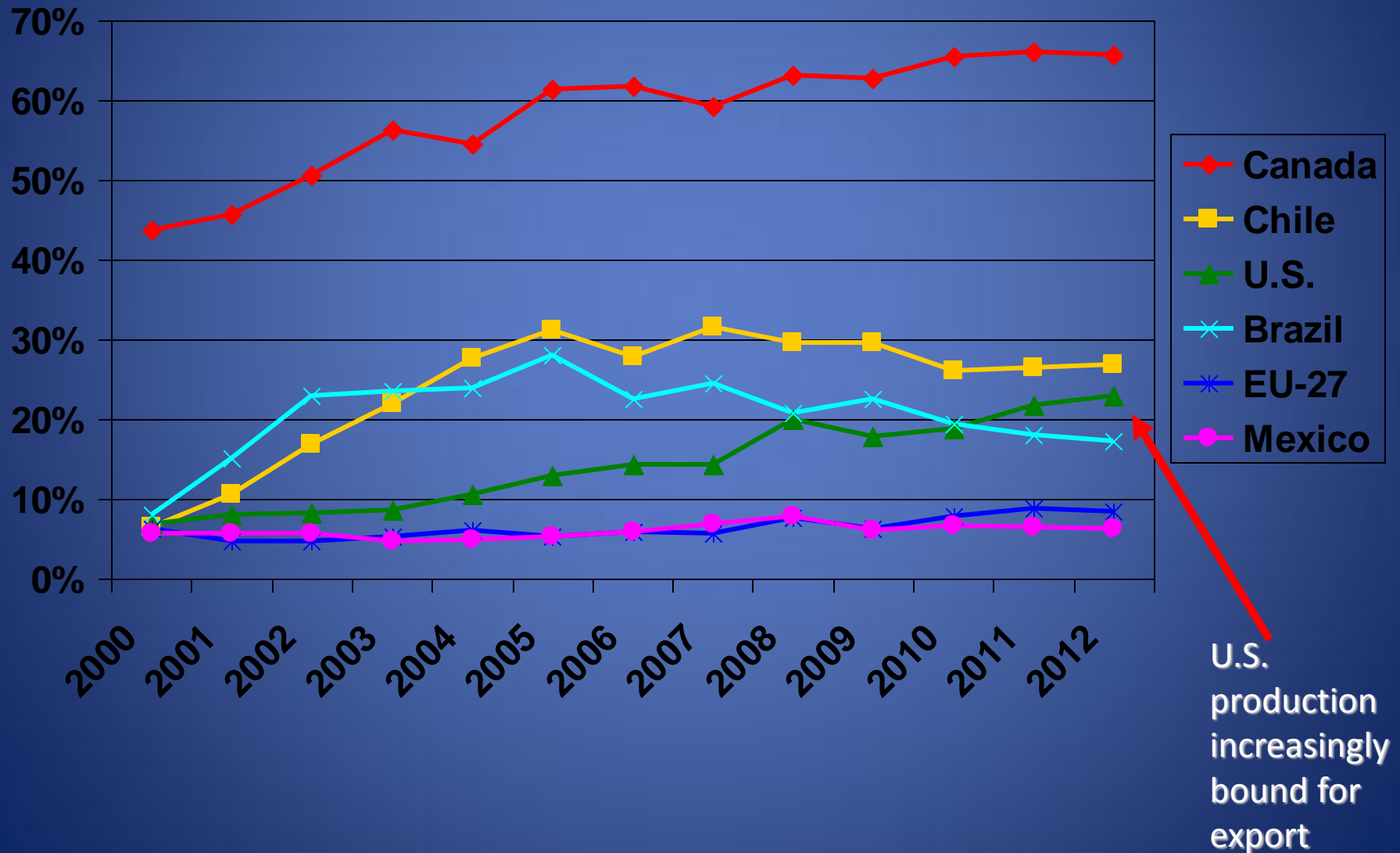
Top Pork Exporters



Longer Term Pork Export Trends

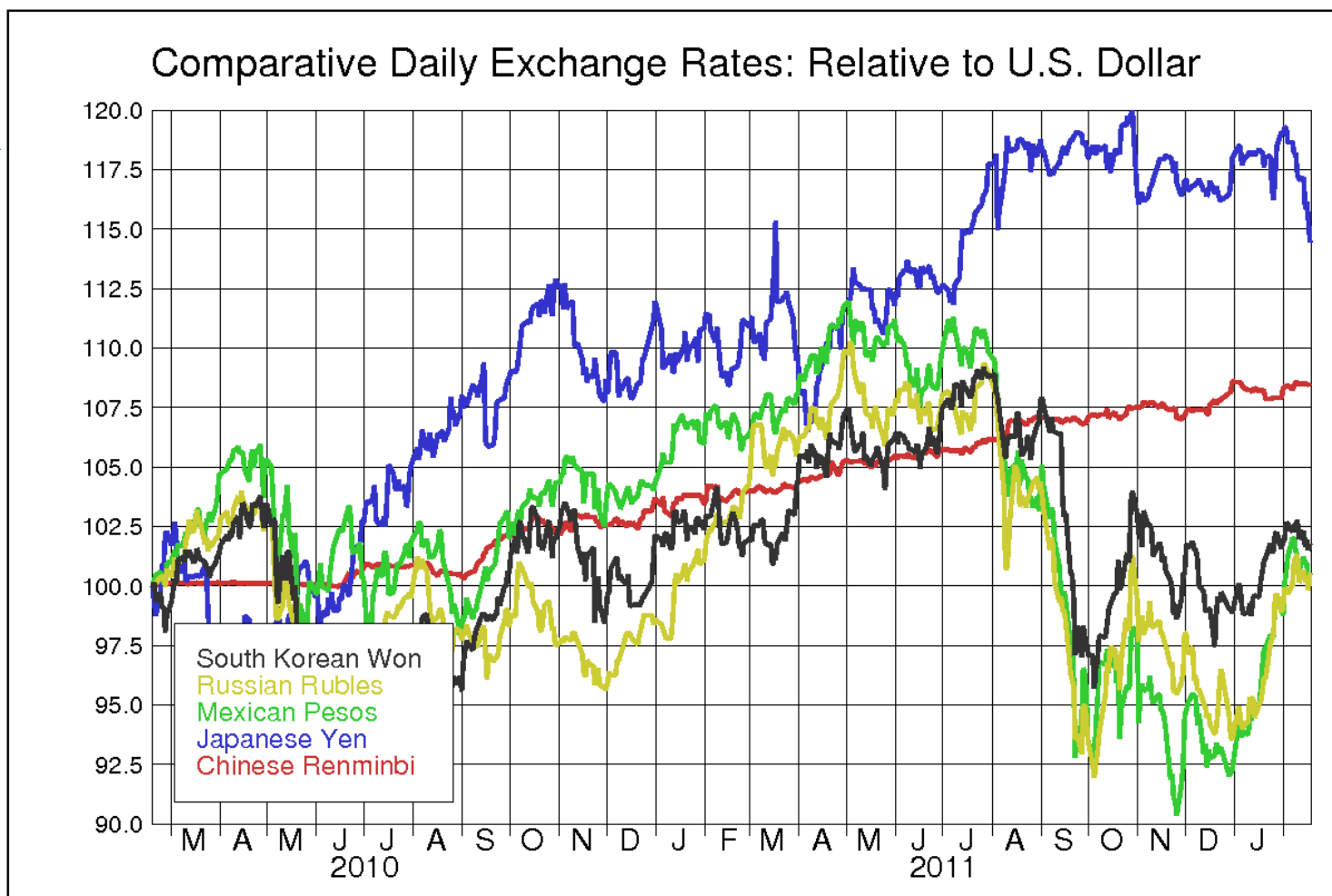


