

Commentary on USDA June 1, 2007 Hogs and Pigs Report

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The US swine industry continues its course of modest but steady growth, as revealed in the most recent USDA Hogs and Pigs report. While many others have already written about the impact of the US numbers on price prospects for the coming months, I will concentrate my remarks on the structural details revealed in the report.

Table 1. Inventory - all states with 1 million or more pigs in inventory on June 1, 2007.

<u>State</u>	<u>Breeding</u>	<u>Kept for Market</u>	<u>Total Inventory</u>
		000 head	
Iowa	1,080	16,720	17,800
N. Carolina	1,020	8,480	9,500
Minnesota	610	6,290	6,900
Illinois	440	3,460	3,900
Indiana	310	2,940	3,250
Nebraska	360	2,690	3,050
Missouri	370	2,630	3,000
Oklahoma	360	1,950	2,310
Kansas	165	1,175	1,880
Ohio	165	1,475	1,640
S. Dakota	145	1,135	1,280
Pennsylvania	100	1,010	1,110
Michigan	110	890	1,000
US	6,116	56,634	62,750

Iowa continued its growth as the leading pork production state. Iowa now has 29.5% of the US inventory in the kept for market category, the largest percentage ever. Iowa has more pigs than the next two states (North Carolina and Minnesota) combined.

The slight decline in the North Carolina percentage of the US inventory in this category isn't due to a decline in numbers in North Carolina. Rather, it is due to the modest growth in other states while the moratorium on growth in North Carolina continues.

Minnesota has now had 3 consecutive years of USDA inventory estimates placing the kept for market category at least 1% higher than the breeding herd inventory. This difference in numbers reflects the net importation of feeder and weaned pigs onto Minnesota farms.

Illinois producers have begun to demonstrate a changing structure to their production base. They now have 7.19% of the breeding herd and only 6.11% of the kept for market inventory. This sharp decline in the percentage of the kept for market inventory in the state reflects the growing number of weaned pigs transported to Iowa and Southern Minnesota for growth to slaughter, and the relative lack of imports of weaned pigs from such sources as Canada.

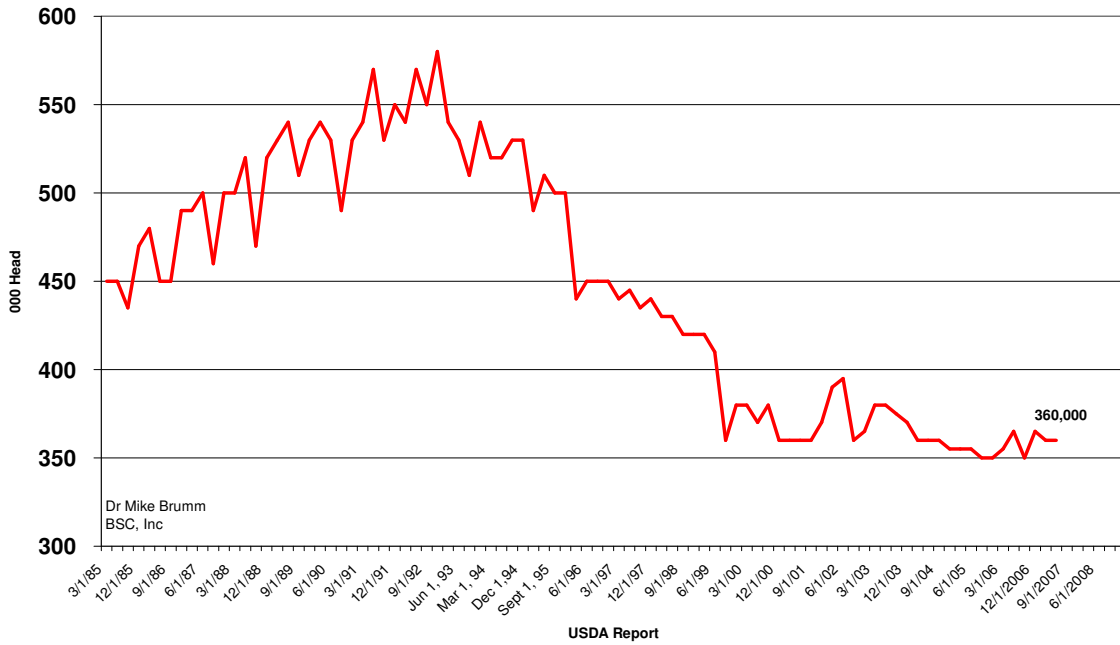
Both Nebraska and Missouri have similar structural characteristics with just over 6% of the breeding inventory and approximately 4.7% of the kept for market inventory. As with Illinois, the difference between breeding and kept for market inventories represents weaned and feeder pigs that are transported out-of-state for growth to slaughter, with the most common destination states being Iowa and Minnesota.

Much has been written about the large increase in imports of Canadian live pigs, both as feeder pigs and slaughter animals. I've included the graphs for the weekly numbers for the past 7 years for feeder pigs and past 6 years for slaughter animals in this report. Both of these document the large numbers of Canadian born pigs that are entering our production and slaughter systems and the relative increases to last year's numbers.

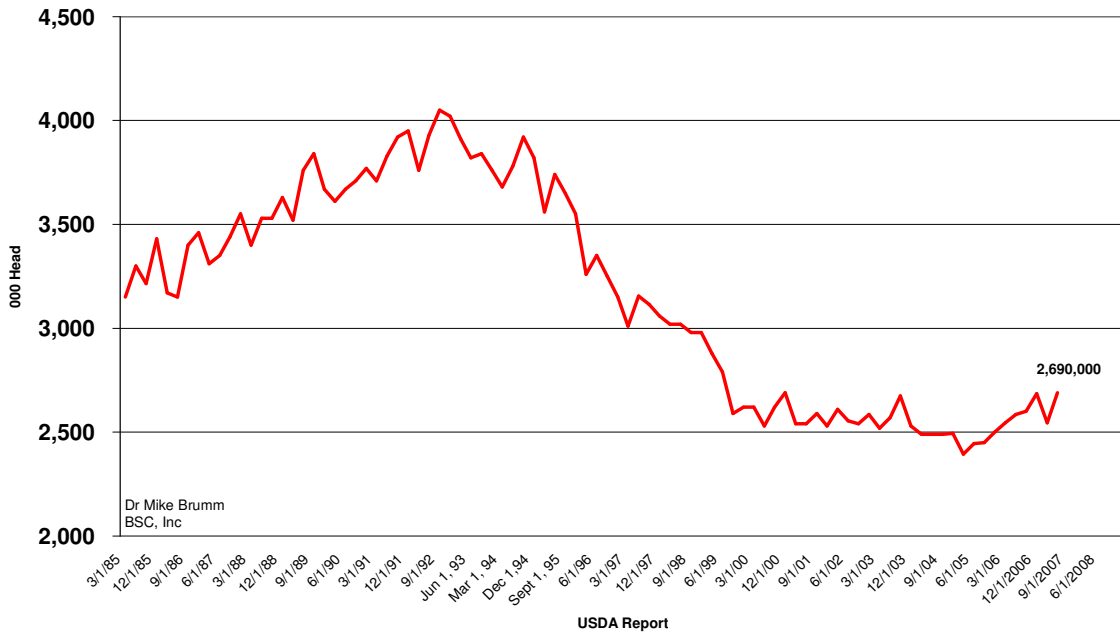
The lack of optimism by buyers of weaned pigs is evident in the last charts in this report. Every Friday USDA releases a voluntary market report that cites weaned and feeder pig prices for approximately 90-100,000 pigs. This report lists both formula pricing (such as a % of the 4-6 month futures price, fixed price, etc) and open market pricing. Open market prices for SEW pigs are considerably below current contract prices, suggesting there is limited competition for excess pigs that may be offered for sale beyond those priced by formulas. However, the downturn in SEW prices overall is following the seasonal pricing trend.

