


Vita Plus Feeds Swine Summit - 2013

Pork Industry Economic Issues and Outlook

Steve R. Meyer, Ph.D.
Paragon Economics, Inc.

Bethany Swine Health Services Feb 2013

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Key drivers of meat and poultry -- 2013

- Input prices and production costs Top 5:
 1. Will it rain?
 2. Where will it rain?
 3. When will it rain?
 4. How much will it rain?
 5. And will it be hot, hot, hot again this year?

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Key drivers of meat and poultry -- 2013

- Input prices and production costs
- How will meat/poultry demand hold up?
 - U.S. economy and consumer spending
 - World economy – exports and exchange rates
 - Prices of competitor goods – especially beef
 - RECENT SITUATION – “What the *?#(@)# has happened?” – More later

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Key drivers of meat and poultry -- 2013

- Input prices and production costs
- How will demand hold up?
- Just how much product will we see in 2013?
 - December U.S. hog inventories suggest no reductions – What about next week’s report?
 - Chicken companies are growing
 - Cattle numbers are still shrinking – and will through 2014, at least

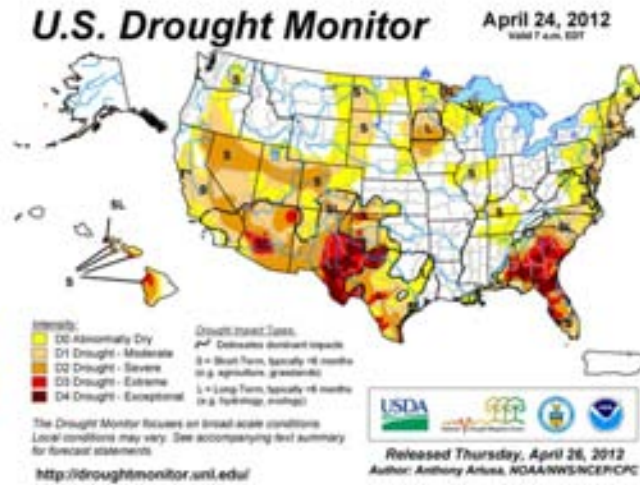
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April 2012– concerned about N. Ia-S. Minn ...

... SW was recovering from '11, SE was DRY!



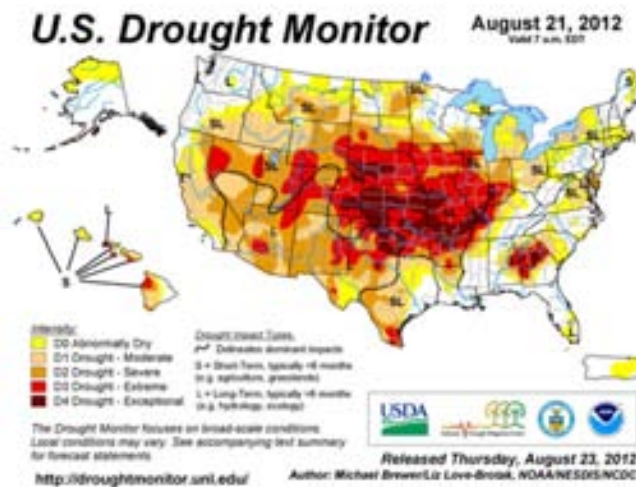
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By August – Ia-Mn was the least of concerns

... On 8/21: 77% drought, 44% severe or worse



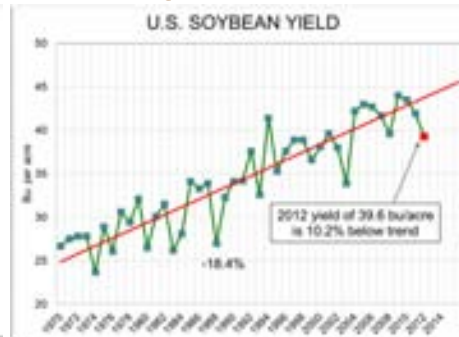
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First real drought in Midwest since 88 ...

... Resulted in significant yield shortfalls



- '12 corn yield was largest deviation vs. trend since '88
- Never had two in a row below the trend line – '13?

- SB yield was only 10% below trend – August rains!
- South American crop is very important

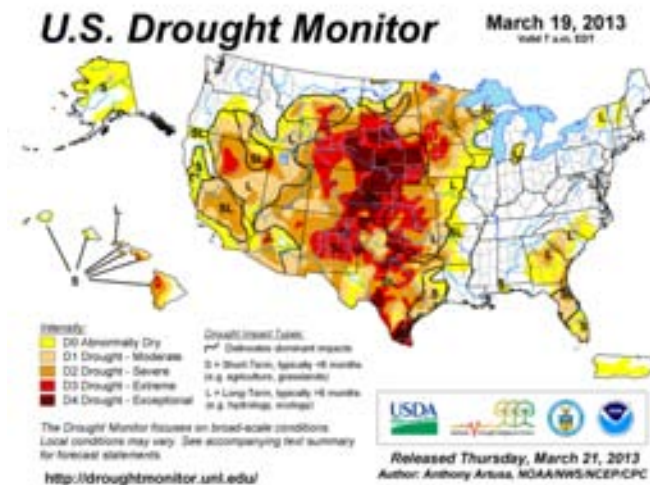
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Drought conditions are improving ...

... ECB in good shape, SE & Plains improving



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USDA '13-'14 forecasts – LARGE crops

USDA Outlook	Corn		Beans		Wheat	
	12/13	13/14	12/13	13/14	12/13	13/14
Plant	97.2	96.5	77.2	77.5	55.7	56.0
Harvested	87.4	88.8	76.1	76.6		
Yield	123.4	163.6	39.6	44.5	46.3	45.2
Production	10,780	14,530	3,016	3,405	2,269	2,100
Total Supply	11,869	15,187	3,204	3,545	3,142	2,921
Exports	900	1,500	1,345	1,500	1,050	950
Feed/residual	4,450	5,400	30	48	375	300
Ethanol/ Crush	4,500	4,675	1,615	1,660		
Total Use	11,237	13,010	3,080	3,295	2,450	2,282
Ending stocks	632	2,177	125	250	691	639
Avg Farm price	7.20	4.80	14.30	10.50	7.90	7.00