Percent of Production Exported



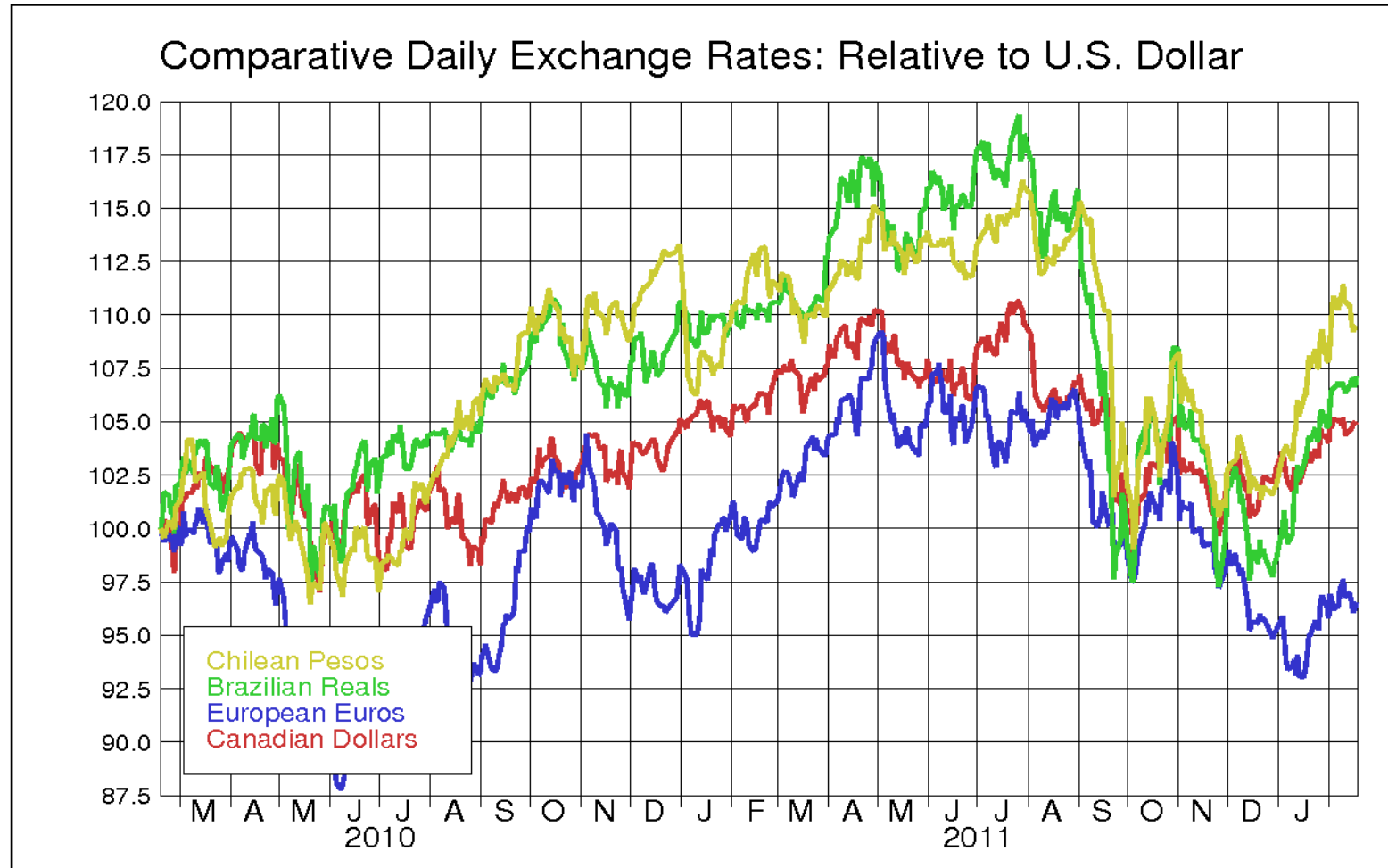
Major Pork Importer Currencies Compared to the U.S. Dollar