Producers in the upper Midwest appear to have adjusted to increases in feed grain prices. This is evident by the fact that slaughter weights for barrows and gilts in Iowa and Southern Minnesota are trailing very near to the weights of the past 2 years. While not a year-to-year increase like many had come to expect when feed grains were relatively low priced, the lack of a steep drop in slaughter weights suggests producers aren't adjusting to increased feed grain prices by drastically altering their production flows and selling at lighter weights. Even with late finishing diet ingredient costs approaching \$160/ton, today's genetics are capable of putting on 1 pound of gain using less than 4 pounds of feed as they grow from 270 to 290 pounds. With feed costing \$0.08/lb, feed cost per pound of gain for these last pounds of gain is only \$0.32. With current market prices above \$50/cwt, the pressure still isn't great enough to cause producers to decrease their sale weights and sacrifice total revenue in the face of relatively high fixed facility expenses.

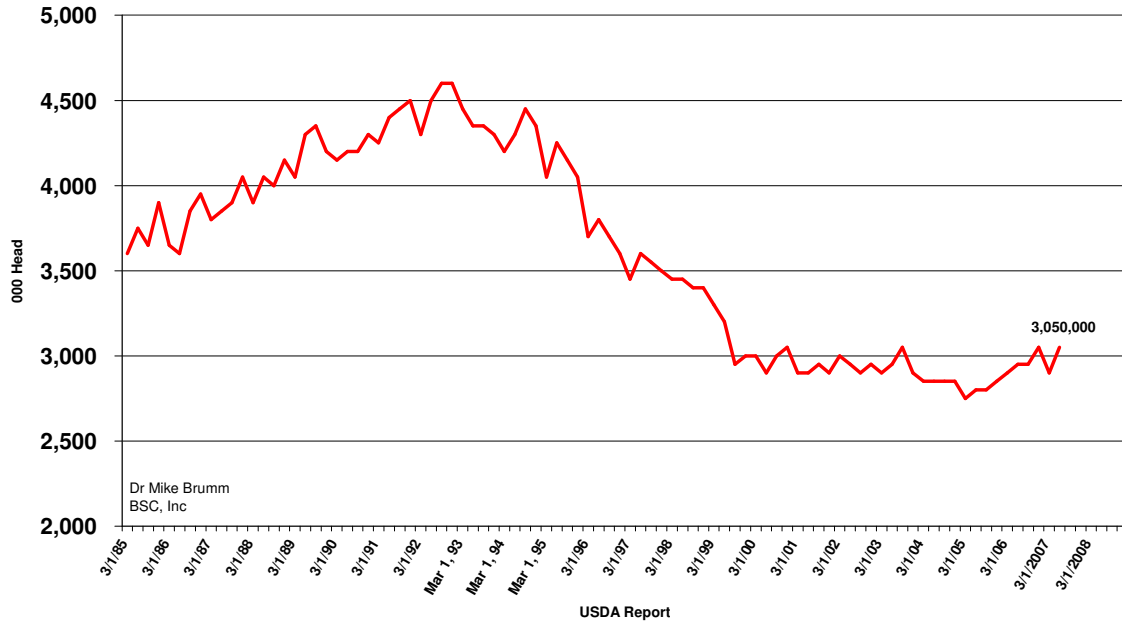
Nebraska Breeding Inventory



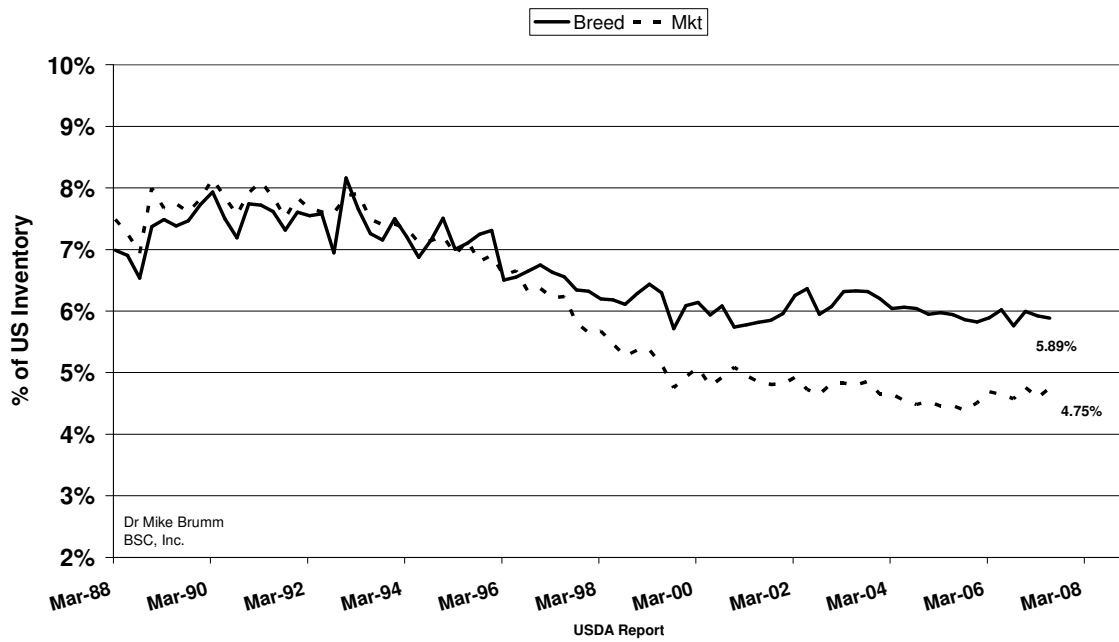
