

Commentary on June 1, 2008 USDA Hogs and Pigs Report
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By now, readers of this commentary will have had time to review the market impacts of this report. In general, the large inventories of pigs in the kept for market category suggest pressure on hog prices into next spring as a minimum.

Why so many pigs if the breeding herd is beginning to shrink in size? The first graph labeled 'US Hogs and Pigs Inventory' provides evidence of the success of the circovirus vaccines in US production facilities in the summer of 2007. At the same time as the circovirus vaccines were keeping growing pigs healthy, the Canadian industry was being stressed by a strong Canadian dollar and the same rising feed grain prices as US producers. This led to an influx of weaned pigs from Canada into US production facilities. Finally, as this pig crop report verified, US producers are having great success in the farrowing house, weaning record numbers of pigs per female. All of this adds up to a huge on-farm inventory of growing pigs that will have to progress thru slaughter plants this fall and winter.

Iowa continues to see growth in pig numbers. It is estimated in this report that Iowa farms now have 29.7% of all pigs in the kept for market category. Minnesota is showing similar growth, having 11.4% of the kept for market inventory. The other major state to see an increase was Indiana, where the growth is in part due to the announced efforts by the governor to double the number of pigs in the state in 10 years.

As a long time participant in the Nebraska swine industry, it is gratifying to note that the kept for market inventory was above 3 million pigs for the first time since the June 1 report in 1998. Given the relative stability of the kept for breeding numbers in the state, it is not possible to say whether the increase in kept for market numbers is due to the retention of more pigs farrowed in the state for growth to slaughter or an increase in imported pigs from Canada and other states.

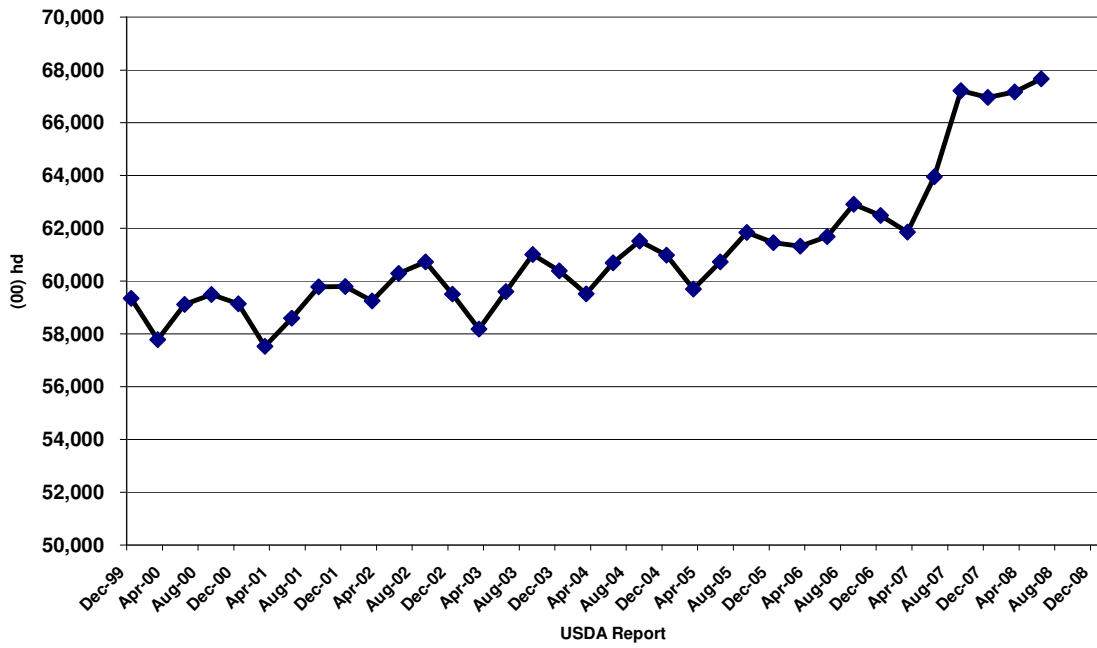
I expect this concentration of growing pigs in the upper corn belt to continue. With very high nitrogen prices as an input for corn production, grain producers are seeking alternatives. The historic alternative is livestock manure. Suddenly, manure which was treated as a production liability only 5-10 years ago, is in demand. Last fall it cost an estimated \$35-40 per acre to inject liquid swine manure on corn and soybean residue in the upper Midwest. This spring, with anhydrous nitrogen prices approaching \$800/ton, this manure has a value of over \$150 per acre. There is active competition for siting of new wean-finish facilities, with access to the manure from the facility a major item.

At the same time, the cost to transport feed grains out of the corn belt and to transport slaughter pigs to market are escalating in response to world oil prices. The incentive remains to continue the growth of the Iowa, southern Minnesota and surrounding area pork industry.

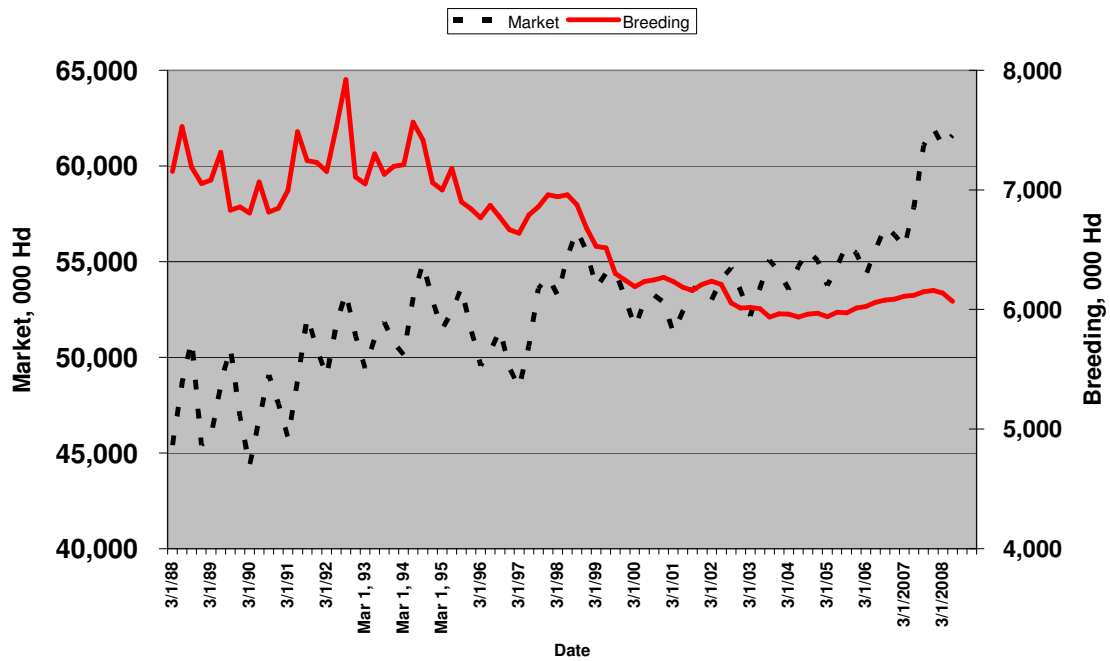
In looking at the farrowing intentions for June 1- August 30, Iowa producers indicated they intended to farrow 108% of their 2007 numbers of females, by far the largest increase of any state. When one realizes that Iowa still has a large number of farrow-finish production systems that are combined with a corn-soybean rotation land base, the increase is not surprising. This suggests that as the reduction in the breeding herd continues and even accelerates in coming months, the traditional farrow-finish producer will make their decision based in part on the overall economics of their farming enterprise, which includes a mix of pigs and feed grains. This expected increase in farrowings in Iowa at a time of enormous economic pressure to reduce inventory as suggested by overall US intentions of only 98% suggests that the value of the swine manure to their feed grain production base, along with the ability to utilize home grown feed grains remains a powerful economic model of resiliency.