U.S. Pork More Affordable



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

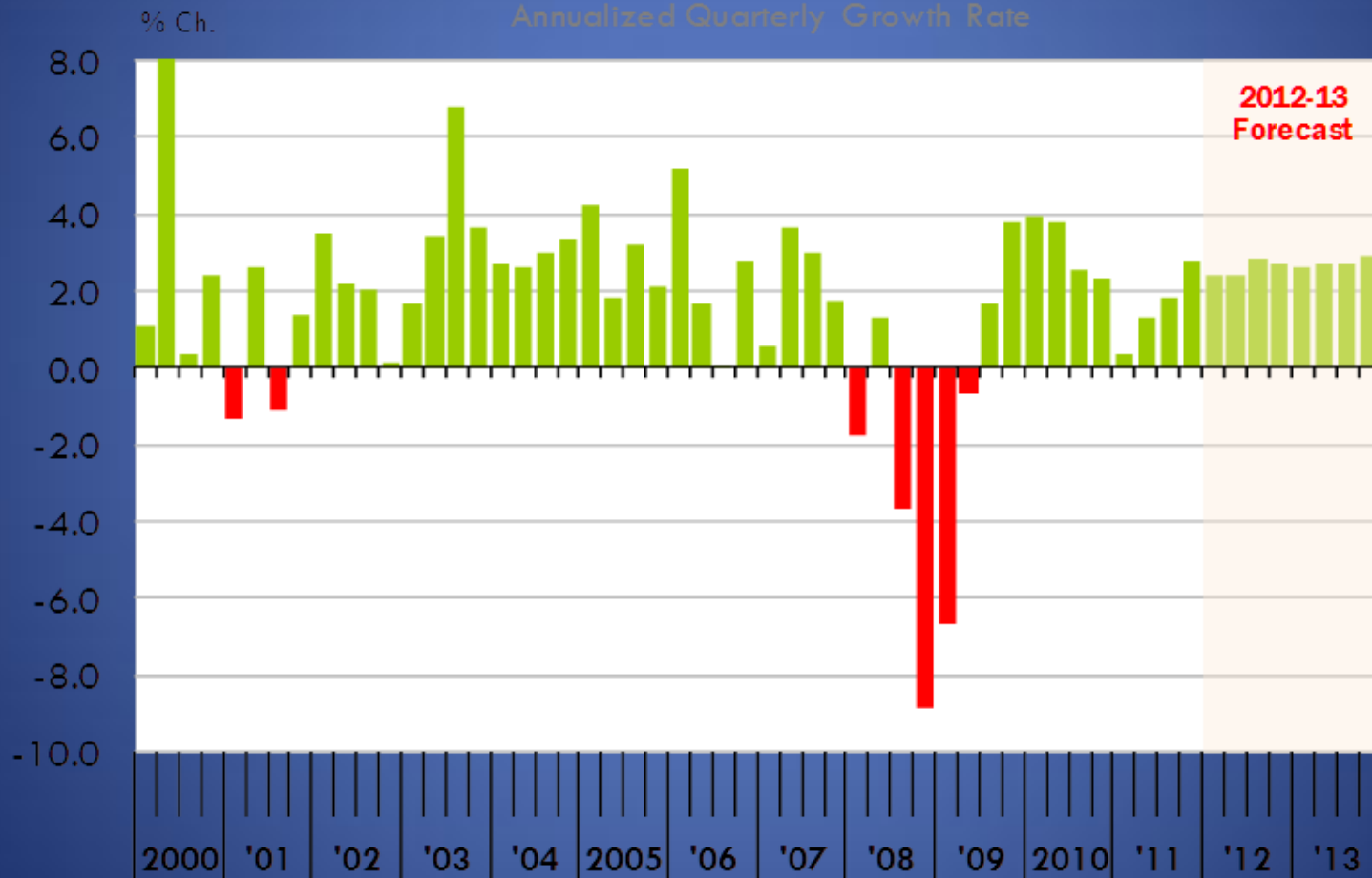
U.S. Pork Has Weak Dollar Advantage



U.S. Demand

GDP growth: Improving again— but still slow

ANNUAL GROWTH RATE OF GDP



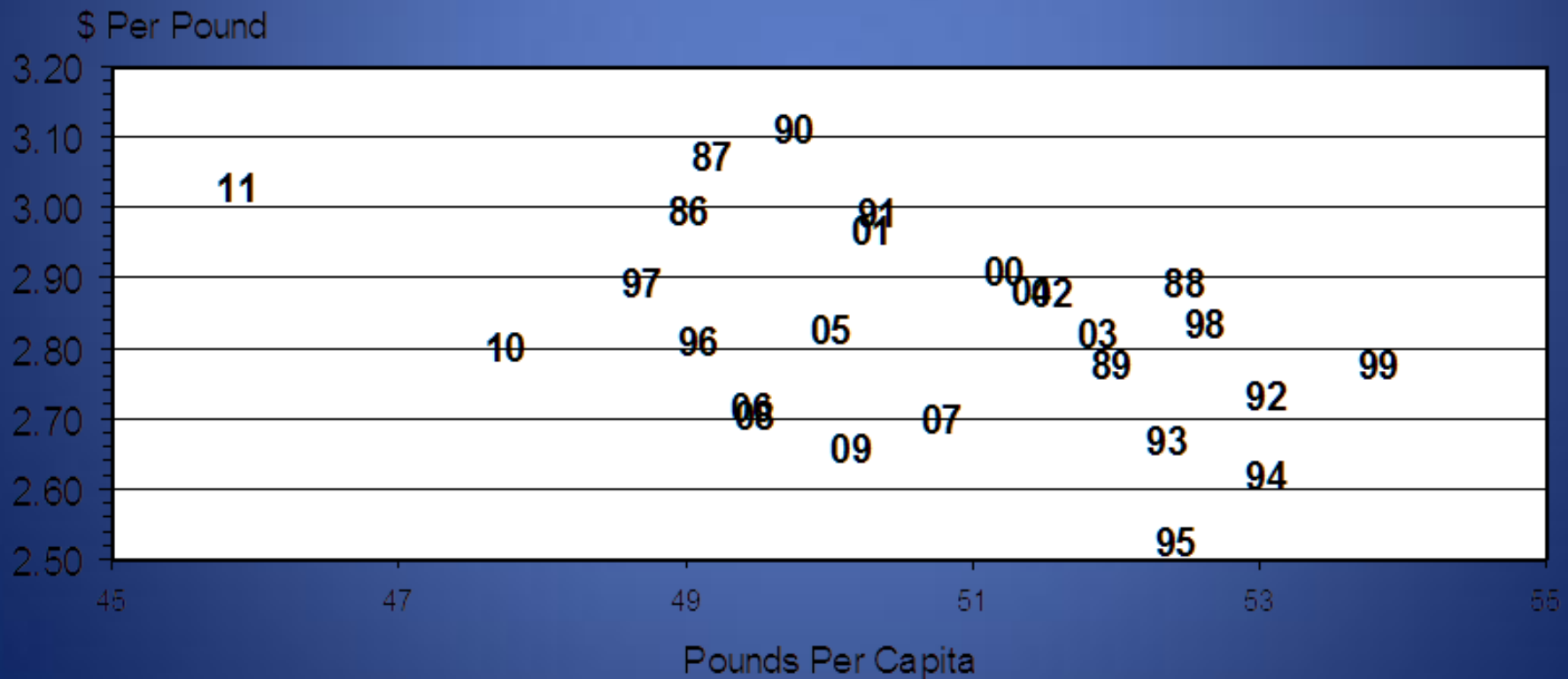
* Forecast: Moody's

PC consumption fell sharply in 2011 . . .

. . . But demand is strong! How so?