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March WASDE -- Lower exports, higher feed ... Still the 2nd lowest S/U ever – F/R use

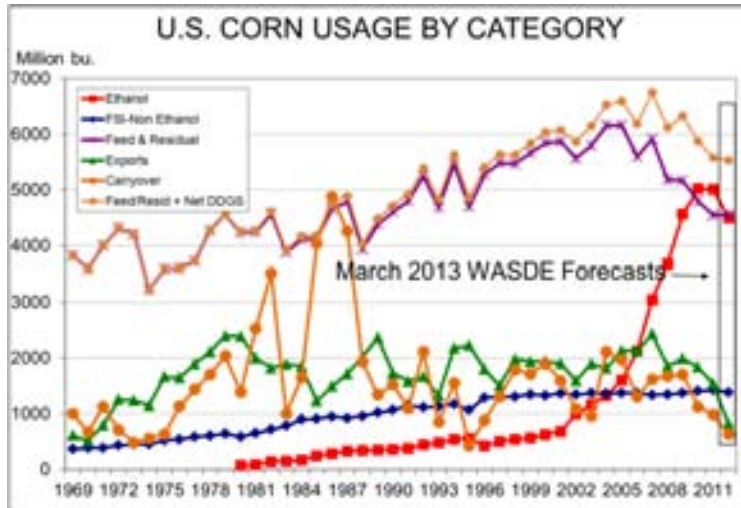
		2010/11	2011/12		2012/13	
			USDA March	USDA Feb	USDA March	% Chng vs '11-12
Acres Planted	Mil A	88.2	91.9	97.2	97.2	5.8%
Acres Harvested	Mil A	81.4	84	87.4	87.4	4.0%
Yield	Bu/A	152.8	147.2	123.4	123.4	-16.2%
Beginning Stocks	Mil Bu.	1708	1128	989	989	-12.3%
Production	Mil Bu.	12447	12360	10780	10780	-12.8%
Imports	Mil Bu.	28	29	100	125	331.0%
Total Supply	Mil Bu.	14182	13516	11869	11894	-12.0%
Feed & Residual	Mil Bu.	4795	4548	4450	4550	0.0%
Ethanol for fuel	Mil Bu.	5019	5011	4500	4500	-10.2%
Non-Ethanol FSI	Mil Bu.	1407	1426	1387	1387	-2.7%
Exports	Mil Bu.	1834	1543	900	825	-46.5%
Total Usage	Mil Bu.	13055	12527	11237	11262	-10.1%
Carryover	Mil Bu.	1128	989	632	632	-36.1%
Stocks/Use		8.6%	7.9%	5.6%	5.6%	-28.9%
Nat. Wtd. Avg. Farm Price	\$/Bu.	5.18	6.22	6.75 - 7.65	6.75 - 7.45	14.1%

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Ethanol use and exports MUCH lower vs '11...
... Non-ethanol FSI and F/R are constant -- ??




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Lowest Dec 1 corn stocks since 2004 ...
... And we will use 17% more corn this year

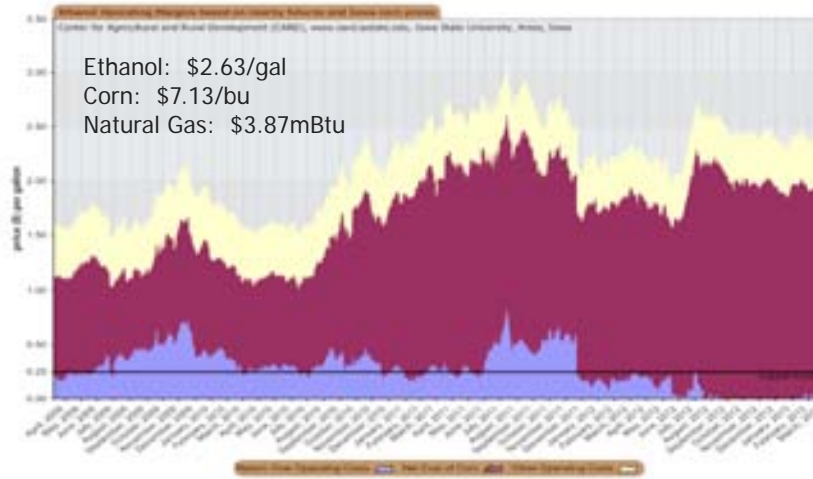


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Ethanol margins had been poor ...

... More plants are now covering VCs

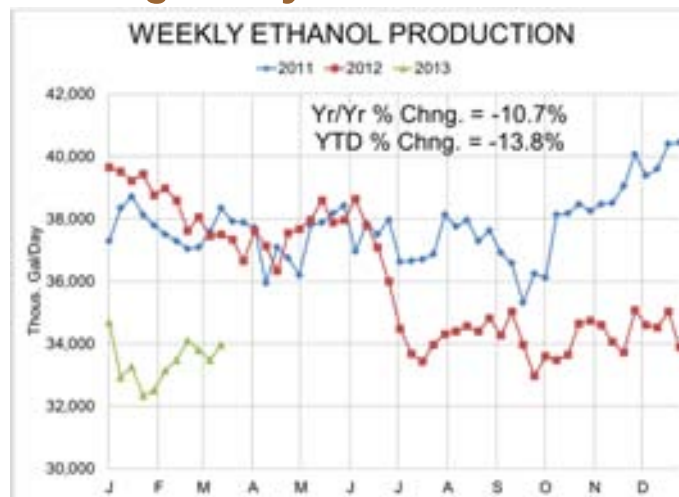


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Ethanol responded – down 9.7% in Q3 & Q4

... 34.2M gal/day will use 4.47 bil. bu. in '13

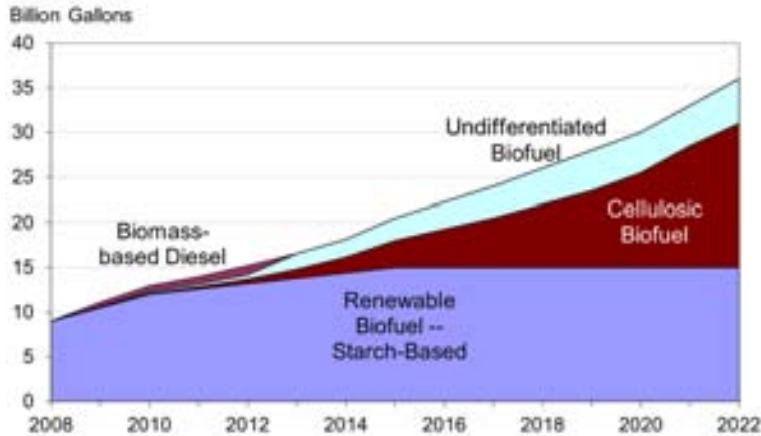


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RFS is 13.2 bil. gal. in '12, 13.8 bil. in 2013 ...
... 13.6 bil. gal. for '12-'13 crop yr = 4.86 bil. bu.