Nebraska Market Inventory



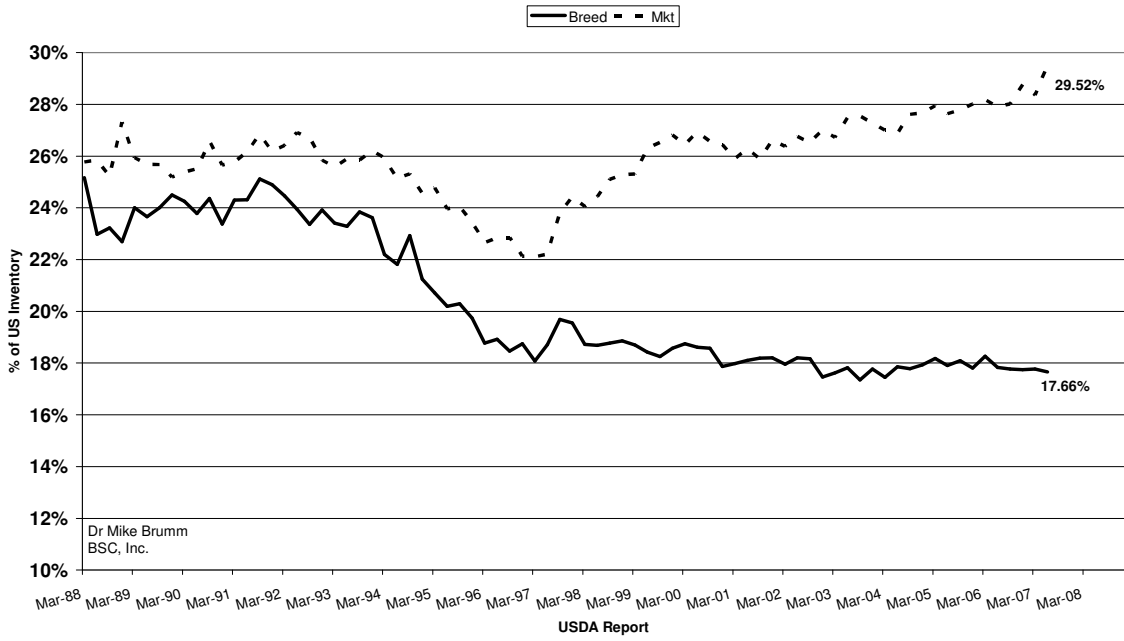
Nebraska Pig Inventory



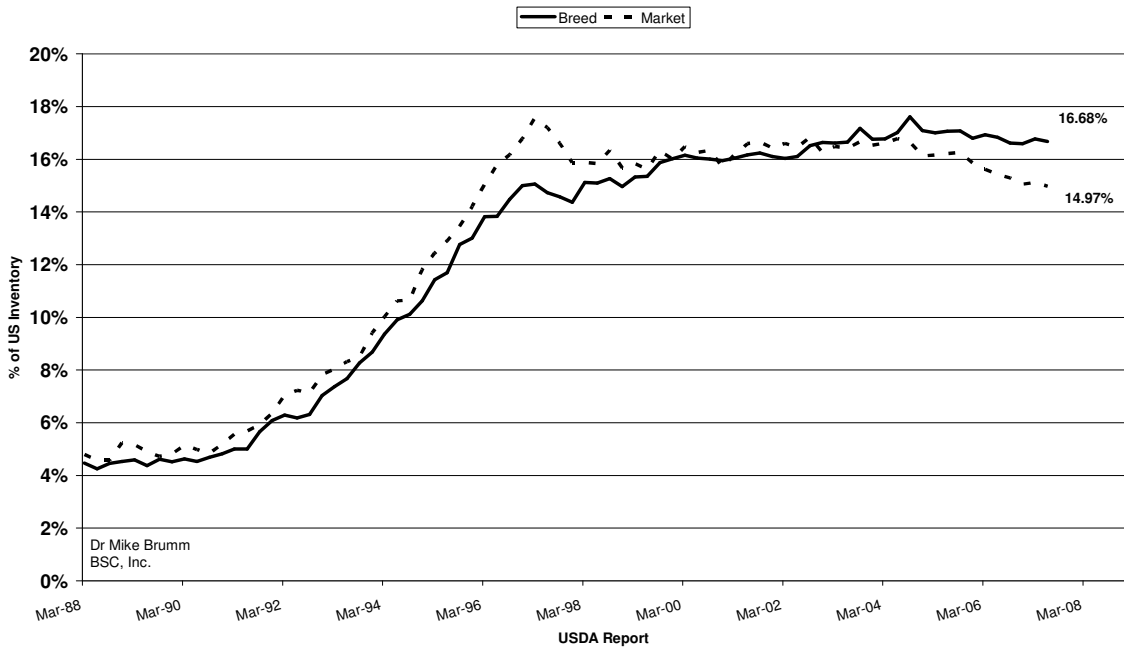
Nebraska's Share



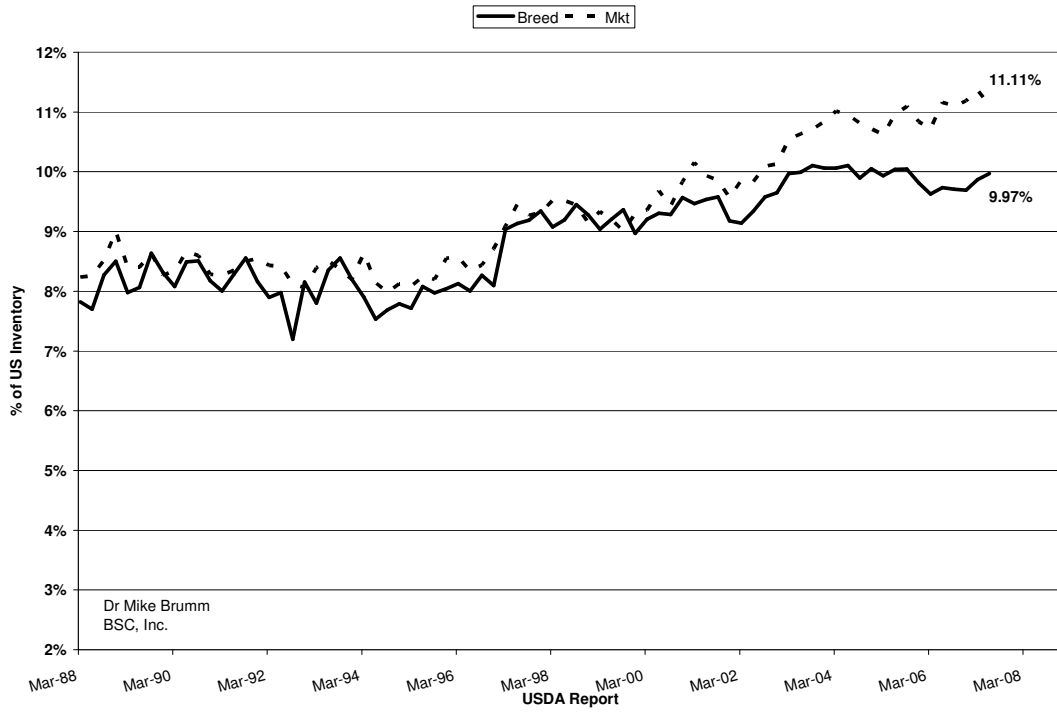
Iowa's Share



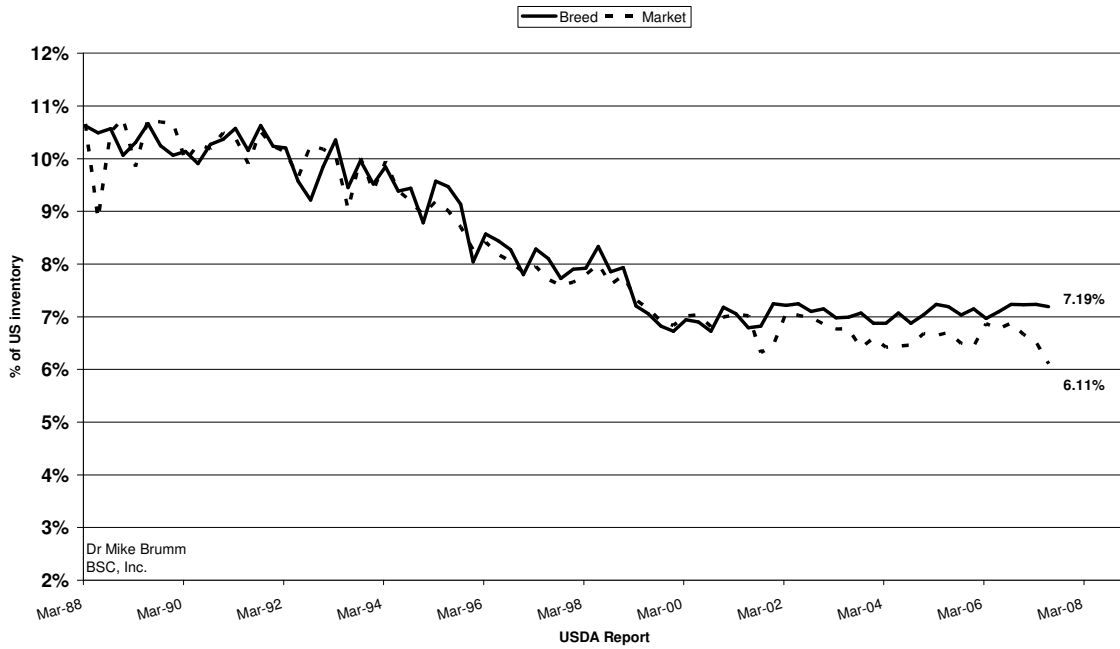
N Carolina Share



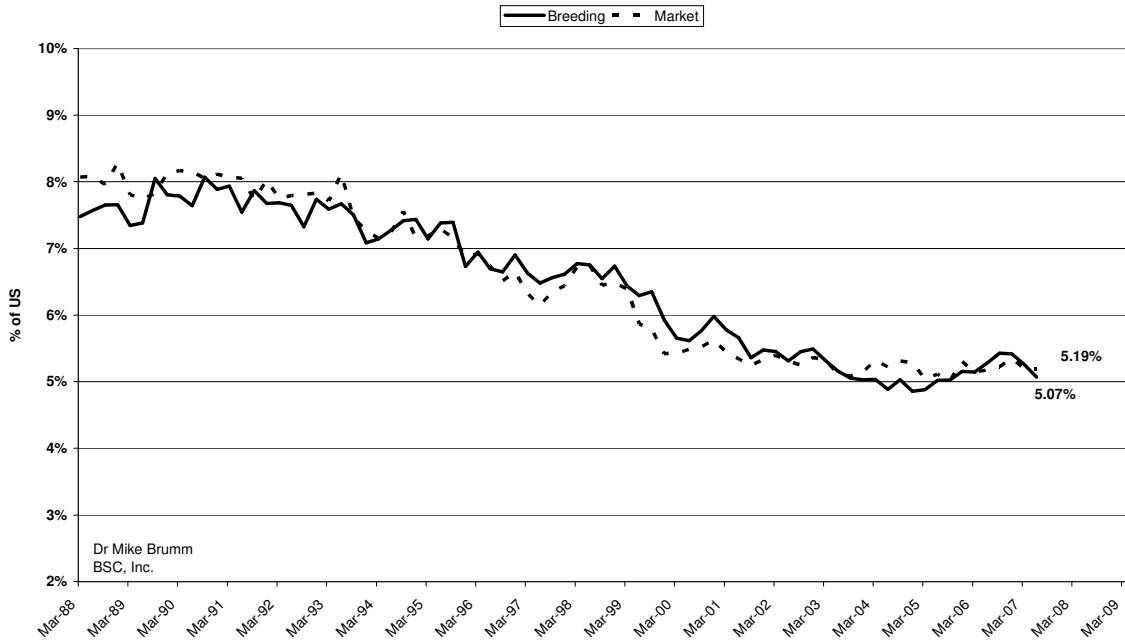
Minnesota's Share



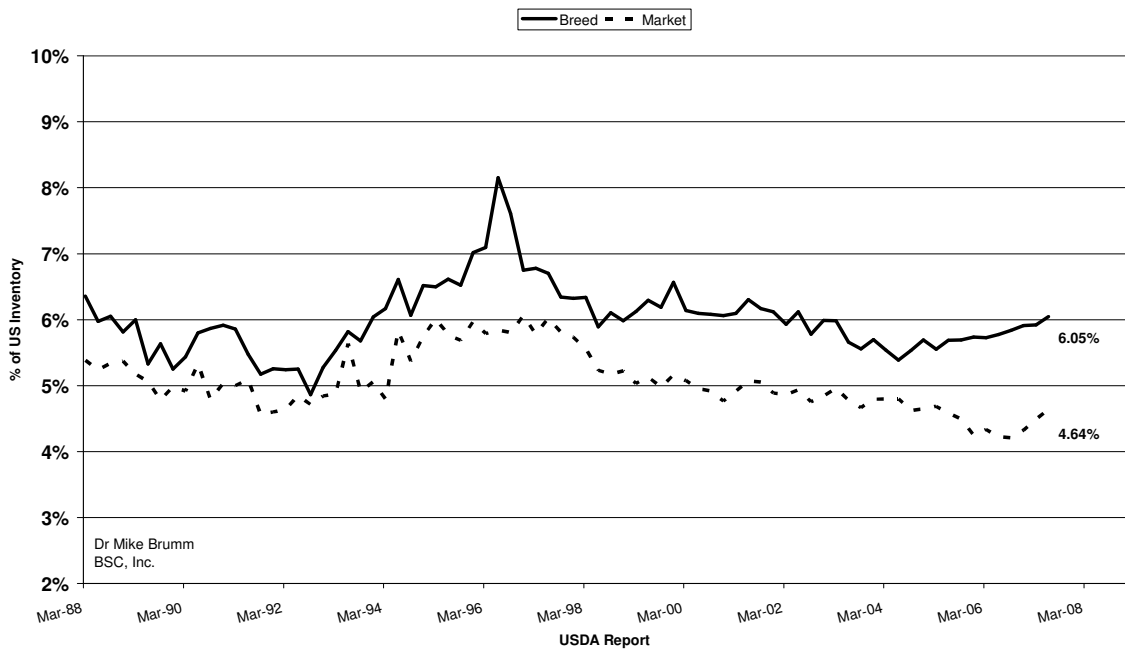
Illinois Share



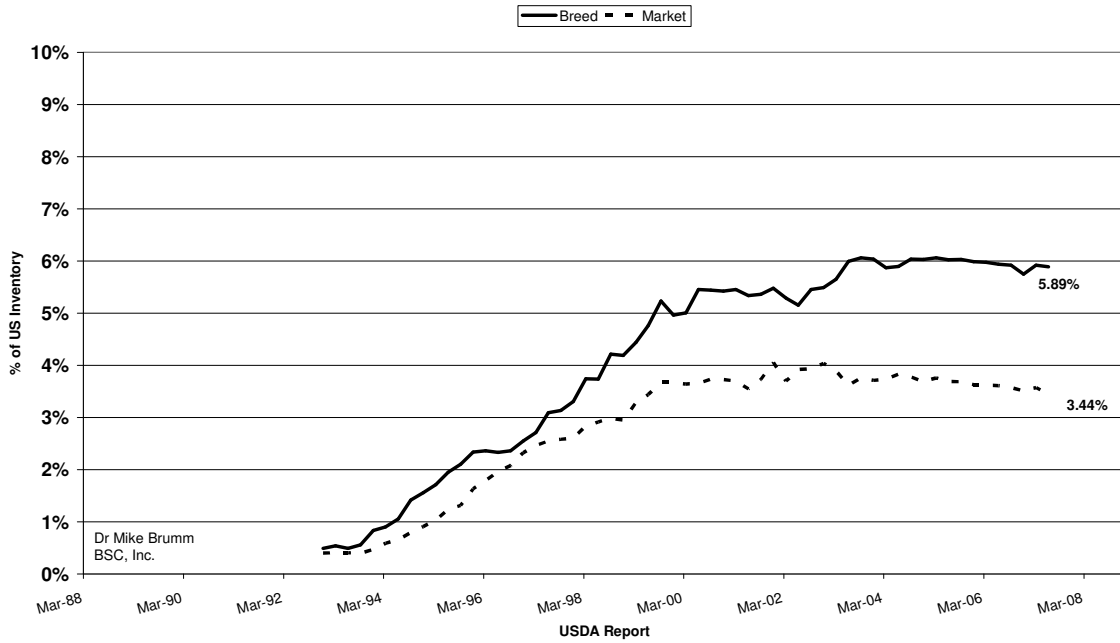
Indiana Share



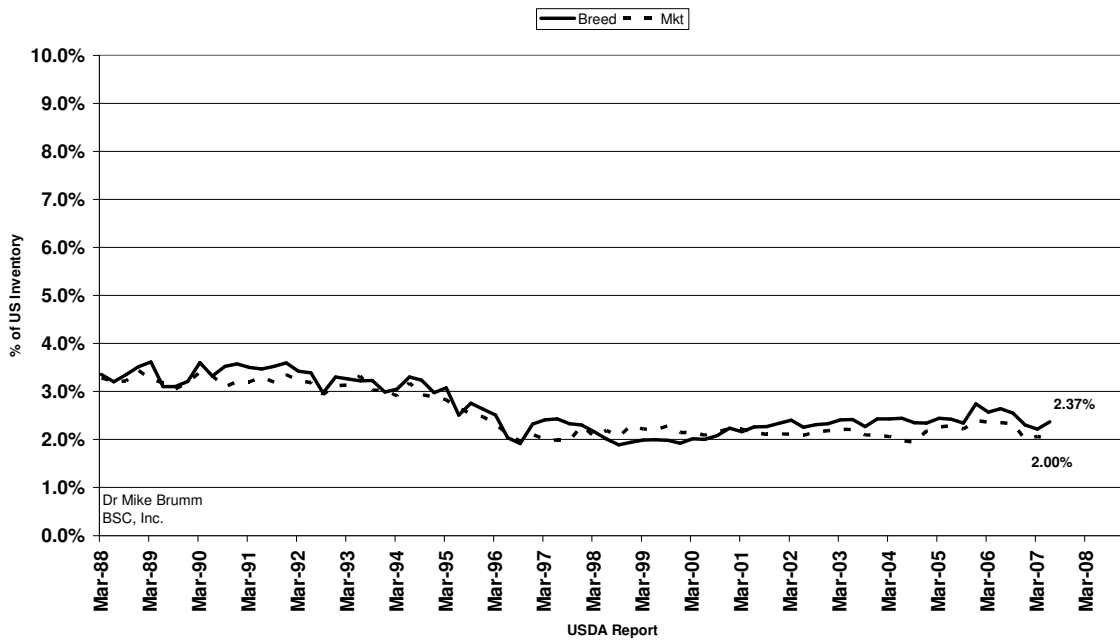
Missouri Share



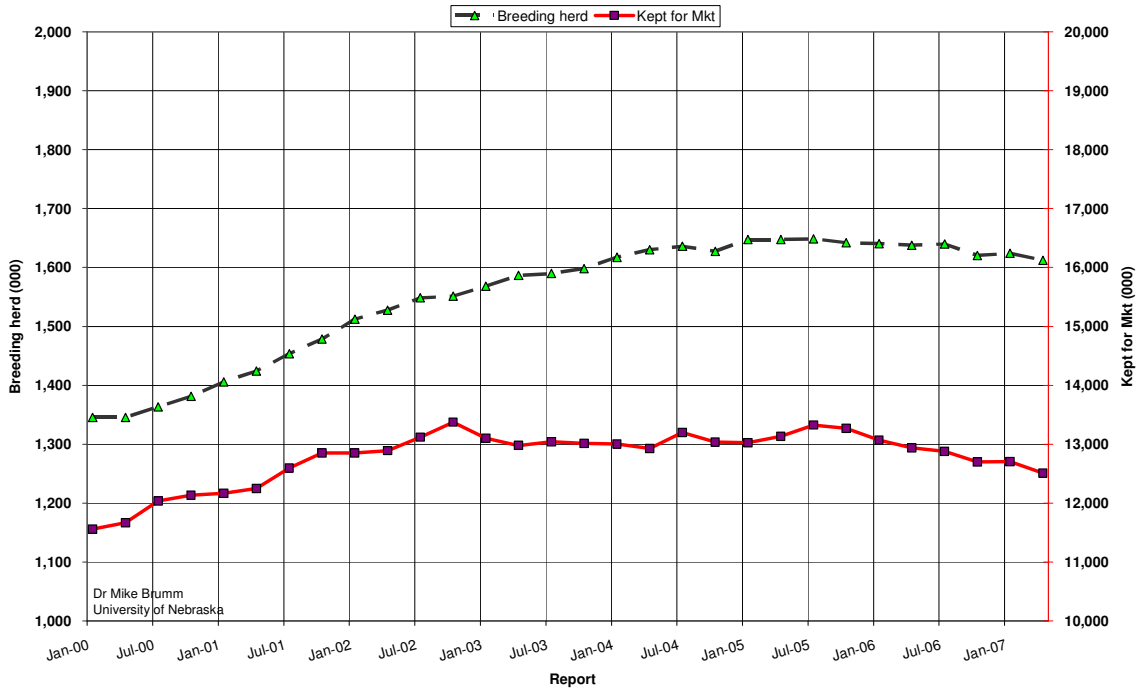
Oklahoma Share



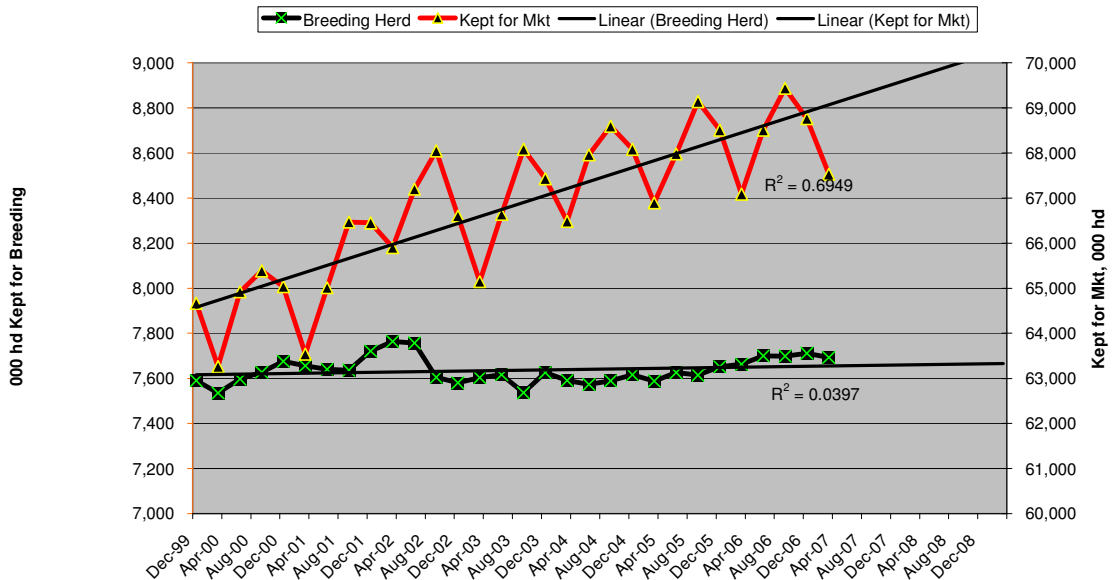