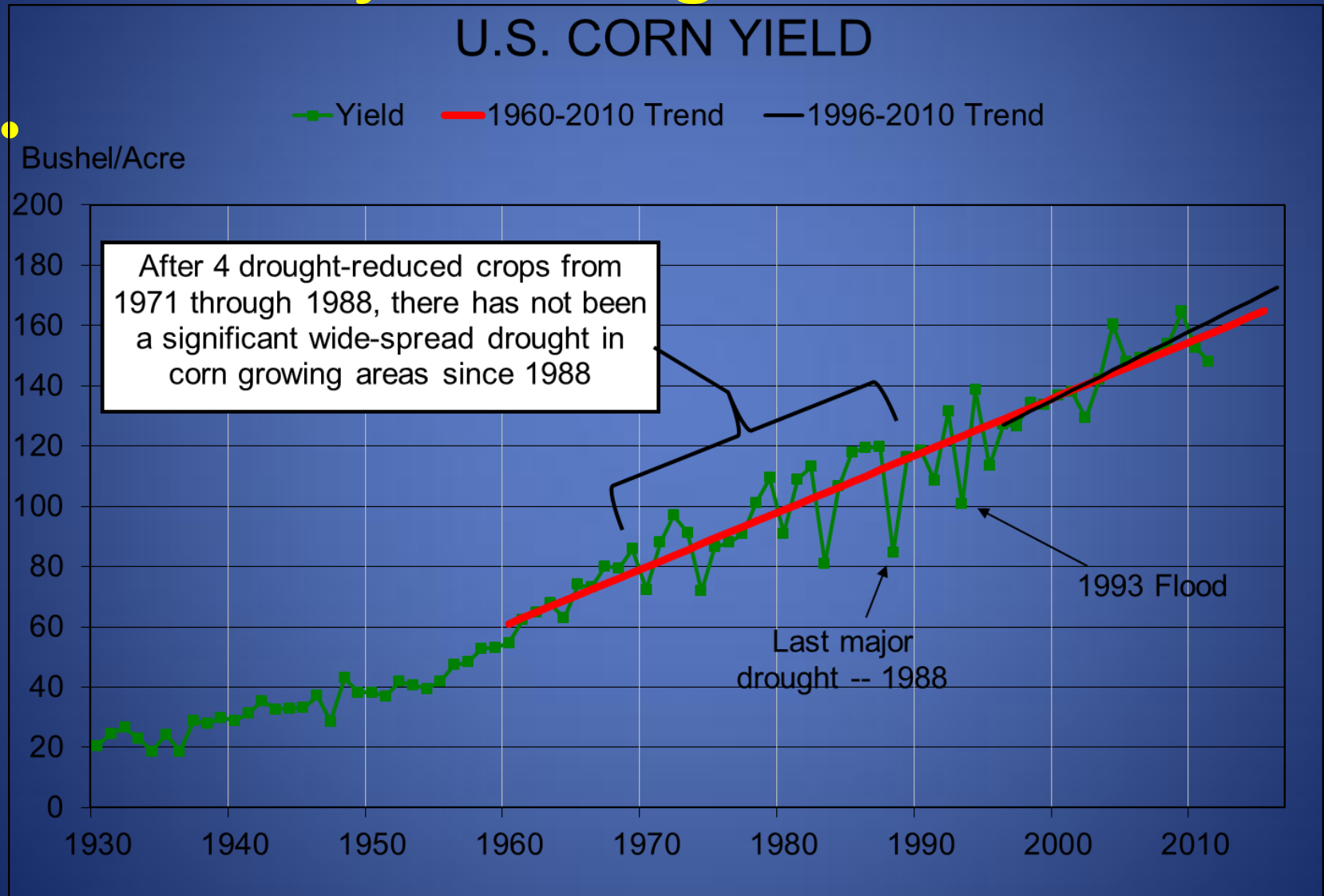
PORK PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated Retail Price



Feed Prices

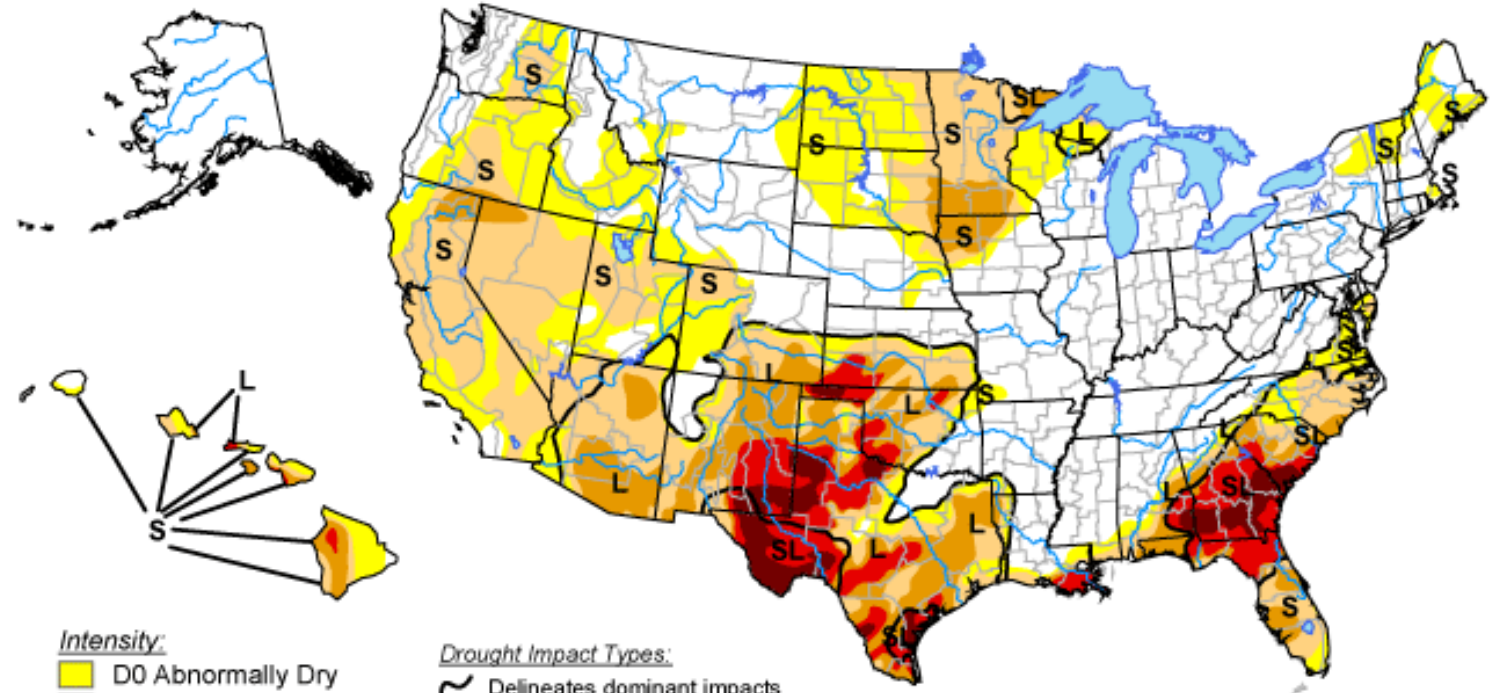
Last Major Drought Was In 1988



But... How Long Will This Last?