U.S. RENEWABLE FUEL STANDARD



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How do you blend steadily more of one thing
... In to steadily less of something else

GASOLINE SALES TO END USERS

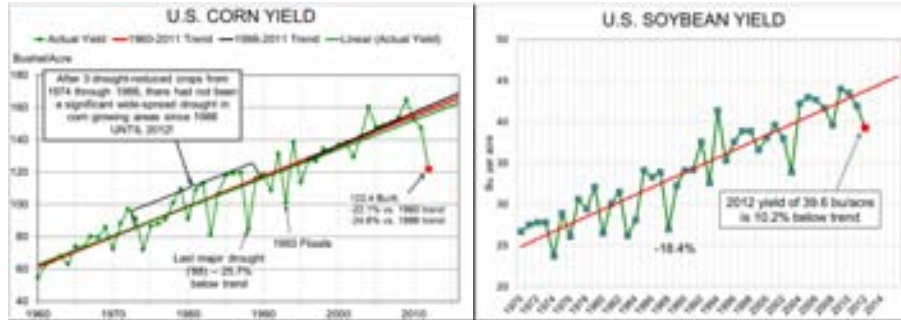


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2013 yields will be critical and ...

... At this point we must assume "normal"



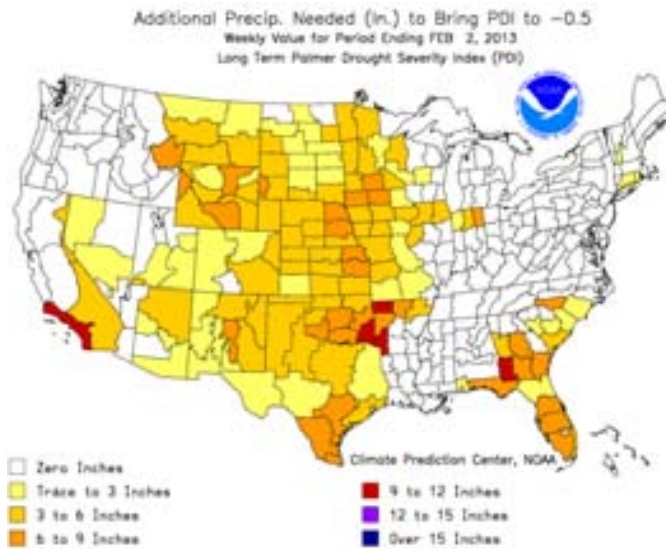
- '13 yield: '60-'12 says 158 bu
- 98 mil. acres x 92% harvested x 158 bu/A = 14.3 bil. bu.
- "13 yield? '60-'12 says 44.3
- 78 mil acres x 98.3% harvested x 44.3 bu/A = 3.397 bil. bu.

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Significant moisture is still needed

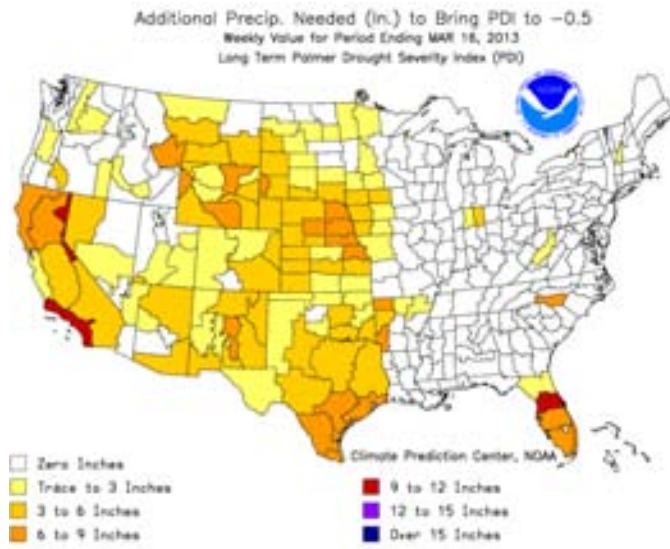


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But things have improved in the past month

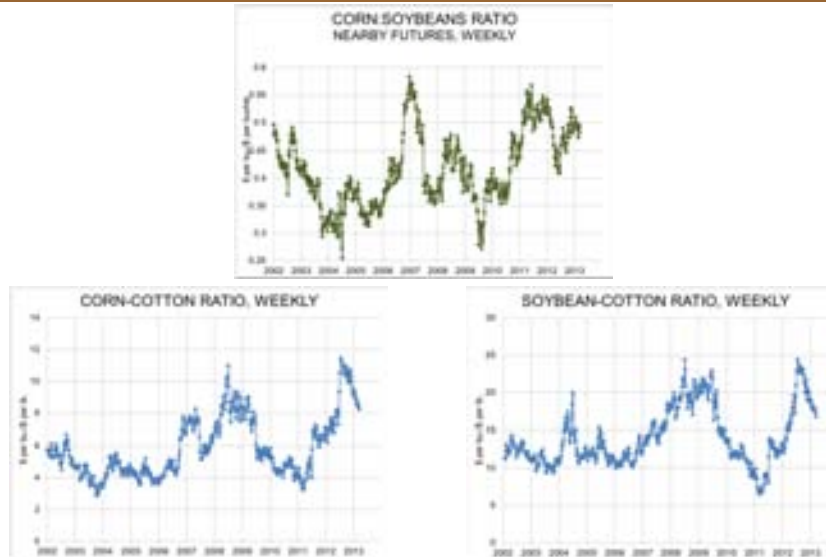


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Price relationships will be critical in '13



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In February 2012...