Finally, I want to call your attention to the very last graphic in this commentary. This graph details the remarkable progress US producers have made in breeding herd management. Since 2001, producers have increased the number of pigs weaned per litter by 0.08 pigs/year. In May, 2008, USDA estimated a pig crop of 9.40 pigs/litter, an unheard of number just a few years ago.

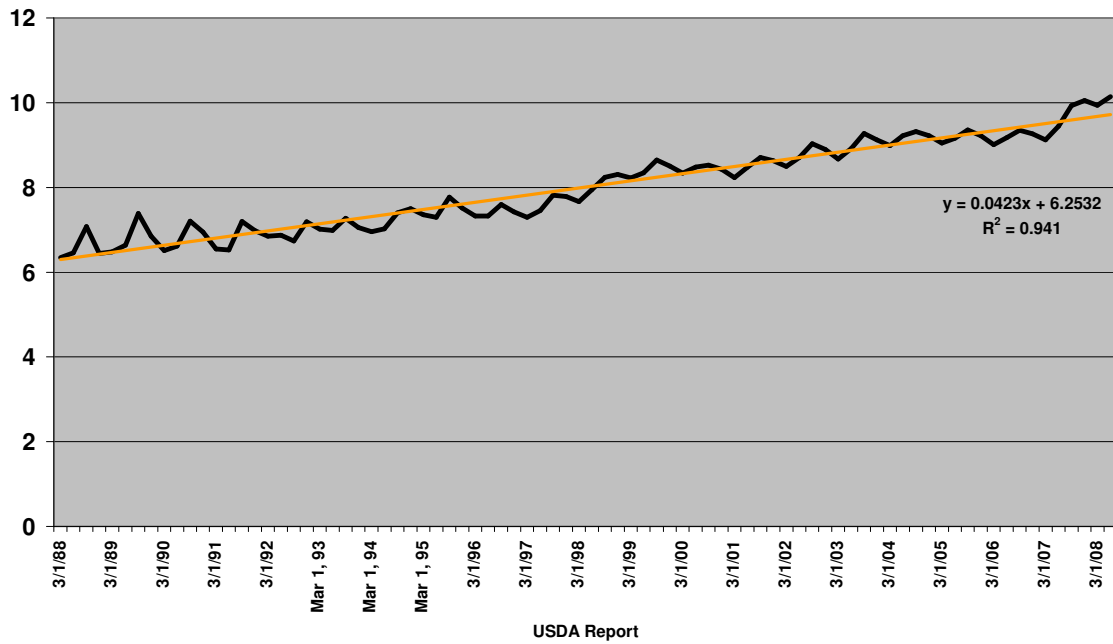
