Daily Livestock Report

Vol. 10, No. 228 November 26, 2012

What about that "worldwide bacon shortage" and expected massive sow herd liquidation? We all know that the "shortage" idea was overblown from the beginning but what about the latter? We doubt that the possibility of a large reduction in the breeding herd and lower hog supplies in late 2013 is zero yet but the probabilities are, in our opinion, getting lower with each passing week.

Sow slaughter has certainly slowed since early October, falling far short of year-ago levels in 3 of the past 4 weeks for which actual slaughter data are available. The most recent of those, the week of November 9, saw sow slaughter of 64,190 head, only 0.8% larger than the same week in 2011. The previous three weeks' sow slaughters were 2.2%, 4% and 8.9% lower than last year.

The top chart at right shows sow purchases reported under mandatory price reporting to capture the past two weeks. These data imply slaughter that was 7.6% lower, yr/yr, the week of November 16 and then 6.9% higher than last year last week. The reason for the +7.6% in a week when sow purchases were up only 2.4%, yr/yr, is that the purchases-to-slaughter differential has been consistently larger than it once was since March 1. We add this larger differential to the purchase data to estimate sow slaughter for the past two weeks.

None of these add up to sow liquidation of any large amount. The fact that gilts represented only 48.2% of total barrow and gilt slaughter from October 1 through November 10 adds to our thoughts that the herd is not being reduced. That average would, in fact, suggest expansion if it went on for any significant period of time. An increase to 50.8% for the week of November 19 pretty well quashes any "expansion" thinking but in and of itself does nothing to suggest liquidation. It would take several weeks of higher percentages to do that.

And there is good reason from the profitability side to conclude that most producers will be able to hang on. Our current projected average loss for cash-buying and cash-selling Iowa farrow-to-finish operations is just over $9/head — nothing to write home about but not nearly the kinds of losses seen in 1998-99 or 2007-2008. And the projected losses for next year have fallen from nearly $20/head back in August to only $3.19/head as of Monday morning. They were near only -$1/head two weeks ago. That -$3.19/hd average for 2013 includes profits from May through August with the June projection currently +$14.96/head.

So what kind of reaction should we expect? The U.S. sow herd has become more and more stable over time with both expansions and contractions being smaller in percentage magnitude. The huge losses of 1998-99 drove December-to-December sow herd changes of 4 and 6.7%. Those reductions, though, included the major portion of the massive structural change that occurred in the 1990s and 2000s. More indicative for a "stable-structured" sector is the 2.7 and 3.5% reductions of 2008 and 2009 but these were also driven by a major structural shift — this time in the grain complex. By contrast, this year's losses are the result of no permanent structural change that we can see. It's a short crop situation that will be rectified by normal weather next year. Whether that happens remains to be seen. We don't expect the December 1 breeding herd to be more than 1% lower, yr/yr, and we doubt the reduction will be that large. And next year's change may not be negative at all, depending on what happens with the 2013 crop.