... Primary concerns: Europe, Russia



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January 2013 – Some better, EU still a wreck

...latest worry is Japan – recession, yen



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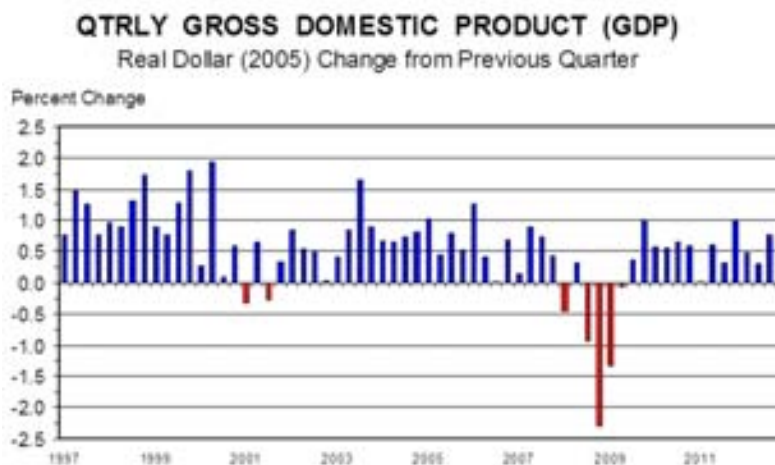
Important factors to watch -- U.S.

- Short term
 - Housing market is slowly improving – low interest rates, job growth
 - Wealth effect is positive – equity markets
 - U-rate is falling but will likely stay above 7%
- Long term
 - Deficit – and especially spending – must be reigned in
 - Fed is still “easing” – what happens when they slow down and interest rates rise?

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The U.S. economy muddles along - at zero... ... Still slowed by uncertainty

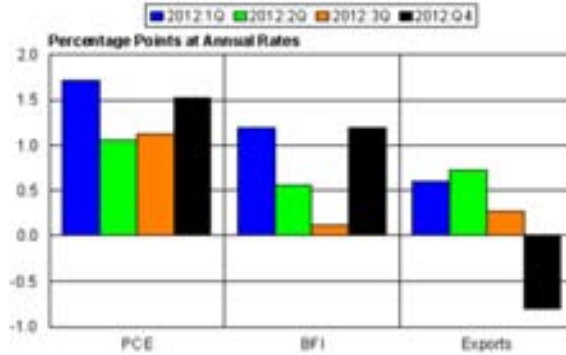



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Zero GDP isn't that bad – PCE and BFI are UP!

- PCE added 1.5% to GDP in Q4 – after +1.1% in Q3
- BFI added 1.2% in Q4 after 0.1% in Q3

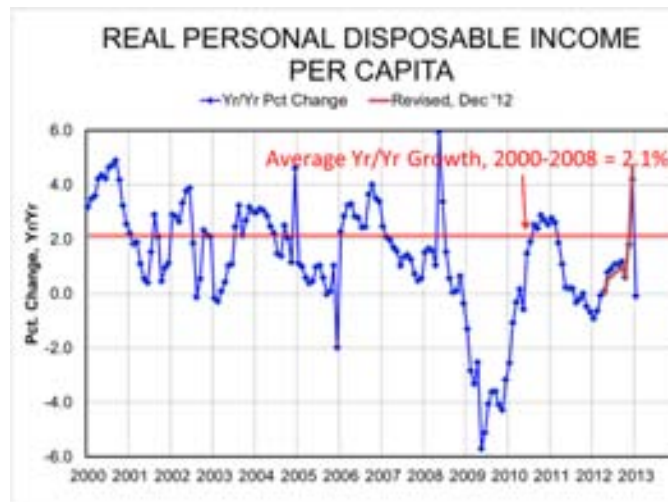


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Dec Real per capita PDI was false security...

...Jan was down 0.1% -- not good




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Foodservice improved in January ...

... Due to expectations – actual is still slow



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An interesting correlation: RPI & jobs ...



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Demand is NOT consumption

- Consumption is NOT measured directly by asking consumers how much they eat
 - Consumption = Beginning Inventory
 - + Production
 - + Imports
 - Exports
 - Ending Inventory
- POSITIVE relationship between consumption and production
- Demand: Q's consumed at various P's

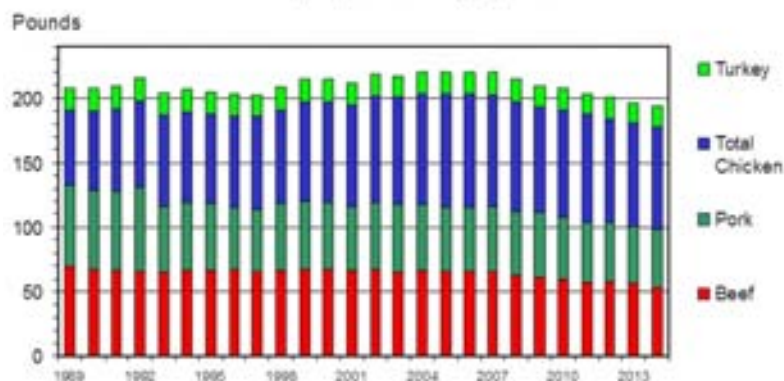
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Per cap cons <200# for first time since '90 ... But this is a SUPPLY issue