South Dakota's Swine Industry



Canadian Swine Inventory



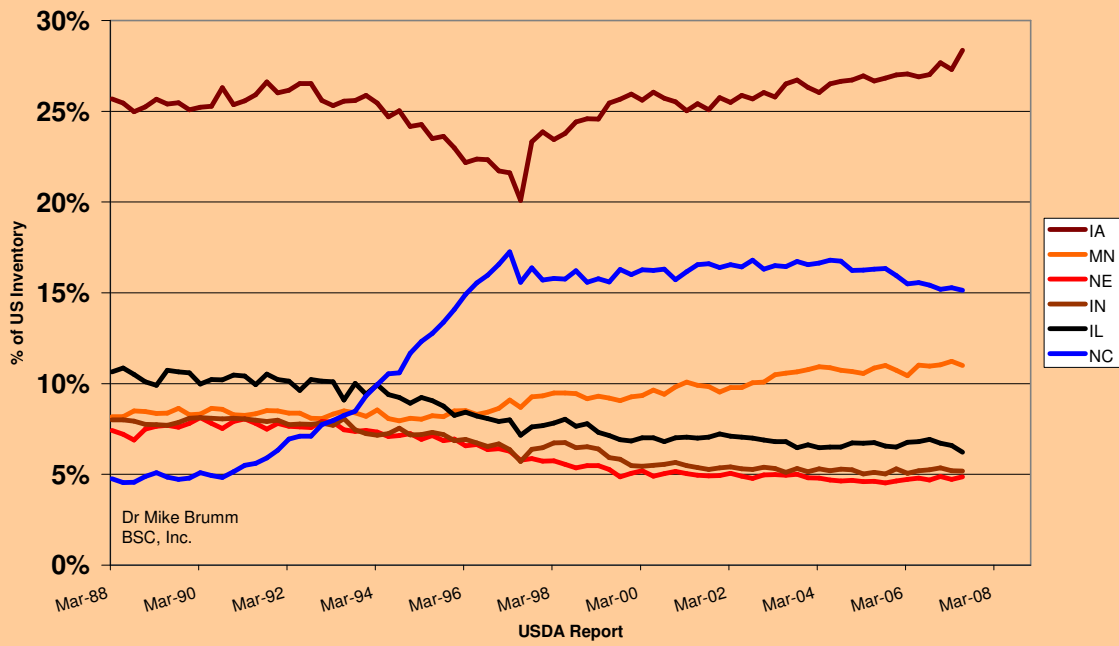
Combined N American Inventory



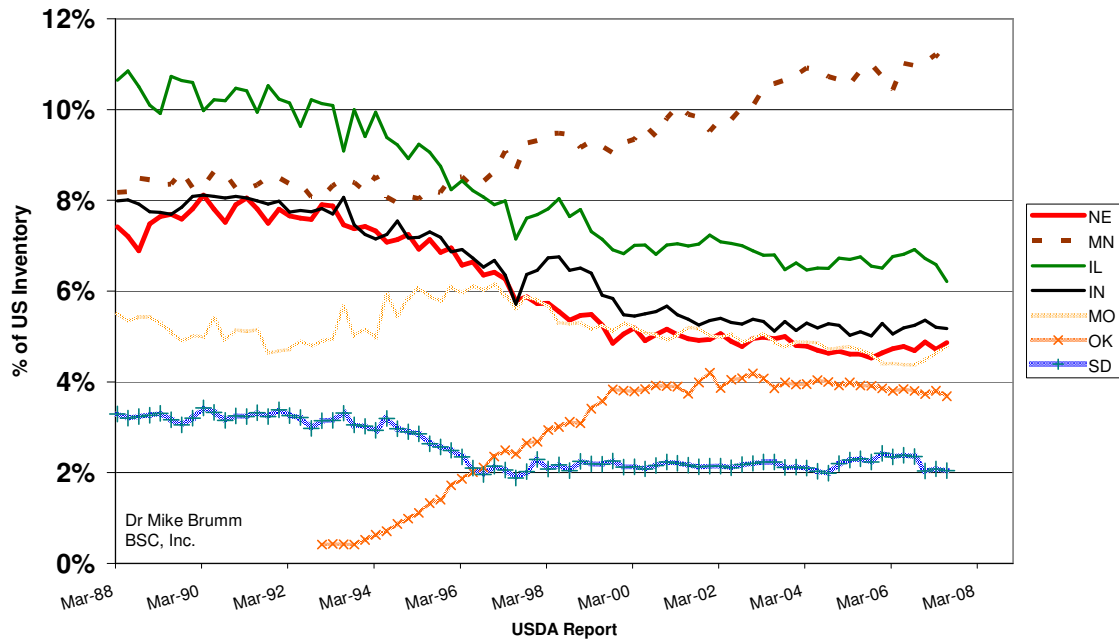
	Dec-99	Mar-00	Jun-00	Sep-00	Dec-00	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	
Breeding Herd	759	753	759	762	767	765	764	763	772	776	775	760	758	760	761	753	762	759	757	758	761	758	762	761	765	766	770	770	771	769									
Kept for Mkt	646	632	649	653	650	635	650	664	664	659	671	680	666	651	666	680	674	664	679	685	680	668	679	691	685	670	685	694	687	675									

USDA Report (+1 mo for CA)