US Hogs and Pigs Inventory



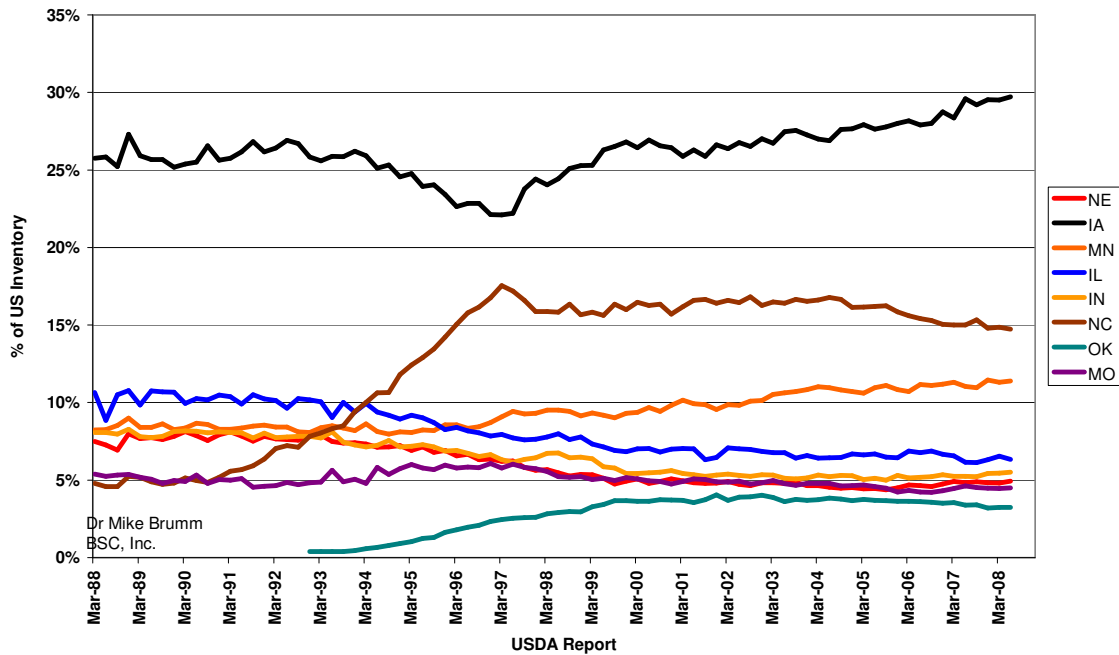
Quarterly USDA Hogs and Pigs



US Market inventory per Breeding inventory

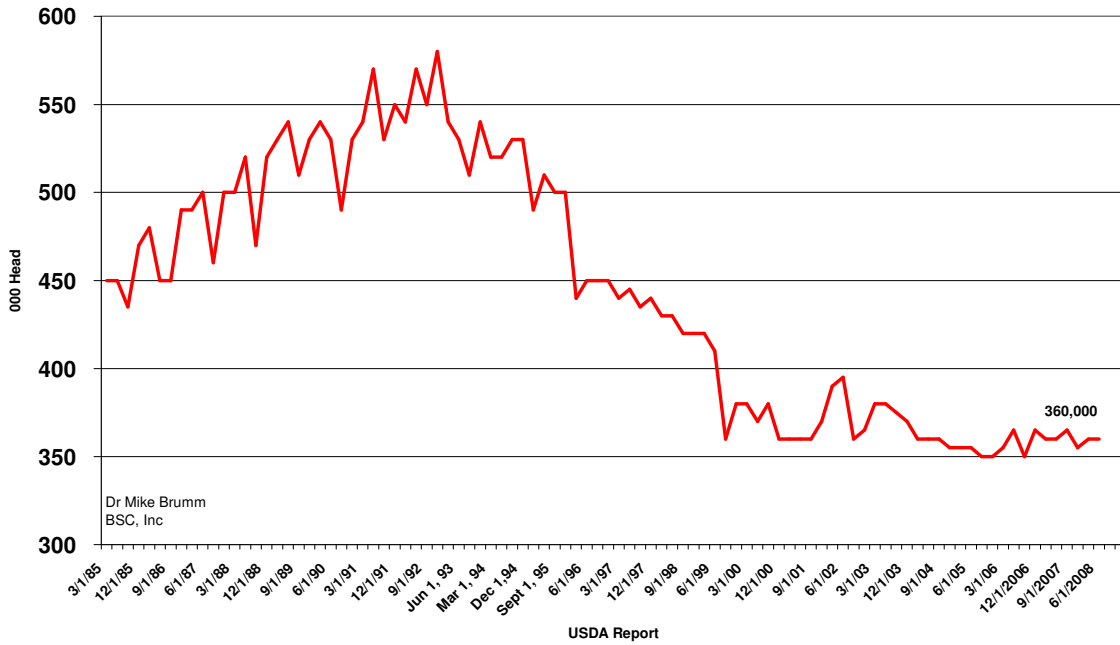


Where is the market pig inventory?

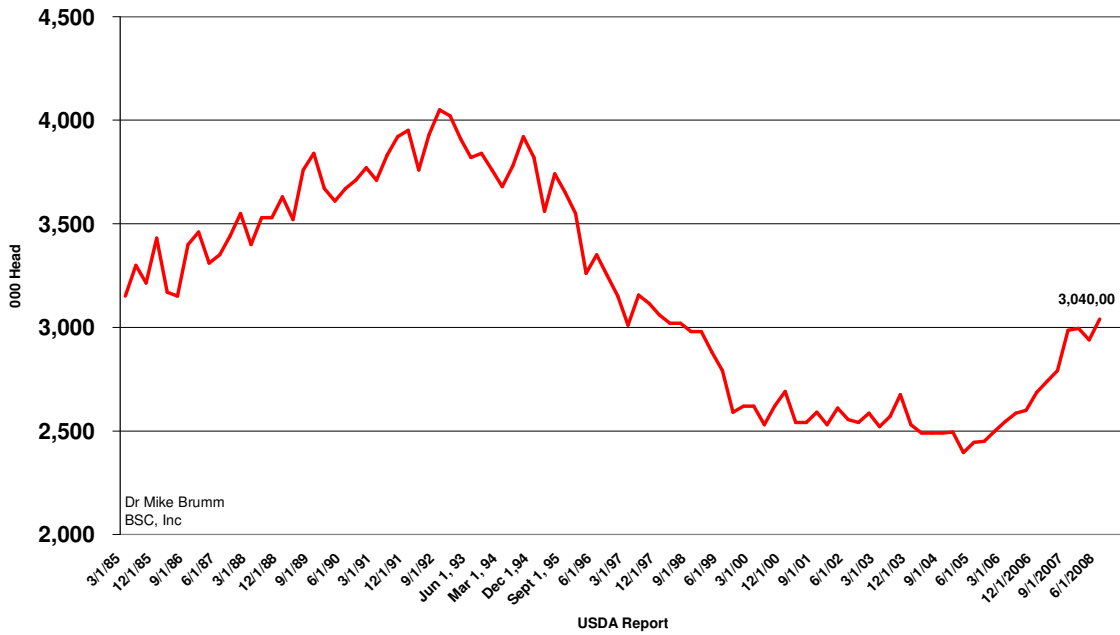


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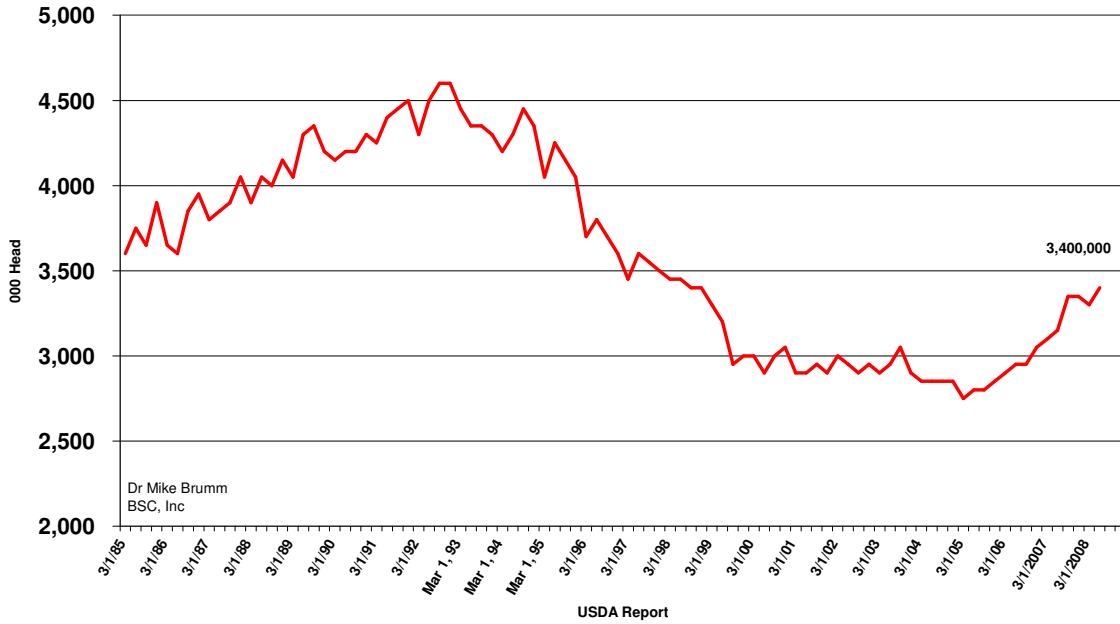
Nebraska Breeding Inventory



