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Hog Inventory Breaks a Record

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Hog inventory breaks a record

FROM 2011 through 2014, the lean hog price needed to cover production costs averaged \$83 per cwt, as calculated by Iowa State University's Estimated Livestock Returns. Lower feed costs trimmed the 2015 breakeven price for farrow-to-finish operations to about \$66 per cwt. It goes without saying that the market wants to buy more hogs at \$66 per cwt than it did at \$83. Lower costs let producers increase the herd to get quantity supplied closer to demand.

USDA tallied the Sept. 1 U.S. inventory of all hogs and pigs as record large, breaking the September 2008 record. Back then, U.S. pig supplies were large due to herd expansion and the prior year's introduction of circovirus vaccines. Disease control allowed more pigs to reach market weight that, in previous years, would never have done so. Now, five-consecutive quarters of year-over-year breeding herd expansion and a return to productivity growth as a result of the industry's efforts to mitigate PEDV risks are bolstering inventories.



Livestock Outlook

BY LEE SCHULZ

Oklahoma (9.3%) and Ohio (8.8%) had the largest year-over-year breeding herd gains. This was Oklahoma's largest breeding herd inventory since the quarterly data series began in 1988 and the largest breeding herd in Ohio since December 1998. Of the major hog-producing states, Iowa (-2.9%) and Illinois (-2.0%) were the only two states with year-over-year decreases. However, year-ago levels were recent peaks in both states.

The U.S. market hog inventory, at 62.41 million head on Sept. 1, 2015, was up 3.9% from a year ago, breaking the September 2012 record. Ohio (16%) and Oklahoma (8.6%) led the way with inventory increases, while inventories were up more modestly in Iowa (2.2%) and Minnesota

(2.6%). While Ohio's market hog inventory was record-large, the major increase in Oklahoma was more reflective of lower market hog inventories in the state a year ago. Iowa continues to maintain its swine industry dominance with 32.4% of the U.S. market hog inventory.

Pork supplies stabilize

Market hog inventories are front-loaded. Slaughter in late 2015 and early 2016 will be ample and much larger than year-earlier levels. The fourth quarter could see slaughter levels near capacity. These larger supplies will likely apply some pressure to prices, but capacity itself shouldn't be a major factor impacting prices this fall.

Productivity will guide 2016 hog supply prospects. The farrowing intention numbers for the next two quarters imply lower rates than a year-ago. This is surprising, given the larger breeding herd, but could reflect producer's calculated restraint during this expansionary phase. Farrowing intentions are still above 2013's actual sows far-

rowing levels for the same period.

The average number of pigs saved per litter is record-high at 10.39 and 2.3% larger than one year ago. This "pigs saved per litter" number represents a return to litter size growth of roughly 2% per year and is indicative of the trend prior to PEDV.

Current farrowing intentions and commensurate pigs per litter put 2016 hog supplies at levels similar to 2015. This would leave 2016 pork supply changes primarily a function of average slaughter weights.

Record profits in 2014 fueled some concern that the industry would expand too rapidly. So far those fears appear unjustified. We expect 2016 supply and demand to be in balance. If current futures prices prove to be a true prediction, 2016 margins should be positive. However, producers should consider taking some profit coverage on hogs to protect against any negative market impacts for 2016 prices.

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