U.S. Drought Monitor

February 21, 2012
Valid 7 a.m. EST



- Intensity:
- D0 Abnormally Dry
 - D1 Drought - Moderate
 - D2 Drought - Severe
 - D3 Drought - Extreme
 - D4 Drought - Exceptional

- Drought Impact Types:
- Delineates dominant impacts
 - S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
 - L = Long-Term, typically >6 months (e.g. hydrology, ecology)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://droughtmonitor.unl.edu/>

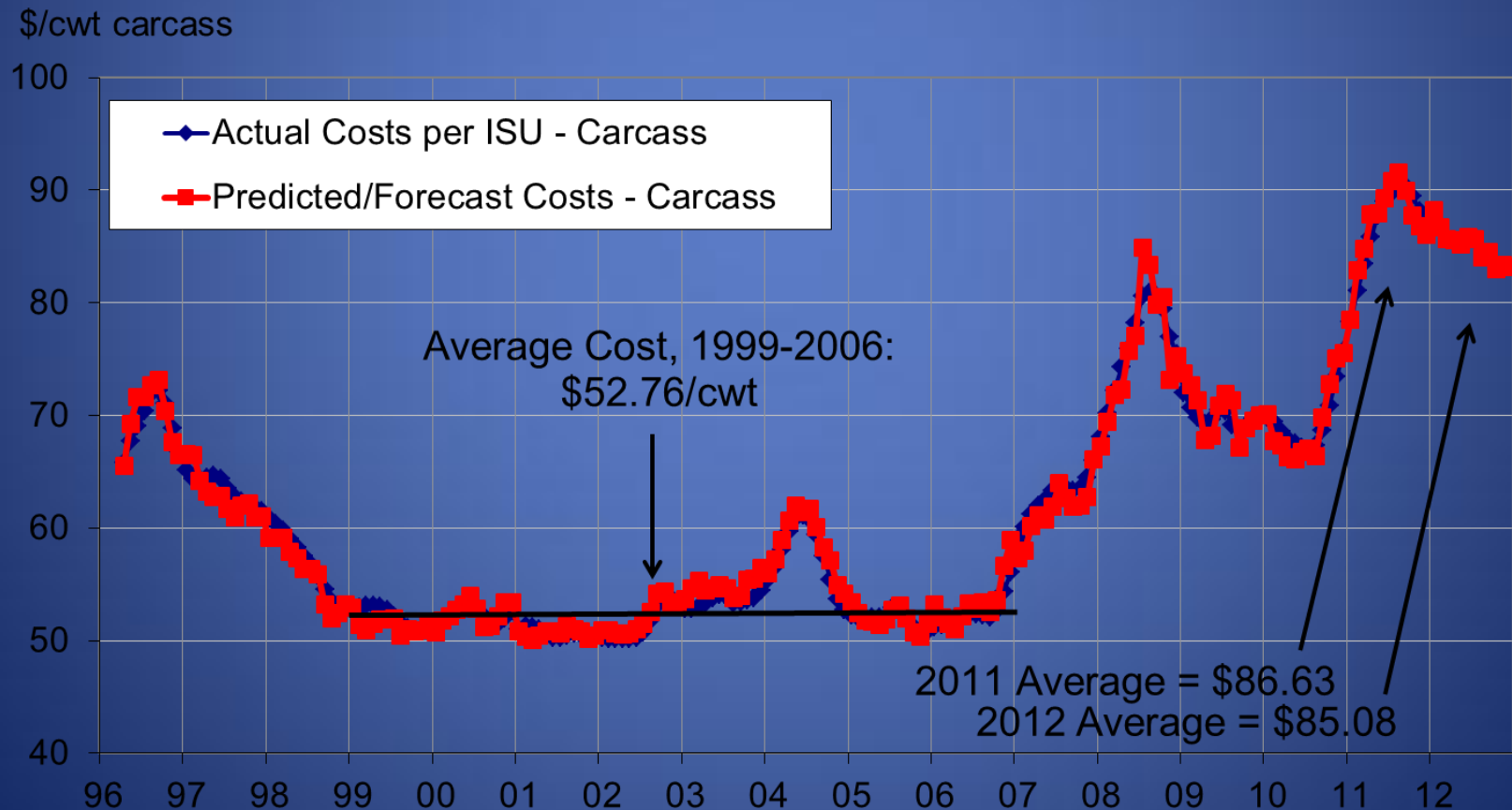


Released Thursday, February 23, 2012

Author: Mark Svoboda, National Drought Mitigation Center

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

Dec H&P Report: Continued slow growth . .