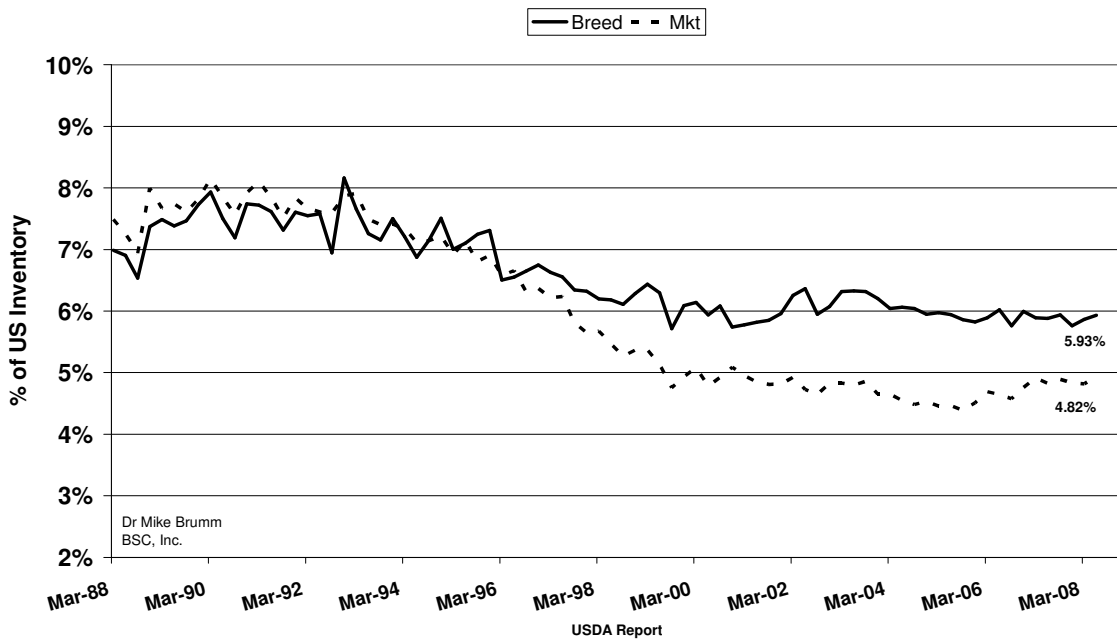
Nebraska Market Inventory



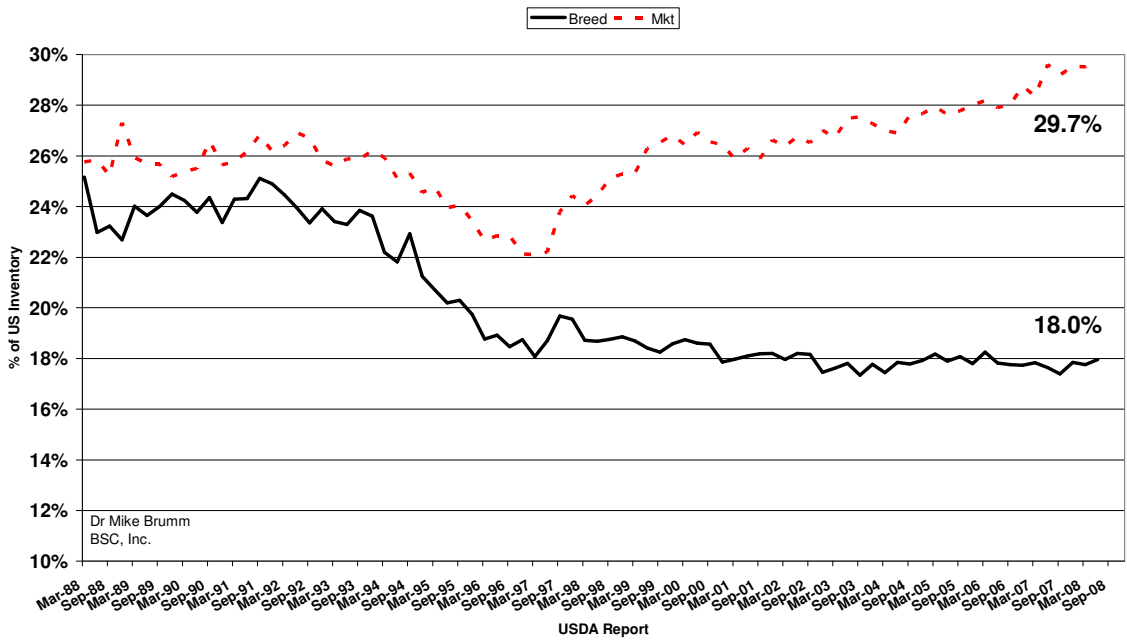
Nebraska Pig Inventory



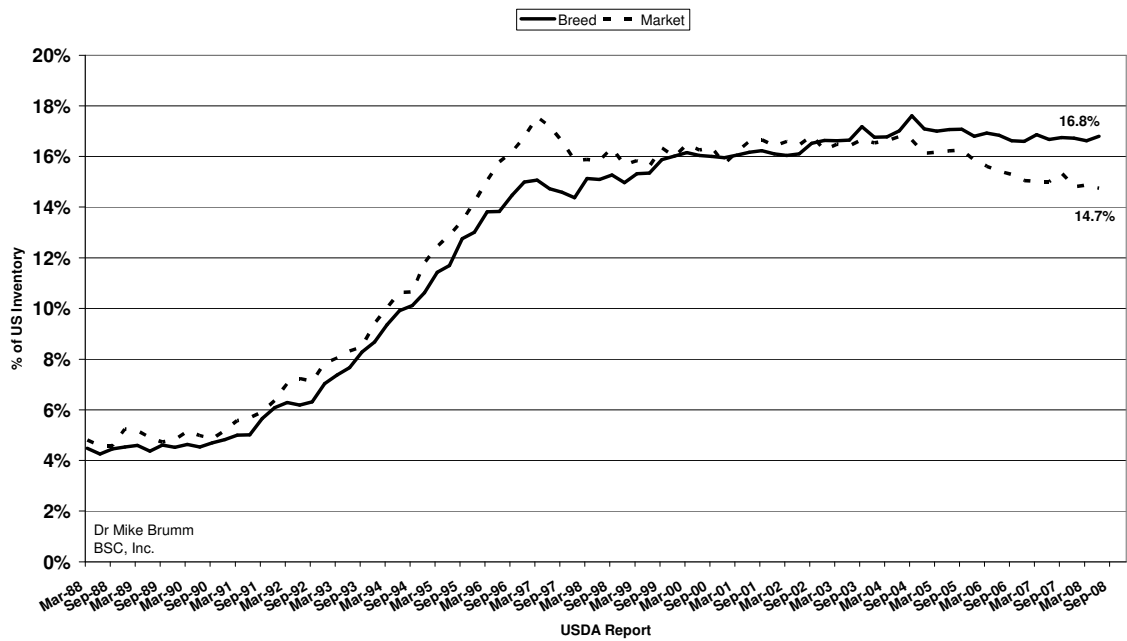
Nebraska's Share



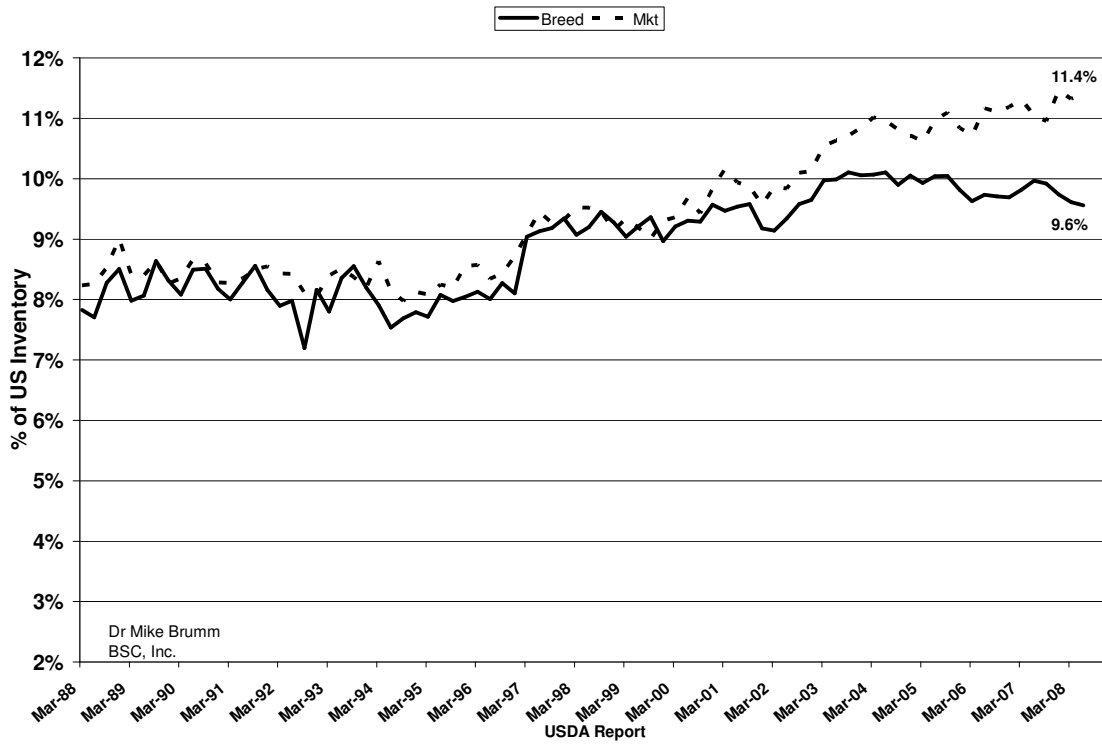
Iowa's Share



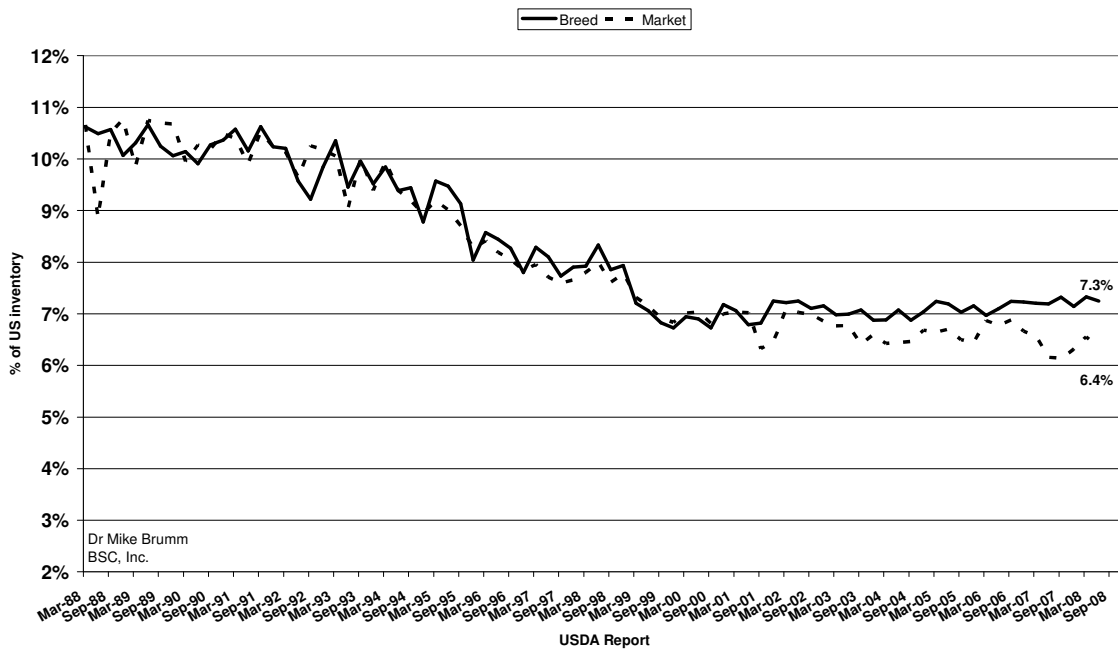
N Carolina Share



Minnesota's Share