U S RED MEAT & POULTRY CONSUMPTION
Per Capita, Retail Weight, Annual

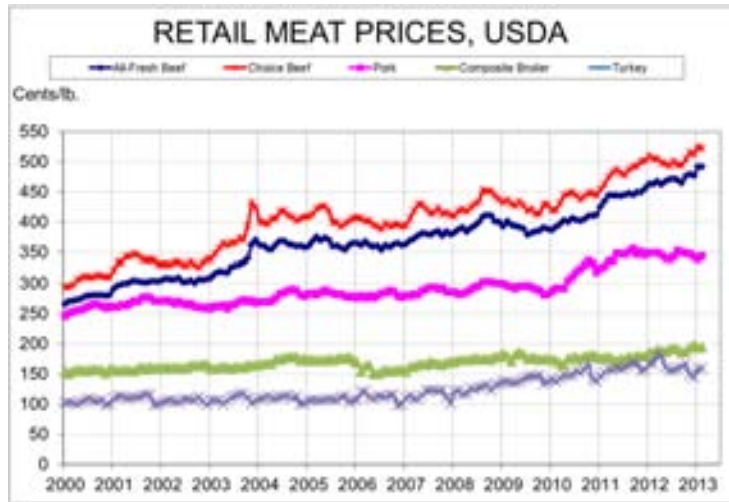



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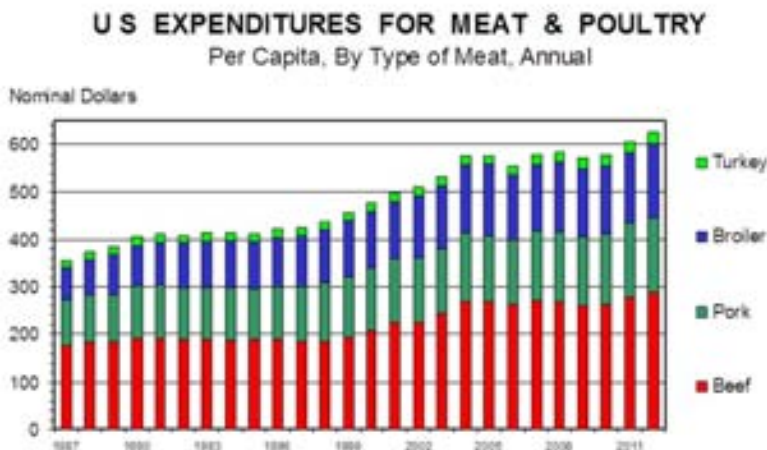
Retail prices are at or near record highs ...
... Would not be if demand was, in fact, lower




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Further proof: Record high '12 expenditures
... And another record expected in 2013



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Individual species indexes were mixed ...

... Chicken gained in Q4, turkey declined



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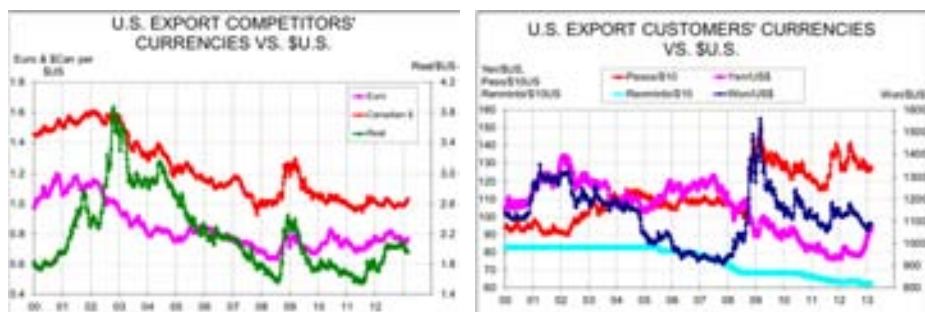
So why is demand so darned soft right now?

- Everything is working AGAINST demand
 - FEBRUARY is hardly ever a good month!
 - SS taxes = 2% pay cut on January 1
 - Gasoline prices – up \$0.40/gal since Jan 1
 - Russia and China – ractopamine trade barrier
 - Exchange rates – especially Japan
 - Weather – a big part of the country got hit hard in October and several times this winter
- Will domestic usage increase at lower prices levels?

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Exchange rates



- Real is the big mover among competitors
- Peso has improved but is still weaker than last spring/summer, lower than in '11
- Rapidly falling yen – due to gov't policy

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Situation for competing meats ...

- Lower cattle numbers – partially offset by higher weights – but lower beef supplies
- MUCH depends on weather – heifer retention, cow slaughter
- Tighter per cap supplies and higher prices are set through 2014 -- 2015?
- Chicken is GROWING – betting on the corn crop
- Higher prices Q1 & Q2 – lower rest of '13?

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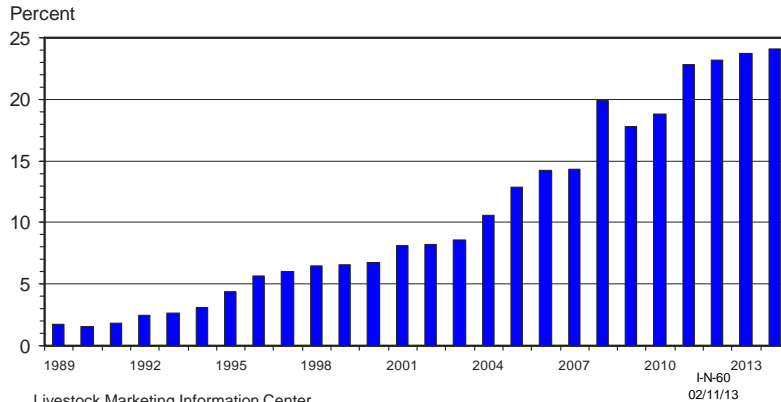
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Exports approaching 25% of total output ...

... A source of pride and concern – risk!

U S PORK EXPORTS

As a Percentage of Production, Carcass Weight, Annual



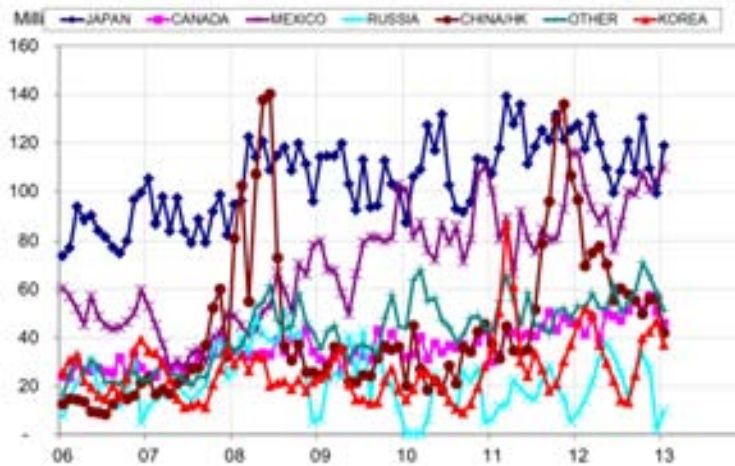
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Jan exports were -16% vs. '12 -- Ch/HK -56%!