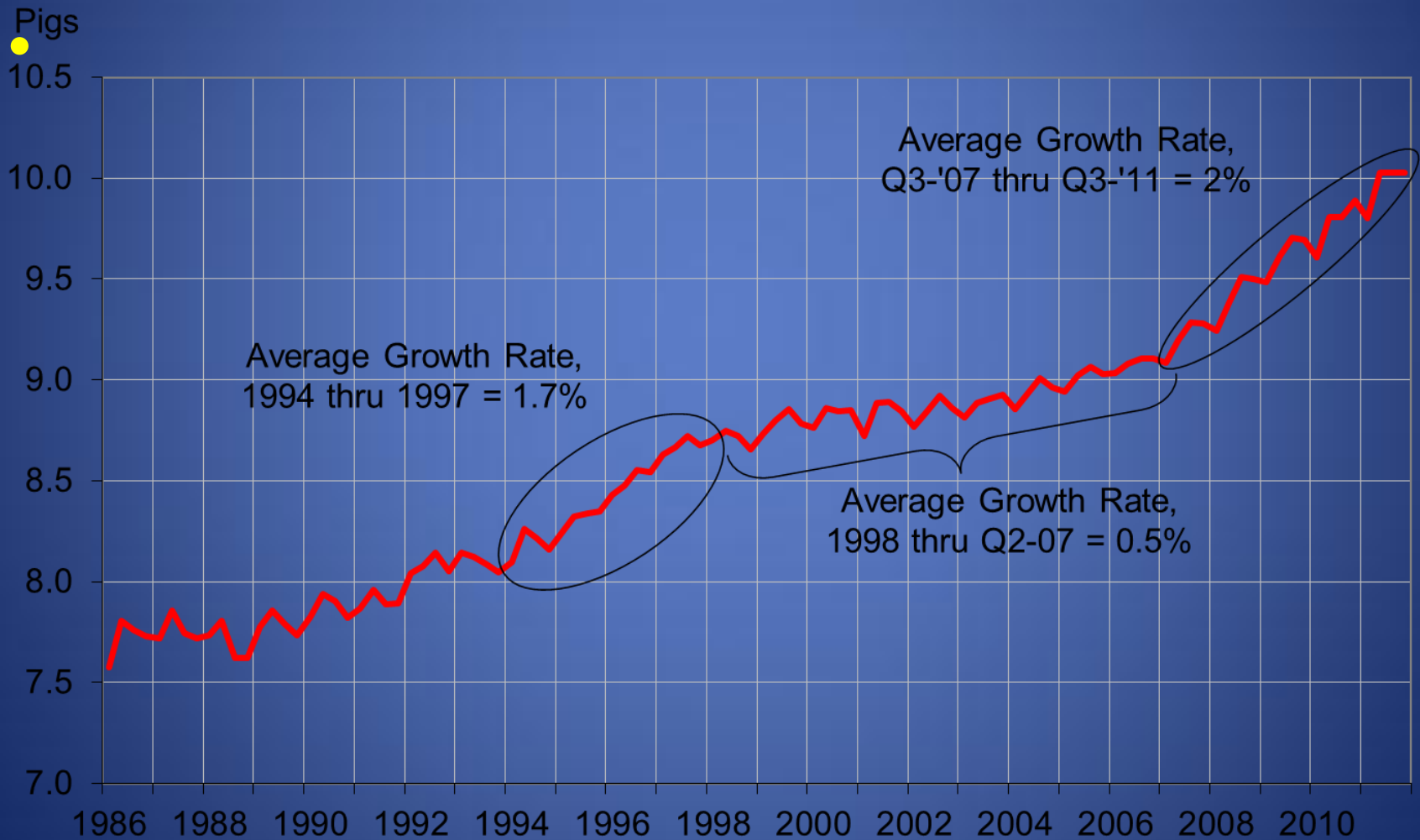
USDA Quarterly Hogs and Pigs Report

December 23, 2011

Category	2010	2011	2011 as Pct of	Pre-Report	Actual - Estimate
Inventories on December 11					
All hogs and pigs	64,925	65,931	101.5	101.3	0.2
Kept for breeding	5,778	5,803	100.4	100.8	-0.4
Kept for market	59,147	60,128	101.7	101.3	0.4
Under 50 lbs.	18,864	19,271	102.2	101.8	0.4
50-119 lbs.	16,519	16,895	102.3	101.5	0.8
120-179 lbs.	12,233	12,472	102.0	101.0	1.0
180 lbs. and over	11,531	11,490	99.6	101.2	-1.6
Farrowings ²					
Sep-Nov sows farrowed	2,874	2,894	100.7	99.9	0.8
Dec-Feb Intentions	2,843	2,865	100.8	100.6	0.2
Mar-May Intentions	2,917	2,890	99.1	100.8	-1.7
Sep-Nov Pig Crop ¹	28,488	29,014	101.8	101.6	0.2
Sep-Nov pigs saved per litter	9.91	10.02	101.1	101.6	-0.5
*Thousand head	**Thousand litters				

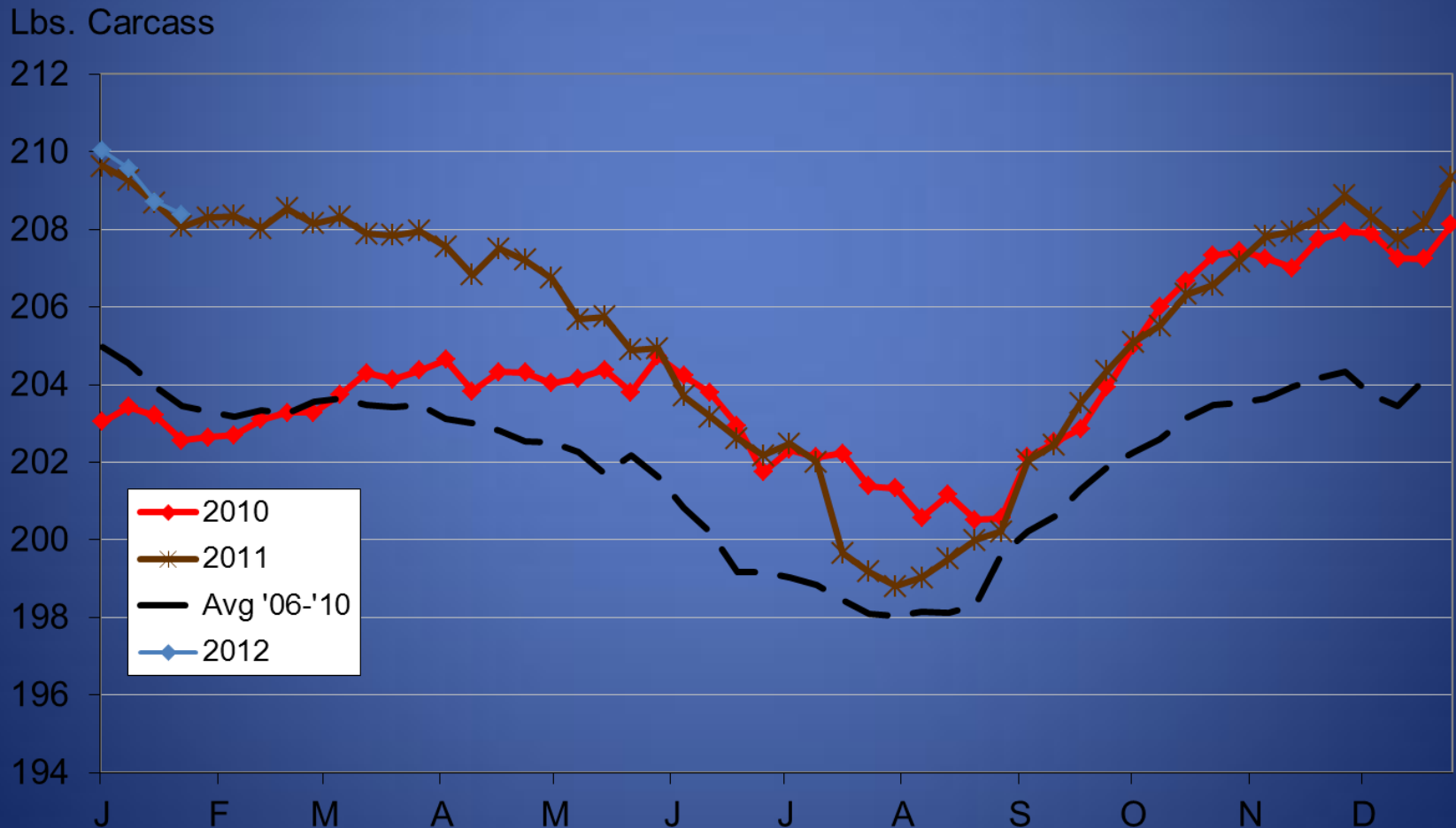
Litter size growth 2.0% over past 4 years

PIGS SAVED PER LITTER, U.S.