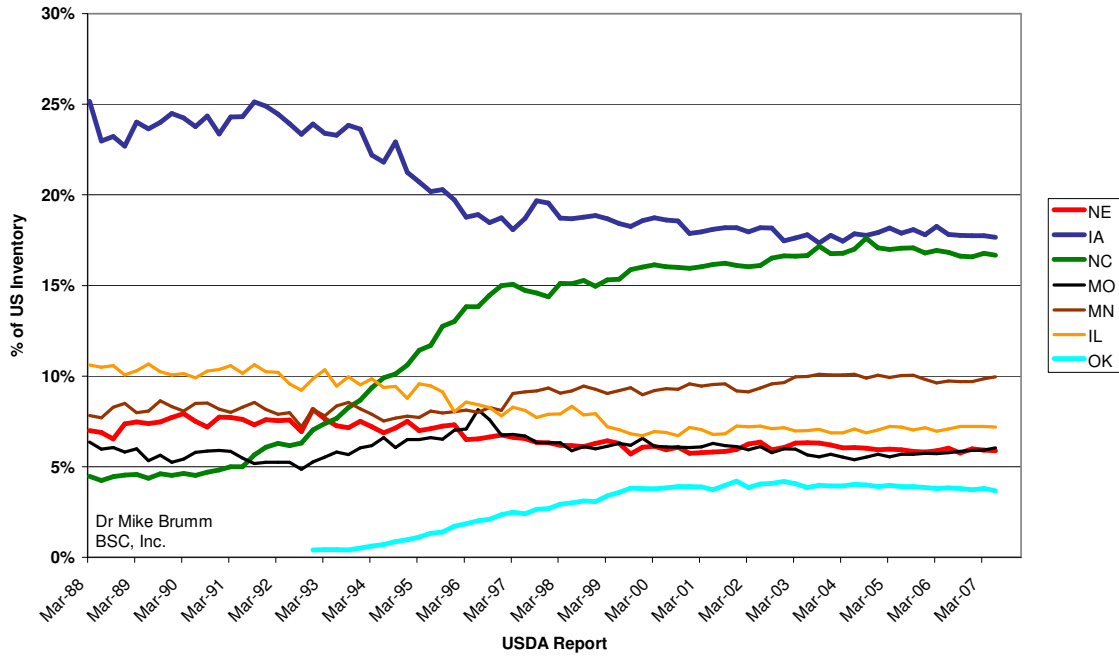
Iowa's Dominance



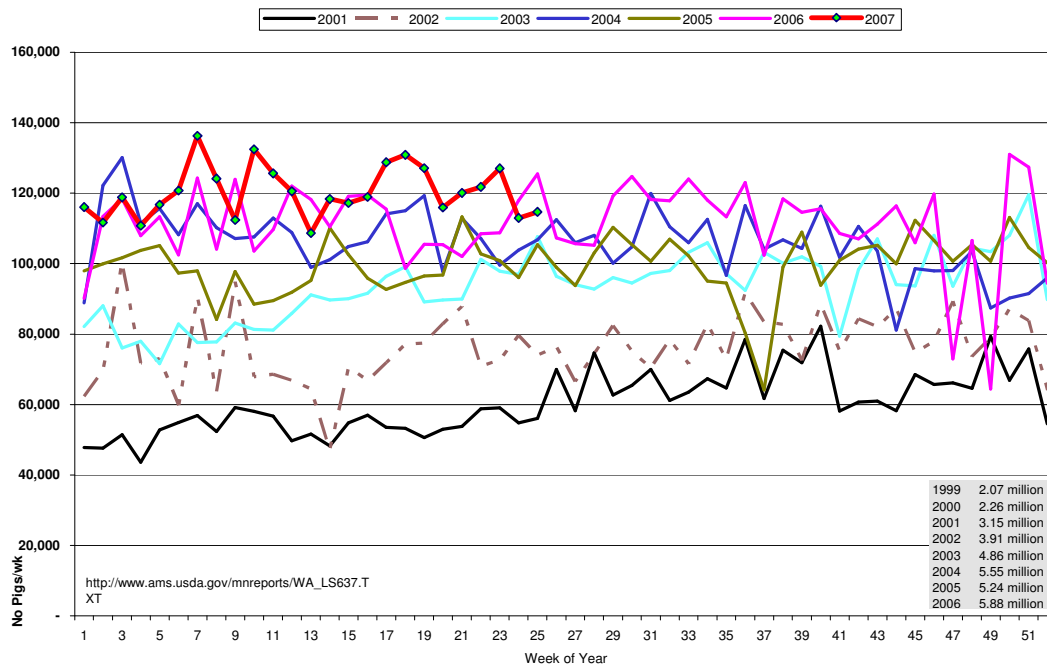
Where the pigs are



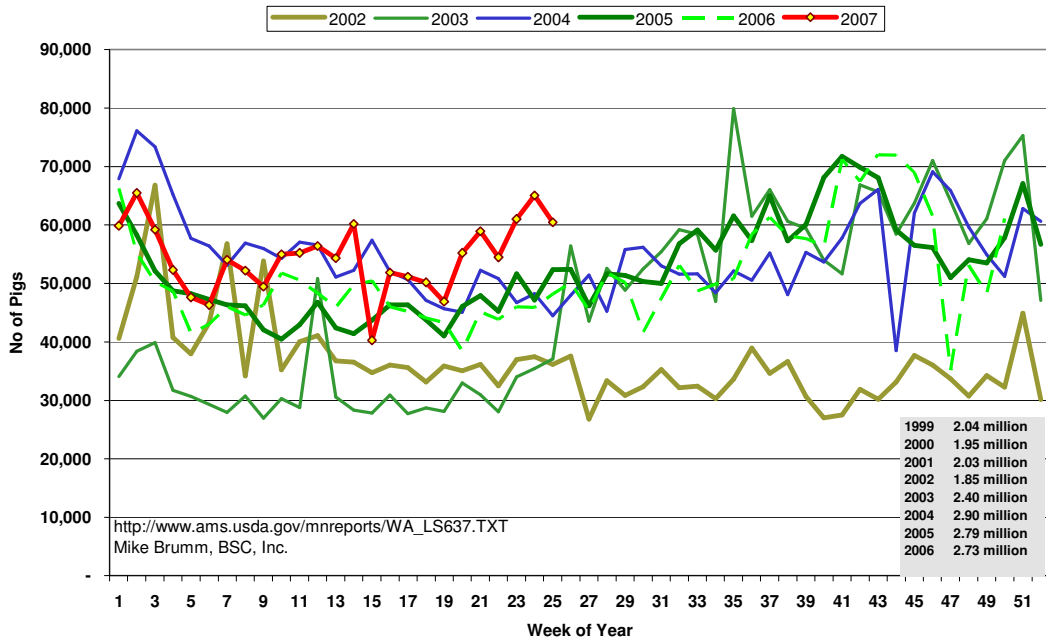
Breeding Herd



