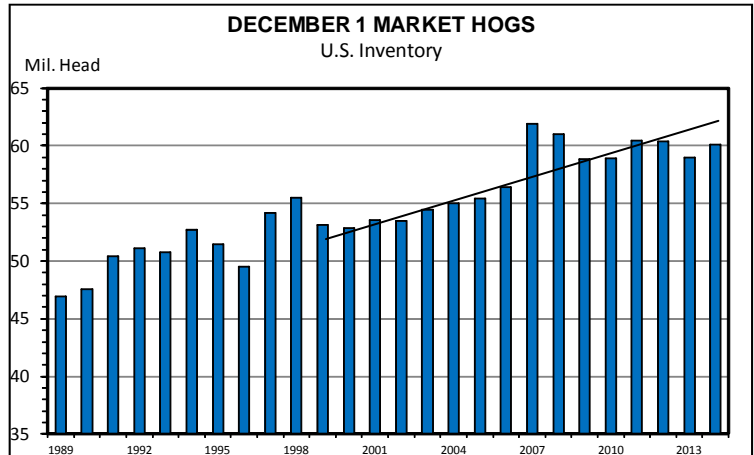


Our Production and Price Summary table will appear in tomorrow's Daily Livestock Report. Due to USDA's holiday schedule, no slaughter data for last week are yet available.

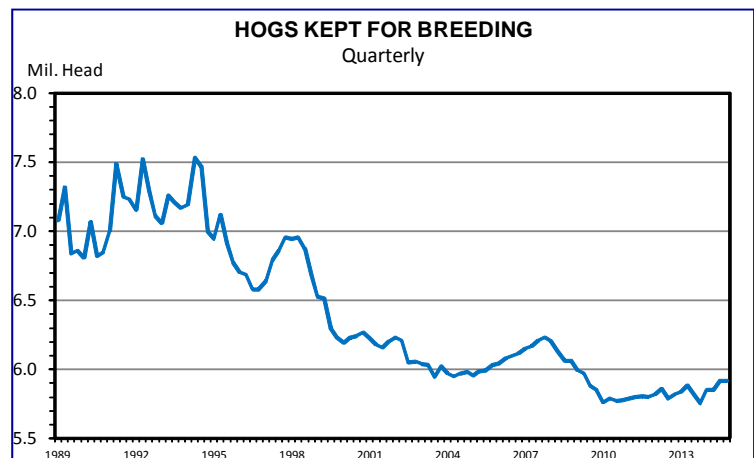
Let's look again today at last week's quarterly Hogs and Pigs report and a few implications that it has for the pork industry moving forward.

Disease is more and more a factor in supplies. Many readers may say "Well, duh." to that morsel of analysis but we offer a longer perspective than just PEDv on this one. The chart at right shows the December 1 market hog inventory back to 1990. We added the trend line to illustrate two major deviation from "normal" over the past decade. The first was sort of an "anti-disease" in that it is a HUGE positive deviation in pig numbers driven by the advent of circovirus vaccines, introduced in early 2007 and widely adopted that summer and fall. Millions of pigs that otherwise would have died made it to market weight in late 2007 and 2008. Not only was this a supply shifter, we would argue it marked a quantum increase in the level of animal well-being and welfare. Live, healthy pigs are probably better off than dead ones. The market impact was mitigated by huge exports to China in 2008. The second deviation is the more recent and widely discussed advent of PEDv. Note that last week's report puts Dec 1 market inventories higher than last year but nowhere near the long-term trend. The higher year-on-year increases for lower weight classes suggest that the improvements in these quarterly comparisons will get larger as we move through 2015. A critical issue this year is the incidence and impact of PRRS (porcine reproductive and respiratory syndrome). That disease was a constant from the early '00s through 2013. It's incidence fell by about half last year — partly because PEDv killed some pigs that would otherwise have been hit by PRRS — which helped offset some of the supply impacts of PEDv. After a scary jump in August, PRRS incidence fell back to more normal levels in September and has been very similar to last year SO FAR. The caution is that PRRS, like PEDv, is a winter disease and things could change.

Is the productivity-driven reduction in sow numbers over? The U.S. breeding herd bottomed (?) out at 5.757 million head last December. That should be a bit of a caution to us all: The Dec 1, 2014 herd is being compared to the all-time low. But apart from that caution, we need to realize that the reduction of the herd from 2007 to 2010 was driven by two major occurrences. First was the solution for circovirus discussed above. That development meant that we needed fewer breeding animals to maintain slaughter numbers. At the same time, feed costs were escalating quickly, driving costs higher and imposing significant losses on producers. Iowa State University's Estimated Costs and Returns series shows losses of \$21.54 per head in 2008 and record-high losses of \$27.11 per head in 2009. With more pig surviving and losses mounting, the industry understandably shrank. Contrast that statement with the past two years when fewer pigs were surviving and costs were falling by nearly one-fourth! It appears that the pig survival rate is improving (at least relative to last year) and that costs are stabilizing but the record-high profits of 2014 are providing plenty



Source: Livestock Marketing Information Center based on data from USDA-NASS



Source: Livestock Marketing Information Center based on data from USDA-NASS

of incentive — and cash — to drive expansion. We really thought it would take a bit longer to get to a year-on-year growth rate of 3% or more. But here we are. How much is yet to come?

What will weights do in 2015? We see no way they can stay at 2014 levels given the resurgence of the pig crop (4%) and the inventory of light-weight pigs. One reason for heavier hogs last year was that producers had enough space to feed them longer. While some new finishing space has been built, this many more pigs will eventually fill barns up and require hogs to be marketed at slightly younger ages — and lighter weights — than last year. Feed costs will still provide a strong incentive to make hogs heavy but there simply will not be enough space to get that done. We don't expect a return to anything close to 2013 weights but we do think total output will increase by a smaller amount than will slaughter in 2015.



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