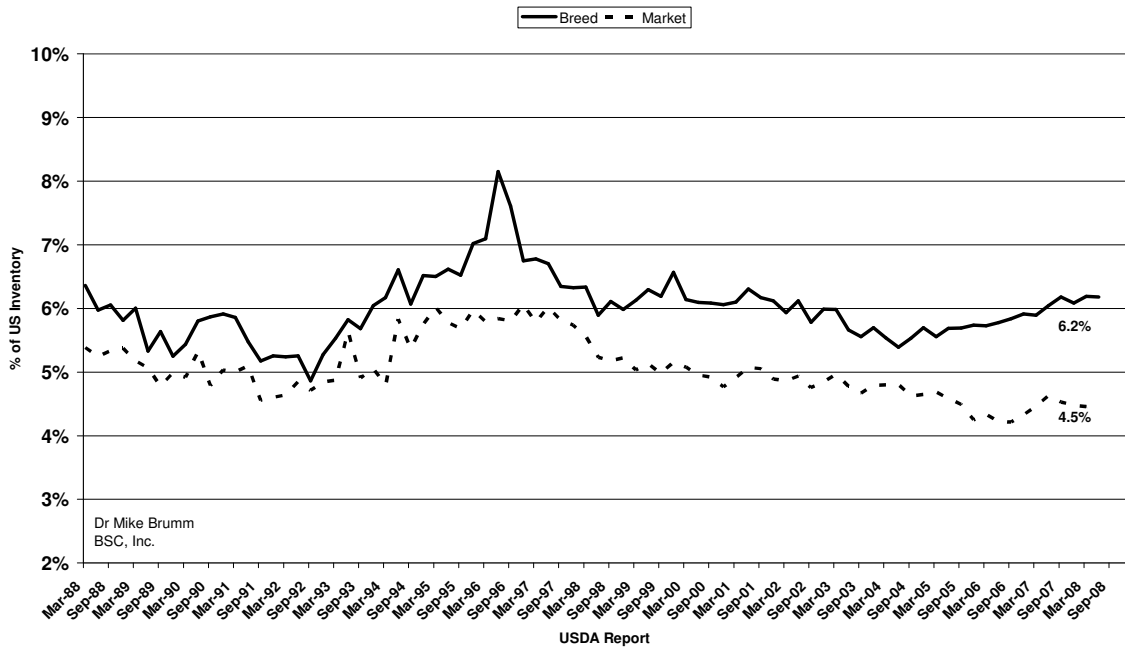
Illinois Share



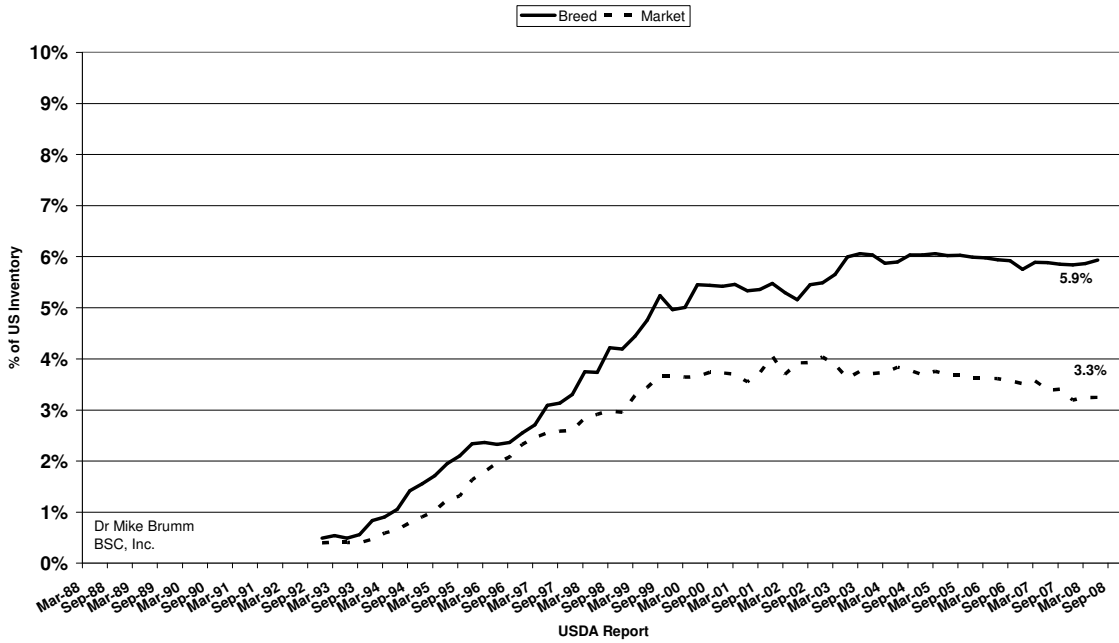
Indiana Share



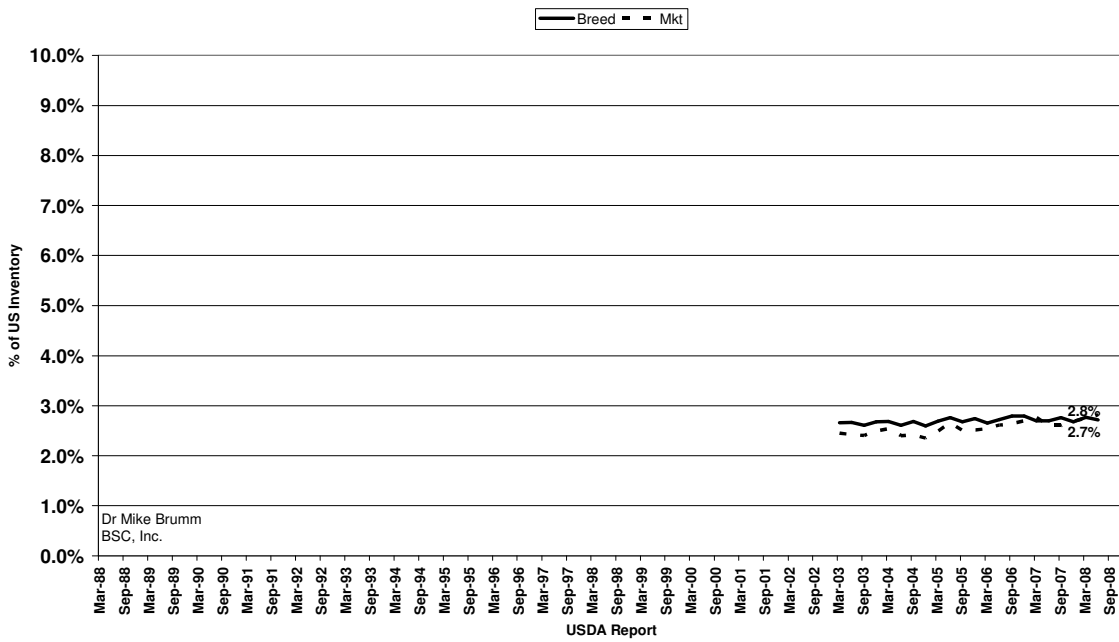
Missouri Share



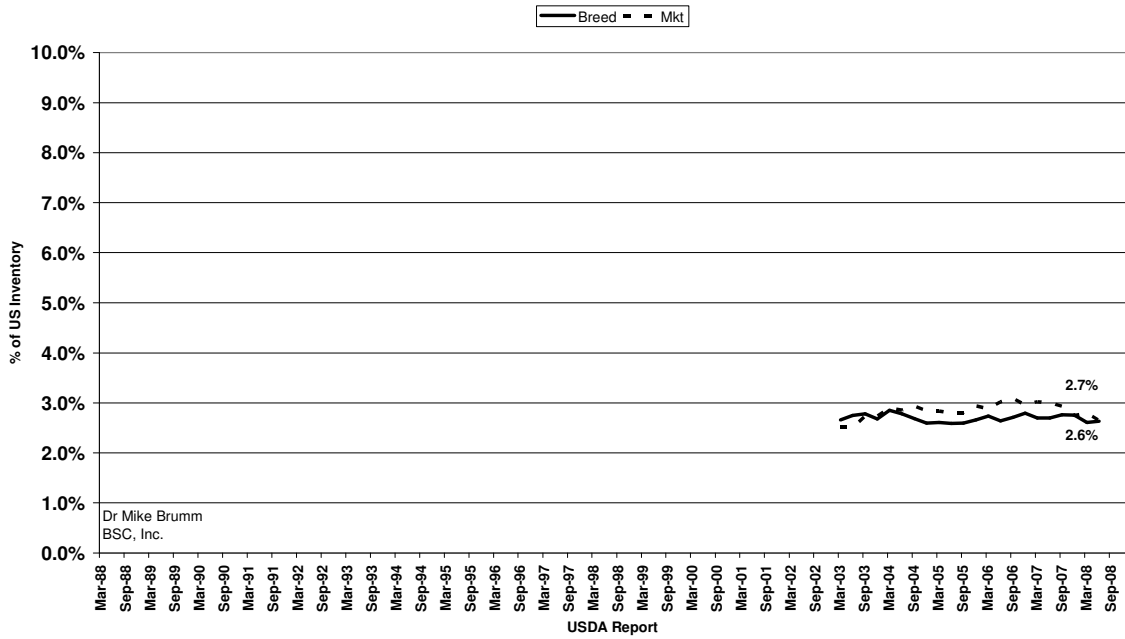
Oklahoma Share



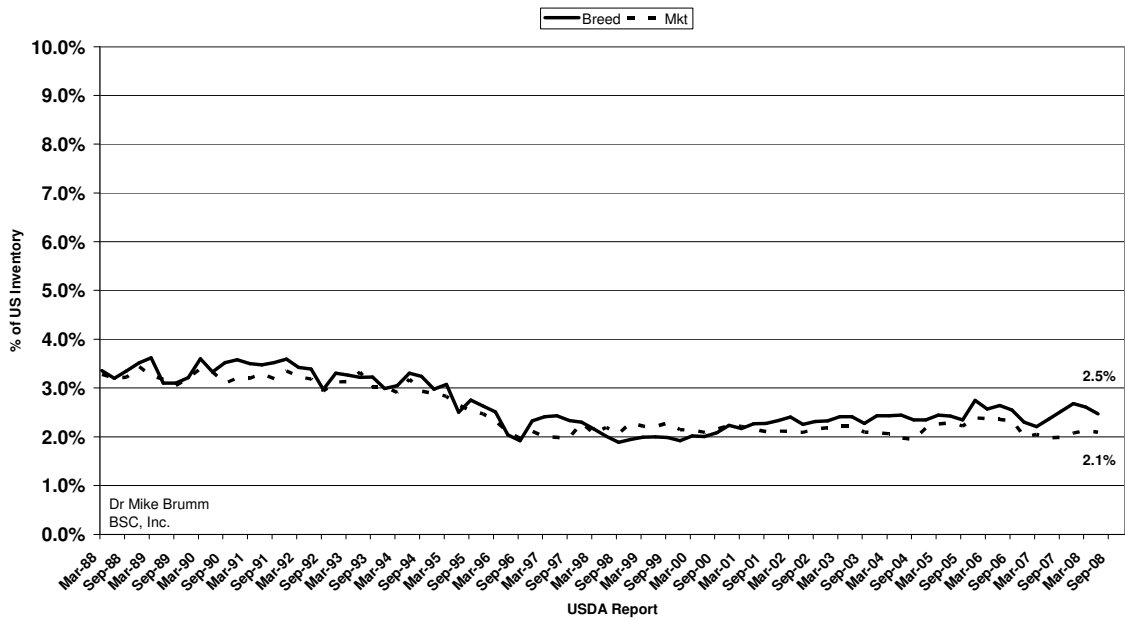
Ohio's Swine Industry



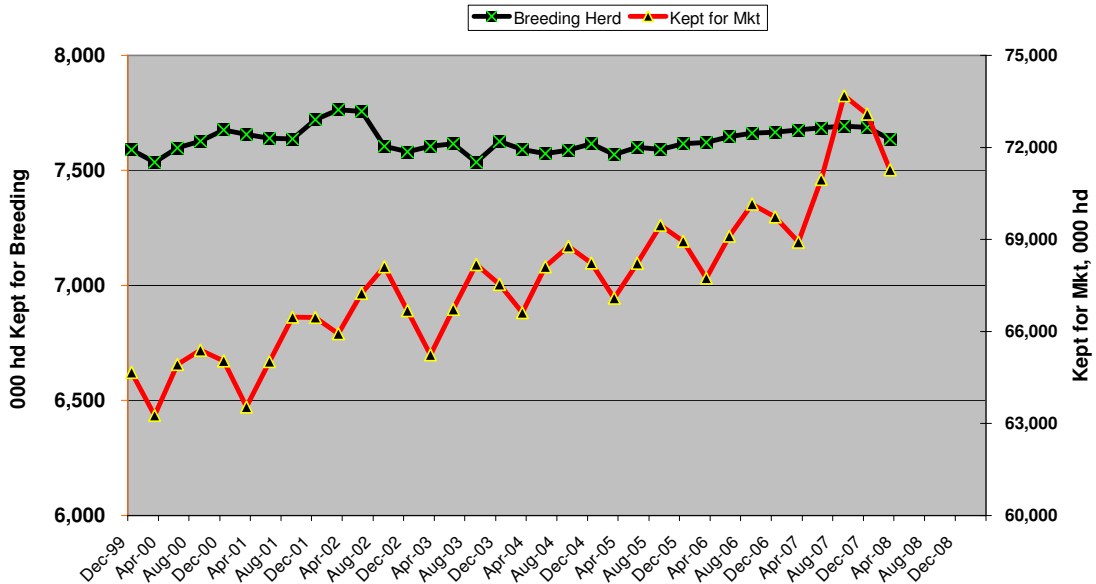
