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Pigs saved per litter surge

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Abstract
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Lee Schulz | Jul 16, 2019

Even with rising corn prices, pork producers remain optimistic about future profits. What's the evidence? For USDA's June Hogs & Pigs Report, producers reported farrowing intentions on par with year-earlier actual sows farrowing, which were the largest ever. If realized, any increases in litter rates will continue to set pig crop records.

As the saying goes, make hay while the sun shines. Hog futures contracts offer profits at today's costs and expected future costs. Iowa State University projections for farrow-to-finish breakevens are in the mid-$60 per cwt from now through most of 2020. The latest hog and pig numbers suggest producers are taking advantage of this opportunity while it lasts.

Still, any additional rise in already large domestic supplies could skim the cream off expected future pork profits, even without further trade disruptions. Grain prices and the export market are relatively unknowns at this point, which analysts and producers alike, may have a better idea on in the next few months.

USDA conducts the survey of hog producers early in the month that a quarterly report is to be released. Producers are asked for inventory levels as of the first of the month. They are also asked their farrowing levels for the previous quarter and farrowing intentions over the next two quarters. The farrowing intention numbers have variability associated with them because the sows haven't yet given birth, and production and market price risks may alter farrowing intentions.

Cash prices skidded more than $4 per cwt since the first week of June. Deferred futures month contracts also slipped. Producers may react by trimming farrowings. Still, the larger June 1 sow herd means future farrowings could be larger.

Surprise June slaughter surge

Federally inspected hog slaughter in May was 10.302 million head, 1.4% higher than a year ago. Daily hog slaughter averaged 468,286 head (note Saturday and holiday slaughter was added to regular business-day slaughter), also 1.4% higher than a year ago. This was the smallest average daily slaughter of the year so far. It was expected to decline seasonally in June.

However, June average daily hog slaughter, at 496,866 head, was up 9.2% from 2018 and well above average daily slaughter in May. That's based on actual daily slaughter through June 22 and estimated daily slaughter through the end of the month. This was the first time June average daily hog slaughter was above May since 2010, and before that, 2005.

Several production-related factors certainly helped drive June's slaughter surge. But hog slaughter during June was also much higher than expected based on the March Hogs & Pigs Report. So USDA revising previous inventory estimates upward could not be ruled out, which USDA did.

In the June Hogs & Pigs Report, released June 27, USDA estimated the June 1 market hog inventory up 3.9% from June 1, 2018. The bulk of the increase was in the heavier-weight categories. The 180 pounds and over category was up 7.5%, versus pre-report estimates of up 4.6%.

That difference would at once make one a bit suspicious of the report but does compare favorably with actual June slaughter. It's important to remember that analysts use prior quarterly Hogs & Pigs Reports, especially the most recent one, as a reference starting point when making pre-report estimates.

USDA correctly revised the data reported in March to account for the major underestimation of hogs targeted to be slaughtered during June. Relationships between pig crops and subsequent slaughter can be used as a guide to forecast slaughter numbers. Generally, pigs are slaughtered about six months or two quarters after being farrowed. The September-November 2018 pig crop was revised up 177,000 pigs, or 0.5%. The revised larger pig crop suggests a larger April-June 2019 slaughter.

More hogs likely to keep coming

USDA's latest report indicates that June's unanticipated surge in slaughter could persist for the remainder of 2019. The number of market hogs weighing 120 to 179 pounds, which provide the animals harvested roughly mid-July through mid-August, was 3.1% above a year ago. Hogs weighing 50 to 119 pounds were 2.7% higher, which align with larger mid-August through September slaughter. The December 2018-February 2019 pig crop was revised up a whopping 428,000 pigs, or 1.3%. The larger pig crop would suggest a larger July-September 2019 slaughter than was previously expected.

The March-May pig crop, at 3.7% above a year ago, was one of the very big surprises in June's report and changes our view regarding fourth-quarter supplies. The trade had expected about 380,000 fewer pigs this spring due to smaller expected growth for pigs saved per litter. March-May sows farrowing were only 0.3% larger than a year ago and 1.4 percentage points below pre-report expectations.

But the March-May litter rate came in 3.5% higher than a year ago and 2.7 percentage points above trade expectations, indicating that renewed productivity growth is still occurring. Further, the pace of that growth is apparently increasing.

The 3.5% year-over-year growth in litter size is the largest since 2014, when litter rates were recovering from 2013's PEDV suppressed rates. Withstanding those annual growth rates, the 3.5% year-over-year hike is the third largest in the history of the data back to 1970. Average March-May litter size of 11 pigs per litter was a record high for the United States. South Dakota was highest at 11.95, followed by Minnesota at 11.85, Nebraska at 11.50, and Iowa at 11.45.

The monthly numbers suggest annual increase in pigs per litter were March at 0.26, April at 0.49 and May at 0.36 or 2.5%, 4.7% and 3.3%, respectively.

Bob Morrison's Swine Health Monitoring Project samples nearly 3 million sows, or 46%, of the national herd. 2019 has been one of the lowest years for incidences of porcine reproductive and respiratory syndrome, by a large margin, dating back to July 1, 2009. April was a particularly low month for PRRS and aligns with the large spike in pigs saved per litter reported by USDA.

Every Friday USDA's Market News Service reports prices of 10- to 12-pound weaned pigs and 40-pound feeder pigs. The average open market delivered price for weaned pigs in March through May was $55.82 per pig, almost $18 higher than the same time last year. Likewise, the average delivered cash price of 40-pound pigs went from $69.76 per pig last spring to 83.63 this spring, up almost $14. The sharp rise in both weaned and feeder pig prices certainly incentivizes advances in productivity.

USDA uses slaughter data to revise estimates

USDA's National Agricultural Statistics Service uses producer surveys to make inventory estimates. Hard data become available later. Actual slaughter is one source. NASS evaluates how well inventory estimates match slaughter. Occasionally, as was the case with the June report, NASS revises previous inventory estimates based on hog slaughter that occurs after the report.

A four-week rolling average of pork production under federal inspection, covering the four slaughter weeks in June, was estimated at 517.4 million pounds. This was 53.4 million pounds, or 11.5%, higher than a year ago — by far the largest weekly supply of pork in the month of June.

The increase resulted from larger slaughter and heavier carcass weights. June hog carcass weights were estimated at 213 pounds — 5 pounds, or 2.2%, higher than June 2018. The rise in June hog carcass weights likely resulted from lower-than-expected slaughter during May, as some packing plants were idled in early May for operational reasons, which may have backed up hog slaughter for many weeks.

Cooler temperatures in May and early June in many major hog-producing regions also likely helped hike weights through better-than-expected performance.

The encouragement of a premium in summer futures contracts may have impacted slaughter timing, too. When the May lean hog futures contract expired on May 14 at

$83.550 per cwt, June lean hog futures were trading $5.575 higher than the May contract. That day the July contract was $6.50 over May.

Futures signaling higher cash prices coming could have enticed producers to delay some marketings. Nearby corn futures prices didn’t top $4 per bushel until May 24, so feed costs remained relatively low for recent marketing turns. The expectation of more profit for more pounds was short-lived as hog prices quickly fell in June to average below $80 per cwt.

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