Large hog supplies should be manageable

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Abstract
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Livestock Outlook: Strong demand helps bolster hog prices.

Lee Schulz | Jul 13, 2017

The numbers in USDA’s most recent Quarterly Hogs and Pigs report, released at the end of June, held few surprises. With one exception, all numbers were within 1% of analysts’ pre-report expectations.
That one number, the larger year-over-year change in March through May sows farrowing, was partially offset by a deviation in the opposite direction of the March through May pigs saved per litter. These two numbers derive the March through May pig crop. The offsetting percentages leave me with little concern over the one deviation from expectations of a mere 1.4% in sows farrowing. The March through May pig crop, while slightly larger than anticipated, was within the range of expectations. And the pig crop is what matters at the end of the day for pipeline pork supplies.

The big-picture “numbers game” helps project hog inventories and future pork supplies.

**Hog industry in growth mode**

Farrowing intentions are the number of sows expected to give birth in the future. This number is important because it acts as the best indicator of hog supplies furthest into the future. However, farrowing intentions have considerable variability. None of the sows have given birth. Some have not been bred.

Producers may change plans in response to production and market opportunities and risks. USDA uses data gathered from producers for each new report to update and revise farrowing intentions. For example, the June Hogs and Pigs report provides:

- actual (realized) sow farrowings for March through May
- updated (second) intentions for June through August
- first estimate for September through November farrowing intentions

Farrowing intentions and pre-report estimates continue to underestimate the number of litters that are actually farrowed. The most important data analysts evaluate in making pre-report estimates are prior USDA Hogs and Pigs reports. So, pre-report estimates missing the mark can be somewhat rationalized.

**Breeding herd expanding**

March through May sows farrowing came in 3.1% higher than one year ago, after
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being listed as intentions at 1.0% and 1.4% higher in the December and March reports, respectively. In addition, 19,000 litters were added to the June through August intentions. Should that addition materialize, it means about 200,000 more pigs are expected this summer and in the slaughter mix from roughly January through March.

I would not be surprised to see actual June through August sow farrowings even higher when the next report is released on Sept. 28. This has been going on for a couple of years. You have to go back to March through May 2015 for the last time actual sows farrowing came in below intentions estimates.

Beyond this historical relationship, I believe intentions are too low for two primary reasons. First, back to the numbers game. If the June 1 breeding herd is 6.069 million head and the June through August farrowing intentions are 3.064 million head, this would mean a farrowing ratio (sows farrowing divided by breeding herd) of 50.5%, which would be the lowest for the June through August period since 2013. The farrowing ratio has been as high as 51.1% (June through August 2016). This same logic follows for the September through November sows farrowing, especially if the breeding stock continues to increase.

Second, producers have likely become more optimistic about profit prospects since reporting inventories and intentions as of June 1. The Iowa State University estimated returns model for farrow-to-finish production shows that profit projections from the beginning of June to the end of June increased on average $4 per head for each of the next five quarters. Farrow-to-finish returns are projected at $15 per head in 2017 and $8 per head for January through October 2018. Low feed cost and the promise of profits will likely encourage producers to maximize farrowings and add fuel to breeding herd expansion decisions.

Record number pigs per litter

One generally consistent driver of growth in the hog industry is pigs saved per litter. It has averaged 1.5% annual growth over the last 10 years. However, measurements in June’s report were mixed. On the one hand, the March through May average
number of pigs saved per litter was record-high at 10.55 pigs. However, this was only 0.7% above the same period a year earlier.

Now for the puzzling part: Farrowing operations with 2,000 to 4,999 head of sows saved 10.3 pigs per litter, and operations with 5,000 or more head saved 10.6 pigs per litter. This was a 1% year-over-year increase for both of these operation size categories. The average for operations with less than 2,000 head was 8.6 pigs per litter. This represented a 3.4% year-over-year decrease. Operations with 1 to 99 head and 100 to 499 head had over a 4% year-over-year decrease.

The pigs saved-per-litter estimate for these smaller operations is indicative of levels during the outbreak of the porcine epidemic diarrhea virus. However, data from Bob Morrison’s Swine Health Monitoring Project, tracking just under half of the nation’s sows, shows disease incidence this year has been comparable, actually probably a little lower, to a year ago.

Most of nation’s pigs are being produced by larger operations as evidence by the 0.7% year-over-year average increase for all operations. We will be watching the next couple of reports to see if there is recovery in this productivity measure, especially for smaller operations.

**Potential market action**

June’s report suggests U.S. pork production will continue to post year-over-year increases for at least several more quarters. Larger supplies generally result in lower prices. However, this year’s hog market is going against that adage with both larger supplies and higher prices. That reflects strong demand, fueled by the surge in U.S. pork exports, up 15% at the end of April.

Remember, hog prices are still determined by both supply-and-demand factors. If demand were to flatten or soften, larger supplies will depress prices. This latest report’s reaffirmation of strong supplies, both near and longer term, underscores the heightened role that realized demand strength will have on observed prices.
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