Kansas's Swine Industry



South Dakota's Swine Industry



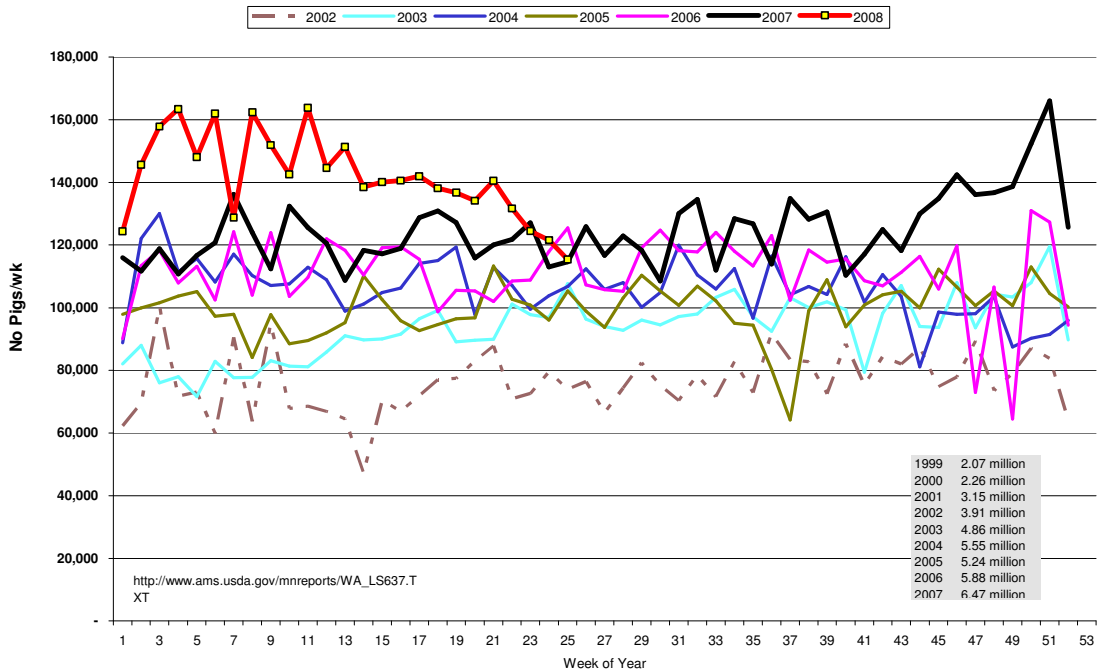
Combined N American Inventory



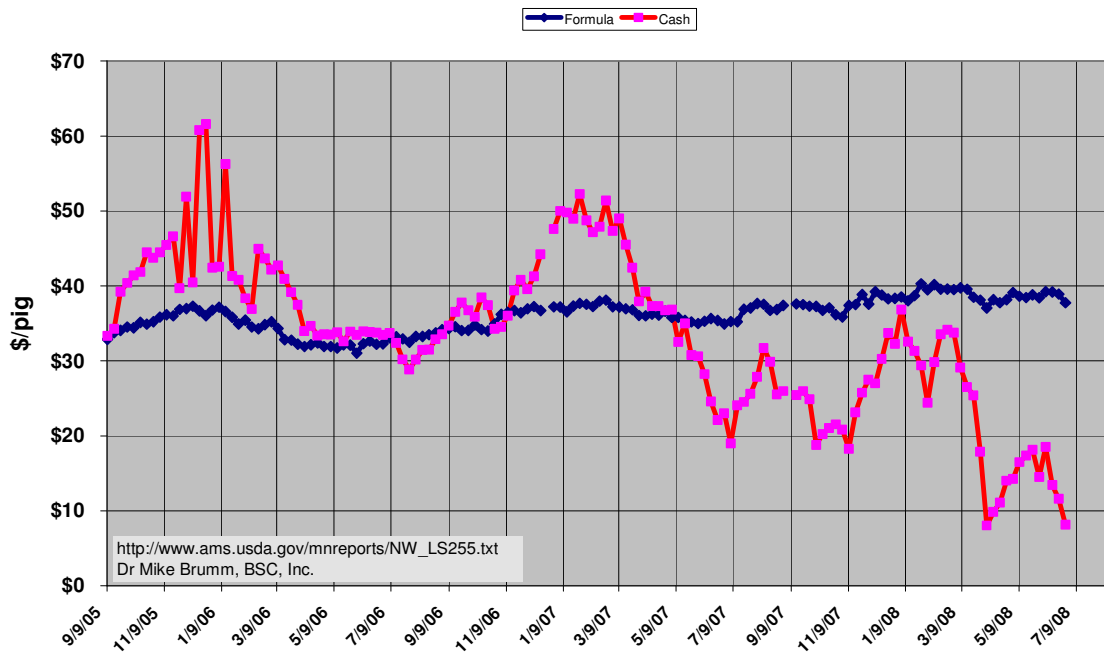
| | Dec-99 | Mar-00 | Jun-00 | Sep-00 | Dec-00 | Mar-01 | Jun-01 | Sep-01 | Dec-01 | Mar-02 | Jun-02 | Sep-02 | Dec-02 | Mar-03 | Jun-03 | Sep-03 | Dec-03 | Mar-04 | Jun-04 | Sep-04 | Dec-04 | Mar-05 | Jun-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 | Sep-06 | Dec-06 | Mar-07 | Jun-07 | Sep-07 | Dec-07 | 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 | 756 | 760 | 759 | 761 | 762 | 764 | 766 | 766 | 767 | 768 | 769 | 768 | 763 | | | | | |
| Kept for Mkt | 646 | 632 | 649 | 653 | 650 | 635 | 650 | 664 | 664 | 659 | 672 | 681 | 666 | 652 | 667 | 681 | 675 | 666 | 681 | 687 | 682 | 670 | 682 | 694 | 689 | 677 | 691 | 701 | 697 | 689 | 709 | 736 | 730 | 712 | | | | | |

USDA Report (+1 mo for CA)

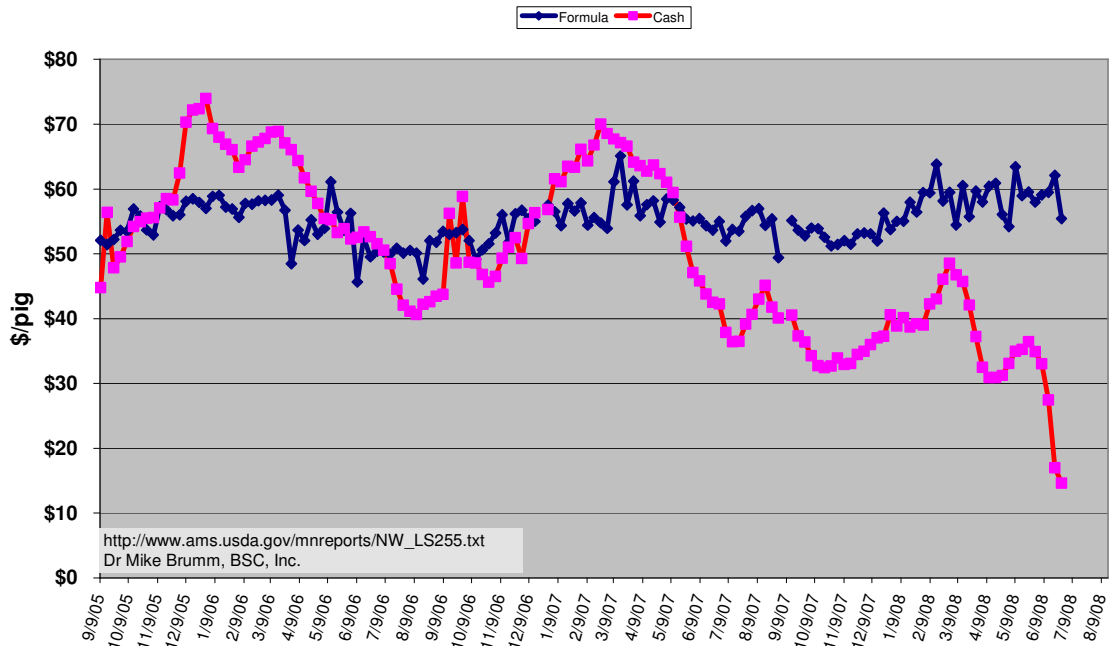
Canadian Feeder Exports to US



SEW Price, USDA



40 Lb Feeder Pig Price, USDA



Pig per litter