... Only Canada, Russia (?), Carib. were up

U.S. PORK EXPORTS BY DESTINATION



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Russia & China Why is it happening?

- It's actually not about ractopamine
- China: Low hog prices, protection
- Russia:
 - Push-back on human rights language
 - Russia protecting its domestic industry – self-sufficiency goals, vested interests in govt.
 - “Normal” fun and games with Russkies
- Exports to Russia accounted for 1.2% of total U.S. production in 2012 → 2-3% price impact if all stayed here

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3/25/2013

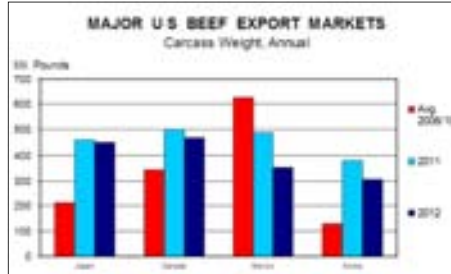
Murphy-Brown Grower Feb 2013

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And what about MCOOL “fix”?

- USDA proposal:
 - Drops “mixed” label
 - Label must specify born, raise, slghtr'd
 - MORE restrictive and costly for packers
- Canada is #1 beef and #4 pork customer
- Mexico is #3 beef and #2 pork customer
- Mexico is LARGEST by-product buyer – BY FAR!



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Demand summary

- Demand indexes ended '12 mixed with pork down marginally
- Still concerned about consumer incomes in '13 – some improvement but taxes????
- New export records in '13 are in doubt
 - Russia was about 5% of '12 exports
 - Weaker yen will hurt Japanese buying power
- Higher beef and chicken (??) prices will be positive for pork demand

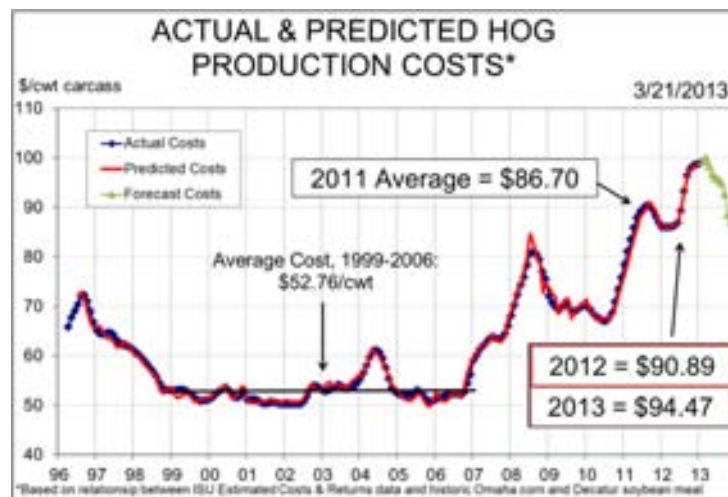
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2013 cost forecasts have fallen again ...

... Were \$100 last fall, \$97 in January

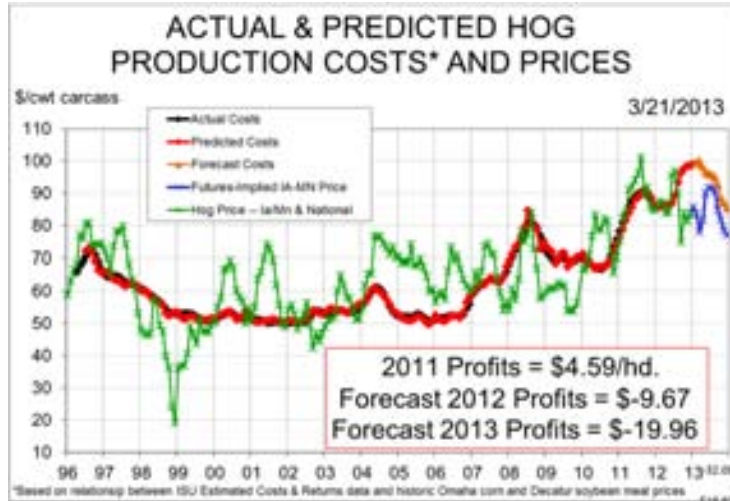


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**Lower LH futures have pushed margins down
 ... profit was -\$2/hd. in January, now are -\$20**



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Dec H&P report – more hogs than expected ..

USDA QUARTERLY HOGS & PIGS REPORT					
December 28, 2012					
Category	2011	2012	'12 as Pct of '11	Pre-Report Est's	Actual - Est
Inventories on Dec 1*					
All hogs and pigs	66,361	66,348	100.0	99.1	0.9
Kept for breeding	5,803	5,817	100.2	99.3	0.9
Kept for market	60,558	60,531	100.0	99.1	0.9
Under 50 lbs.	19,524	19,448	99.6	98.4	1.2
50-119 lbs.	16,643	16,643	100.0	99.0	1.0
120-179 lbs.	12,473	12,479	100.0	99.6	0.4
180 lbs. and over	11,918	11,961	100.4	100.5	-0.1
Farrowings**					
Sep-Nov sows farrowed	2,929	2,900	99.0	97.9	1.1
Dec-Feb Intentions	2,864	2,865	100.0	98.4	1.6
Mar-May Intentions	2,982	2,925	98.1	98.8	-0.7
Sep-Nov Pig Crop1*	29,365	29,443	100.3	99.0	1.3
Sep-Nov Pigs Saved/ litter	10.02	10.15	101.3	100.8	0.5

*Thousand head

**Thousand litters


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Litter size growth back to 1.3% in Q3...