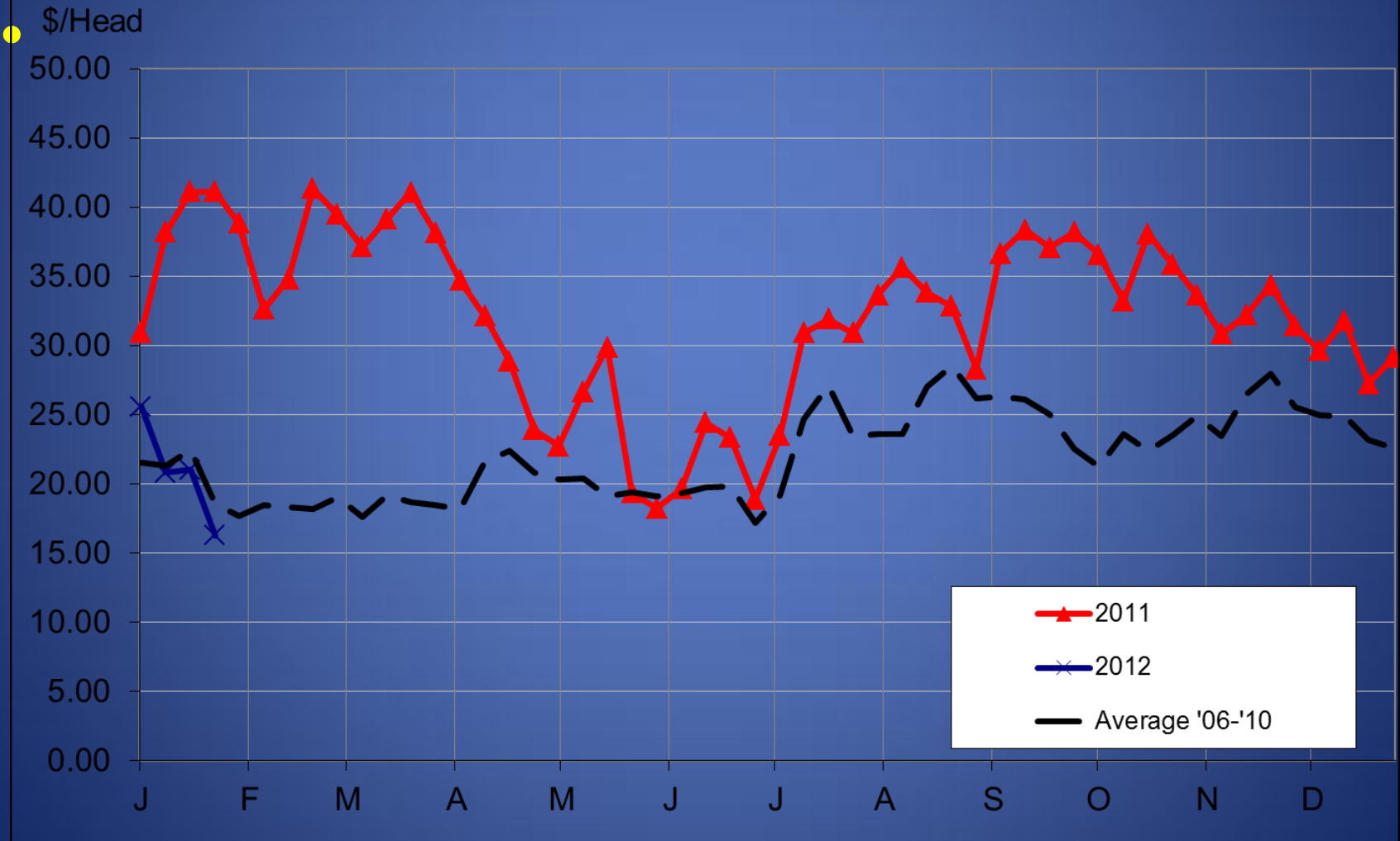
Weights remain large and GROWING... ... Genetics, fixed costs, matrixes