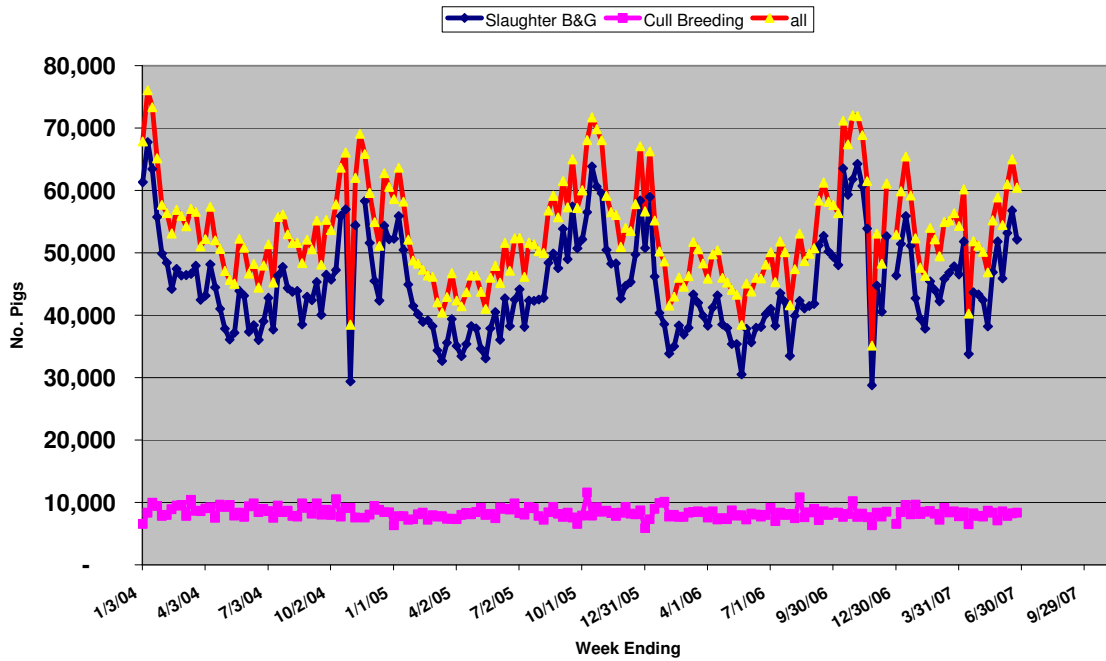
Canadian Feeder Exports to US



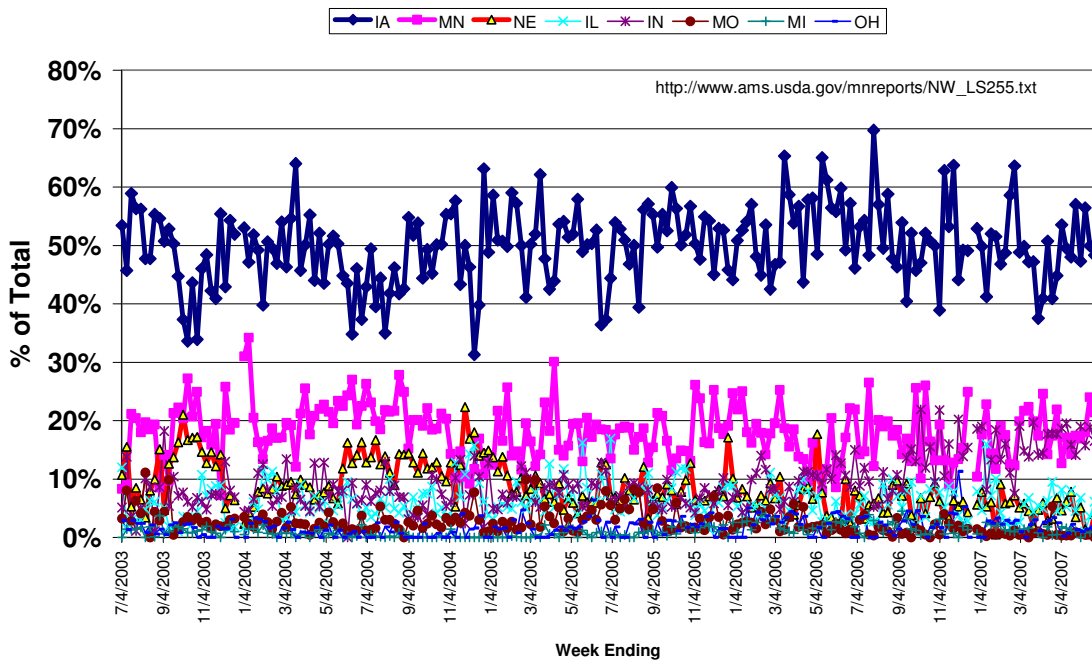
Canadian Slaughter Export to US Includes cull sows and boars