... Trend has slowed a bit but still strong



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Canada's Jan 1 herd? -- likely down 1-2%



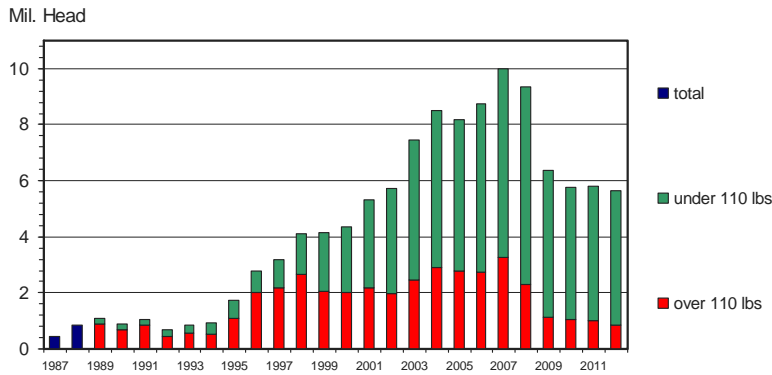
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**Hog/pig imports have stabilized since '09 ...
 ... Reductions caused by MCOOL, Canadian \$**

HOG IMPORTS FROM CANADA
 Annual



Livestock Marketing Information Center
 Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

02/11/13

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**'13 slaughter will be slightly larger than '12 ..
 ... So far has been 1% below Dec H&P data**

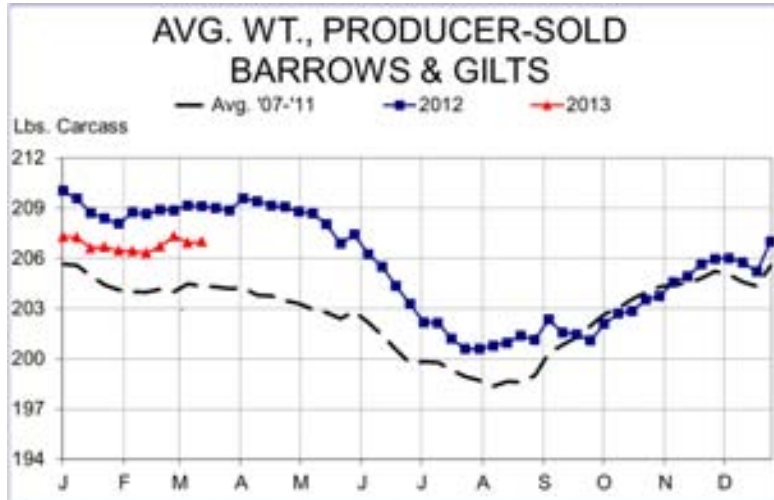
FI HOG SLAUGHTER, WEEKLY
 Based on USDA Hogs & Pigs Report, December '12



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**Weights matched 5-yr avg in Q4 ...
... still ~2 lbs. lower, likely stay there thru Q2**



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**YTD pork production down 0.5% yr/yr ...
... but will be higher than '12 thru April**

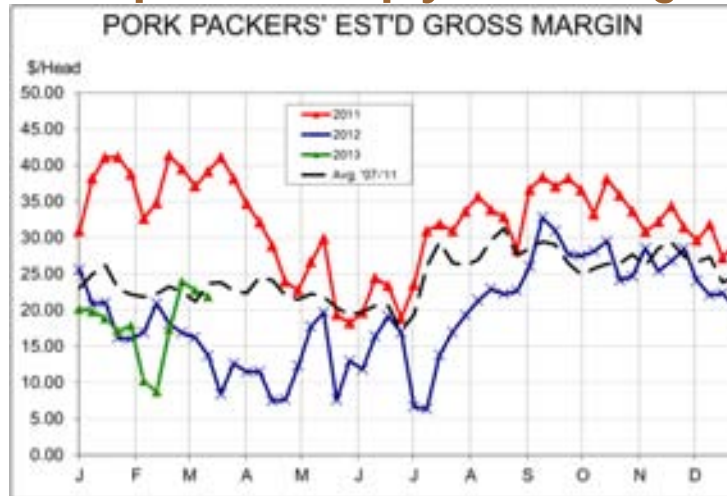


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Packer margins have been very poor...

... But improved sharply after slaughter cut



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Last two weeks: Purchases → liquidation?

... Likely due to markets, SOW PRICES!

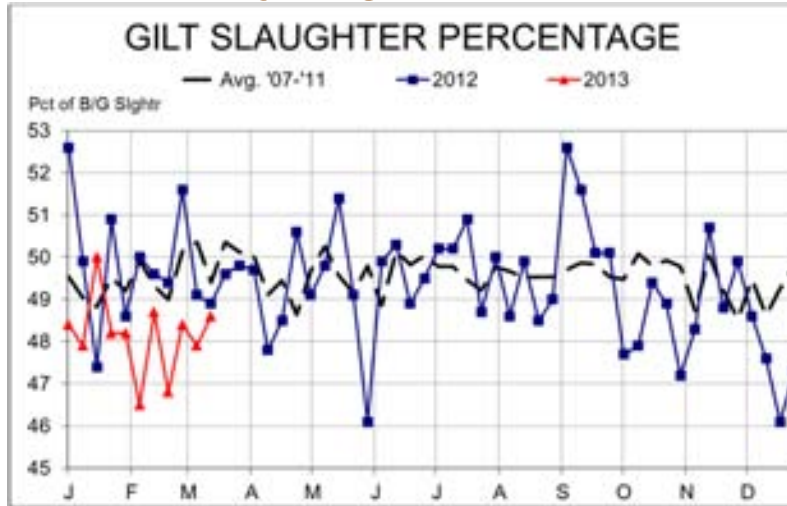



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Gilt slaughter pct suggests retention ...

.. Lower than 5-yr avg all but 3 wks since Sept



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December slaughter forecasts

		Mizzou		ISU		LMIC		Paragon	
		Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge
2011	Q1**	27.483	-0.5%						
	Q2	26.110	0.1%						
	Q3	27.379	1.6%						
	Q4*	29.888	0.9%						
	Year	110.862	0.5%						
2012	Q1	28.104	2.3%	28.104	2.3%	28.104	2.3%	28.104	2.3%
	Q2	26.659	2.1%	26.659	2.1%	26.659	2.1%	26.659	2.1%
	Q3*	27.963	2.1%	27.963	1.2%	27.963	2.1%	27.963	2.1%
	Q4**	30.400	1.7%	30.400	1.7%	30.400	1.7%	30.400	1.7%
	Year	113.126	2.0%	113.126	2.0%	113.126	2.0%	113.126	2.0%
2013	Q1*	27.762	-1.2%	27.739	-1.3%	27.704	-1.4%	28.292	0.7%
	Q2	26.811	0.6%	26.899	0.9%	26.242	-1.6%	26.892	0.9%
	Q3**	28.437	1.7%	28.299	1.2%	27.869	-0.3%	28.393	1.5%
	Q4	30.349	-0.2%	30.613	0.7%	30.207	-0.6%	29.880	-1.7%
	Year	113.359	0.2%	113.549	0.4%	112.022	-1.0%	113.457	0.3%