SLAUGHTER WEIGHTS, PRODUCER-SOLD MPR BARROWS & GILTS



Packer margins under pressure

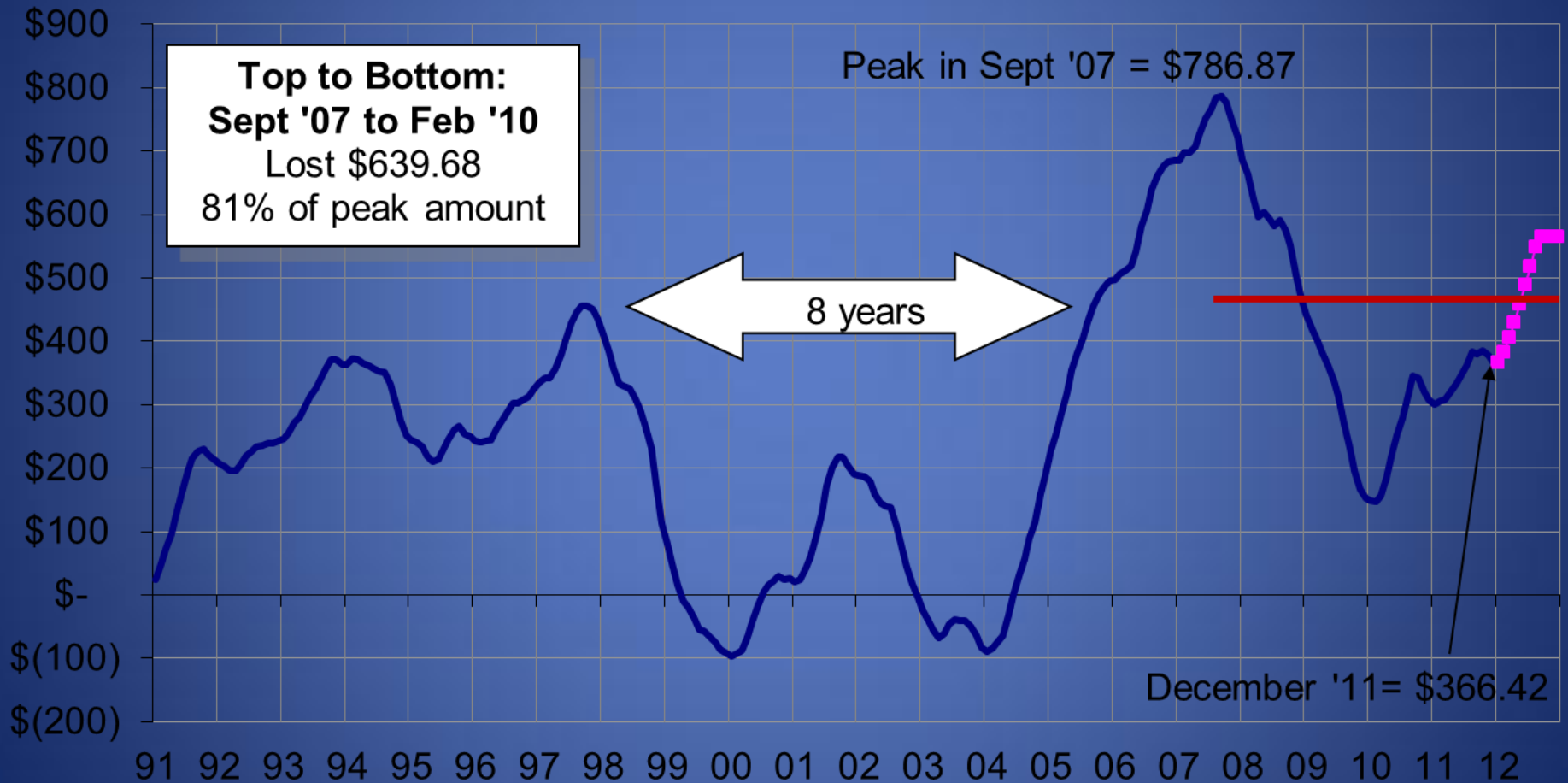
PORK PACKERS' EST'D GROSS MARGIN



Industry Financial Condition

ACCUMULATED PROFITS IOWA FARROW-TO-FINISH OPERATIONS

(Sum of the profits from selling one pig per month since January 1991)

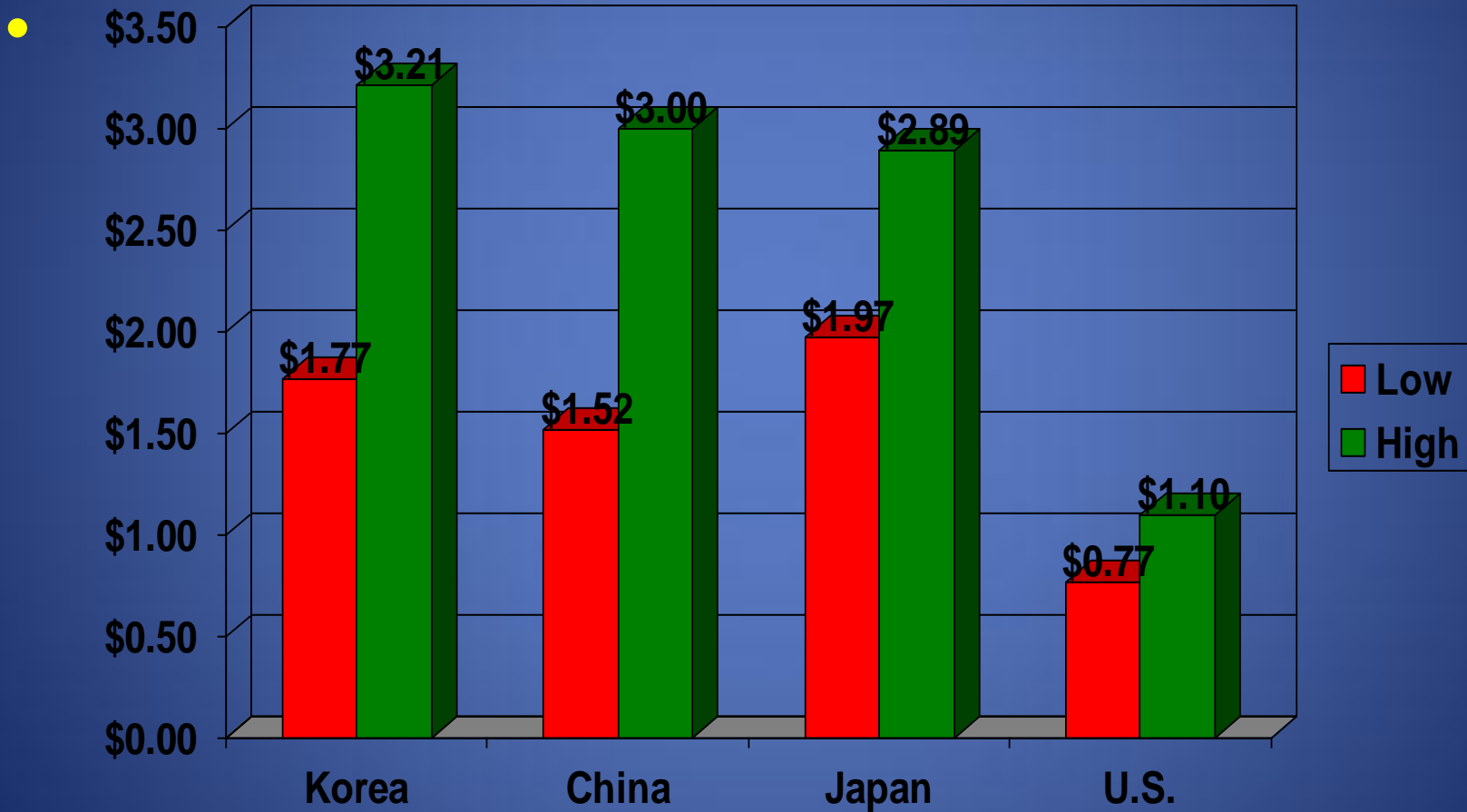


Volatile Markets

- 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



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

Thanks to:

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U.S. Meat Export Federation

Paragon Economics, Inc.
From information, knowledge