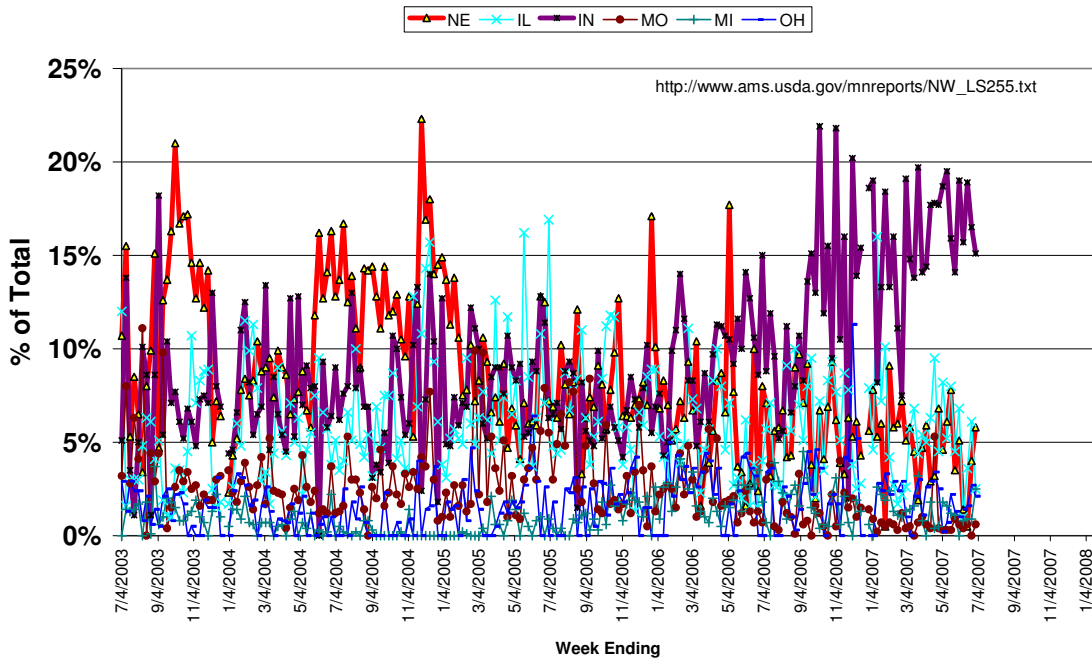
Canadian Slaughter Imports to US



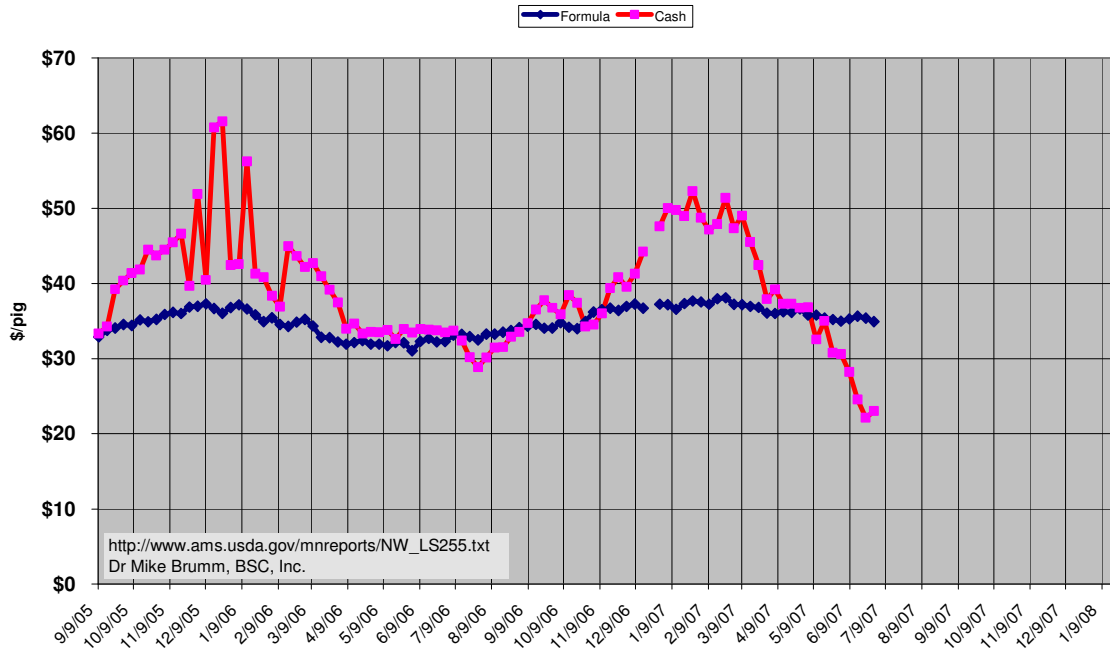
Destination of Feeder Pigs in USDA Reports



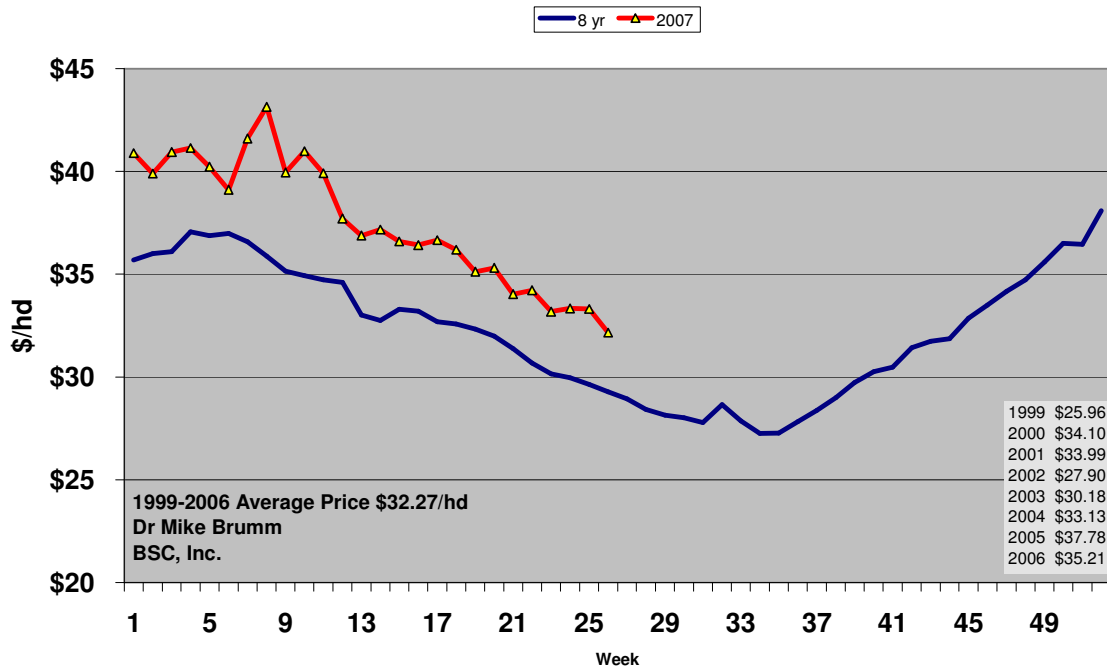
Destination of Feeder Pigs in USDA Reports



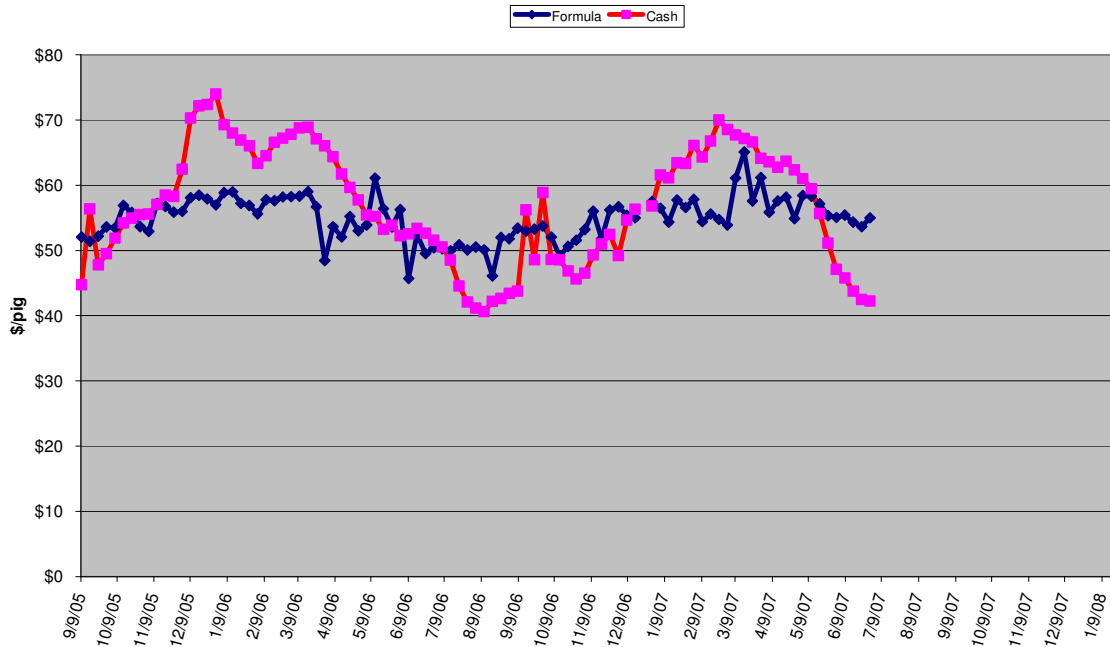
SEW Price, USDA



SEW 8 yr vs 2007 Price, USDA



40 Lb Feeder Pig Price, USDA



IAMN Liveweight at Slaughter