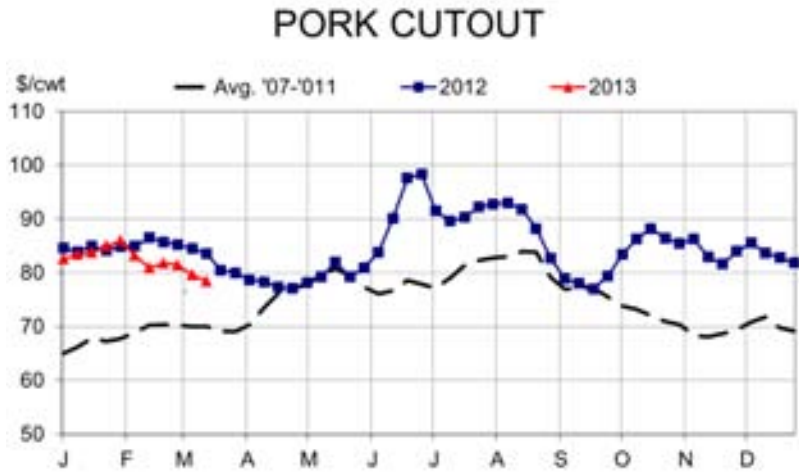
Green figures are actual data from USDA. Blue figures are estimated using USDA data 1/1/13


*Quarter has one LESS slaughter day vs. year ago **Quarter has one MORE slaughter day vs. year ago

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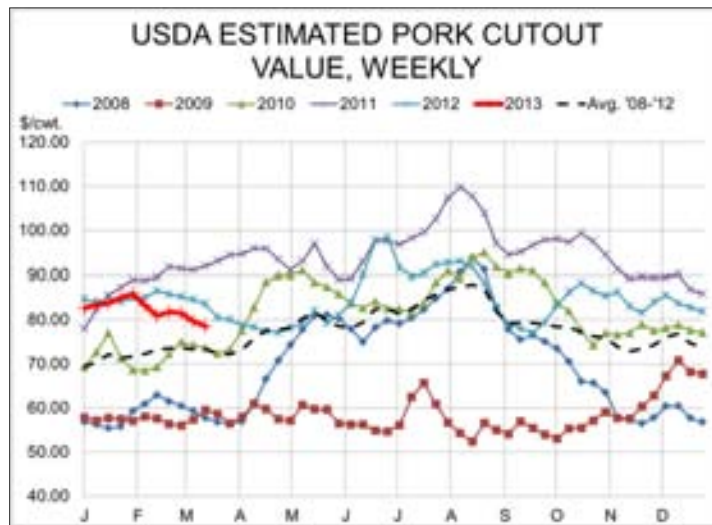
Cutout dropped below \$80 2 weeks ago ...
... Seasonal from January = \$104-\$106 (???)



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Reality: Cutout value NEVER rises in Q1




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Cutouts+margins = LOWER hog prices...

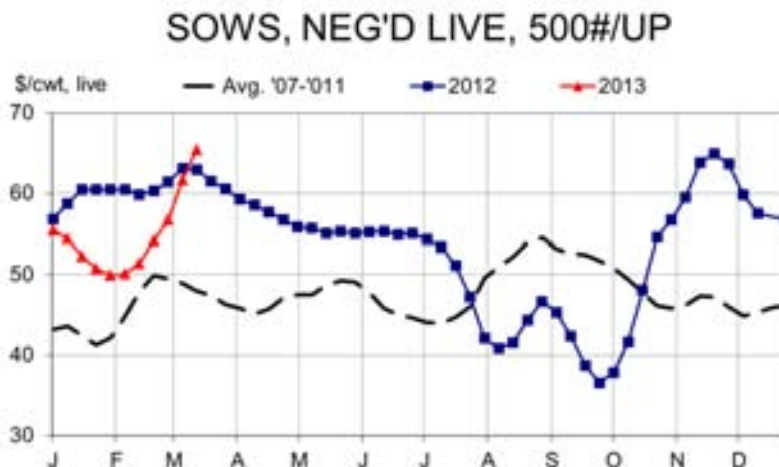
... "normal" rally = \$90-\$92 – can we beat it?



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Sow prices have exploded in recent weeks



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Price forecasts – sticking to them for now!

		December 2012 Hogs & Pigs -- Price Forecasts				
		Mizzou	ISU	LMIC	Paragon	CME
		Producer-Sold Net Price, All Methods	1a-Mn Wtd. Avg. Base Lean Hog	National Wtd Avg. Base Price	National Net Neg'd Price, Wtd. Avg.	CME Lean Hog Futures
2011	Q1	80.54	78.92	79.74	80.91	81.54**
	Q2	92.36	89.37	89.53	94.89	93.97**
	Q3	95.59	92.31	92.25	97.61	97.49**
	Q4	87.39	85.94	85.17	87.92	88.11**
	Year	88.97	86.64	86.67	90.33	90.28**
2012	Q1	86.56	84.27	84.11	86.11	86.44**
	Q2	87.76	83.67	85.31	86.67	86.64**
	Q3	87.69	85.05	84.74	84.97	86.64**
	Q4	82.90	82 - 83	80.60	81.61	82.13**
	Year	86.20	84 - 85	83.69	84.84	85.46**
2013	Q1	82 - 86	85 - 87	83 - 87	84 - 88	84.93**
	Q2	89 - 93	89 - 92	86 - 91	88 - 92	85.18
	Q3	88 - 92	90 - 93	89 - 94	90 - 94	88.06
	Q4	80 - 84	84 - 86	81 - 86	83 - 87	78.80
	Year	85 - 89	87 - 89	85 - 90	87 - 90	84.02

Green figures are actual data from USDA. Blue figures are estimated using USDA data **CME Lean Hog Index 3/22/13

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Two resources you may want to try ...

National Hog Farmer's Weekly E-Preview

www.nationalhogfarmer.com

The Daily Livestock Report

www.dailylivestockreport.com

(No longer free – asking for voluntary support of \$49/\$149 per year)


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QUESTIONS & DISCUSSION?

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