

Daily Livestock Report

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One call that analysts must make from time to time is whether a particular USDA report is, in fact, accurate and, if not, how inaccurate might it be and how might the inaccuracy impact supplies, demands and thus prices. That statement is meant in no way to put down the people at USDA that work very hard to get these reports right. There are myriad things that can happen to make even their best efforts look bad. Virtually all reports are based on statistical samples that can, in some cases, yield results that are not completely indicative of the population as a whole. In addition, many USDA reports are a snapshot in time from which we imply subsequent product flows and there are many, many conditions that can impact the relationship between a stock variable and a flow variable. The current situation with hog slaughter and the December Hogs and Pigs Report is a great example.

The chart at right is Steve Meyer's effort to use the Hogs and Pigs inventory report to forecast weekly slaughter. It simply uses last year's slaughter level, the predicted year-on-year percentage changes for market pig inventories, farrowings (a "farrowing" is a litter being born), farrowing intentions and litter size and adjustments for changes in known supply factors such as pig and market hog imports from Canada and pig performance. The best example of the last factor is the adjustments needed in late 2007 and 2008 to account for improved pig survival and performance due to the control of porcine circovirus associated disease (PCVAD). The chart above does not include any adjustment for pig performance but the PCVAD adjustment represents the kind of industry knowledge factor that can be very important from time to time.

The most important performance variable relating pig stocks to slaughter is, of course, the growth rate of pigs or, more specifically, the actual growth rate relative to some long-term norm used to make a forecast. Any factor that causes pigs to grow faster or slower will impact the number of animals reaching market during a given time frame to some degree. We say "to some degree" because much of the modern U.S. pig production sector is time dimensioned: The slowest-growing pigs in a given farrowing group must be gone after 25 or 26 weeks because there is another group of pigs that must be moved into that particular finishing barn. So, while weight determines the marketing date for some pigs, many pigs move on a schedule and not necessarily a weight thus making average carcass weights an important factor in judging whether actual slaughter compares well with the slaughter levels predicted by a given report. Last summer's very high slaughter weights reflected excellent performance due to cool temperatures and time-dimensioned marketings — when "shipping day" came, the pigs were heavy. Market weights were sharply lower in December reflecting, we think, poor performance due to lower-than-expected corn quality and, in some instances, out-of-feed events due to weather-related feed transport challenges. Those lower weights were a surprise to some producers who were, as a matter of normal operations, selling hogs on a schedule. Weights returned to year-earlier levels in January but slaughter was far below the predicted levels. Was that due to slower growing pigs being held longer in order to achieve desired market weights? Or was it due to the nearly constant transportation challenges encountered this winter? Or was it due to an "overcount" of pigs in the December Hogs and Pigs report, meaning that the Predicted '10 line in the chart above is wrong?

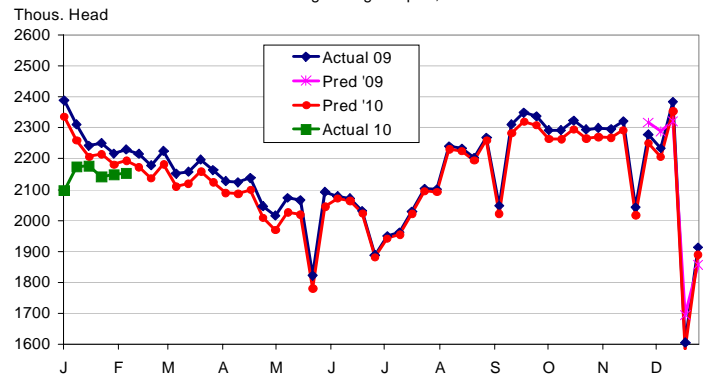
Answering those questions demands a large dose of judgment, to say the least. The December Hogs and Pigs report indicated that, from December 1 through February 13, U.S. hog slaughter "should" have been 2% lower than last year. Actual slaughter has been 4.3% lower. Those numbers for December alone are: -2.2% predicted vs. -2.8% actual. For January 1 through February 13 they are -1.8% predicted vs. -5.5% actual. So, the lion's share of the deviation has been since January 1 — but so have the lion's share of the transportation issues and the impact, if any, of producers delaying marketings in order to get pigs to more desired weights.

Both of those arguments imply that the pigs will show up eventually and actual slaughter has indeed been closer to predicted levels in recent weeks. But "the pigs are coming eventually" implies that actual slaughter will at some point have to catch up to predicted levels UNLESS the corn quality issue has a lasting impact on growth rates — which it might. The mold and toxin problems encountered in the eastern Cornbelt will probably get worse as time passes and, more important, temperatures rise. And those fears are not confined to the east since a good portion of corn in the western Cornbelt went into bins with moisture levels on the high side of the comfort range. The condition of that corn can be maintained but doing so will, in many cases, take good management. And low test weight-starch density-nutrient content corn will not get any better with time.

Thus, the economist's pat answer of "IT DEPEND!" applies to this issue in spades. Making the call boils down to getting the best information possible, learning the specifics of industry operations and decision-making, doing good analysis and applying good judgment. Nothing is easy.

FI HOG SLAUGHTER, WEEKLY

Based on USDA Hogs & Pigs Report, December '09



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