Commentary on December 23, 2011 USDA Hogs and Pigs Report

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				Sep-Nov		
State	Breeding	Market	Total	Pig crop	Sows farrowing	Pigs/litter
	000 hd					
Iowa	1010	18080	19800	4992	480	10.40
N Carolina	850	7950	8800	4406	445	9.90
Minnesota	560	7240	7800	2987	290	10.30
Illinois	480	3920	4600	2475	250	9.90
Indiana	300	3360	3850	1418	150	9.45
Nebraska	385	2765	3150	1872	180	10.40
Missouri	355	2395	2750	1952	185	10.55
Oklahoma	410	1880	2290	1795	185	9.70
Ohio	170	1960	2130	892	91	9.80
Kansas	170	1650	1890	783	87	9.00
S Dakota	170	1220	1390	926	89	10.40
Pennsylvania	100	1020	1120	495	50	9.90
Michigan	110	930	1040	520	52	10.00
US	5803	60128	65931	29014	2894	10.02

Productivity increases continue to be the norm for US producers. The US breeding herd on December 1 was up 25,000 head from December 1, 2010, while the kept for market inventory was increased by 981,000 head. A very small part of this increase could be due to the lingering impact of the summer heat on pig performance. Another cause of the increase in market pig inventory is the continued increase in slaughter weights.

Many market observers are keenly pouring over this report for signs of expansion. With a year to year difference of only 25,000 head in the breeding herd, the report hasn't picked up any growth of the US breeding herd. However, one area of growth is the need for new and replacement wean-finish facilities. In discussions with builders and producers in the Midwest region, there will be a large amount of new wean-finish, nursery and finisher construction this summer, even if the sow herd doesn't grow.

Some have asked me 'why do we need more finishing space if we aren't growing the sow herd?'. Of course, some of the need is coming from improved productivity, even if we aren't importing any more Canadian weaned pigs. The bigger reason for the increase in construction activity is the fact that facilities continue to age.

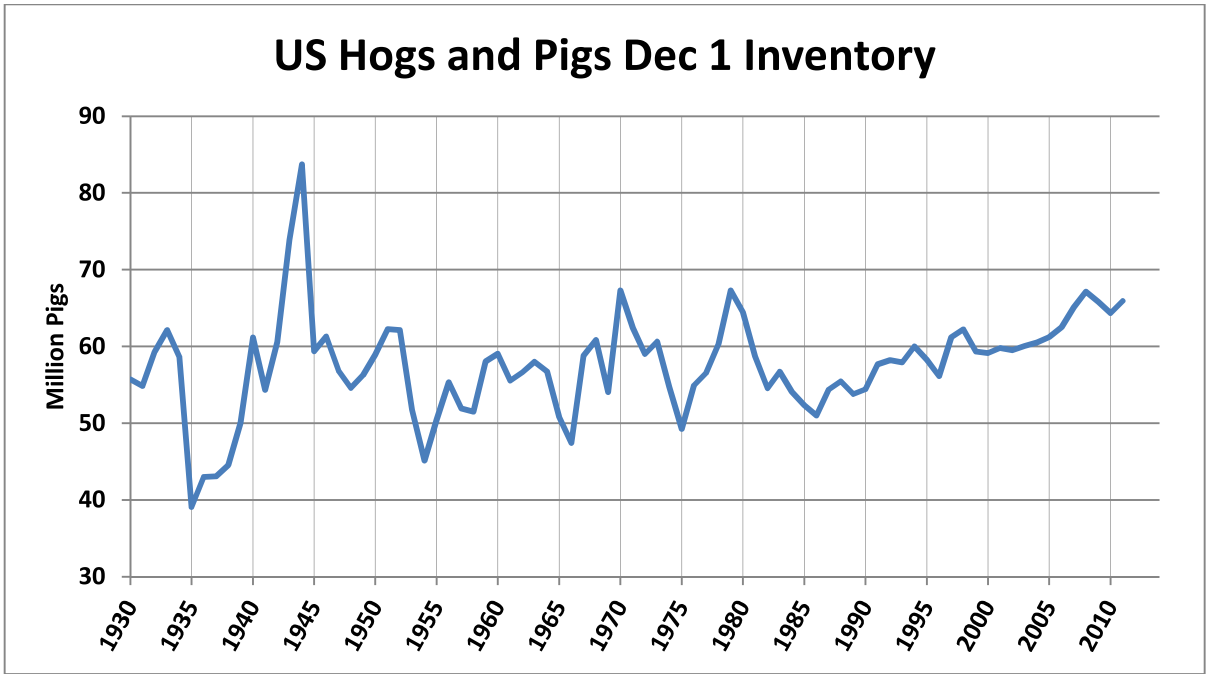
One way to explain the aging of facilities is to bear in mind that typical swine facilities have a useful life of approximately 30 years. By this time the feeders and feed system have been replaced at least 1 or more times, gating has been repaired and/or replaced and maybe even the roof steel has been replaced/repaired. By 30 years of age, the concrete slats are going bad, there may be structural damage to the building shell, etc.

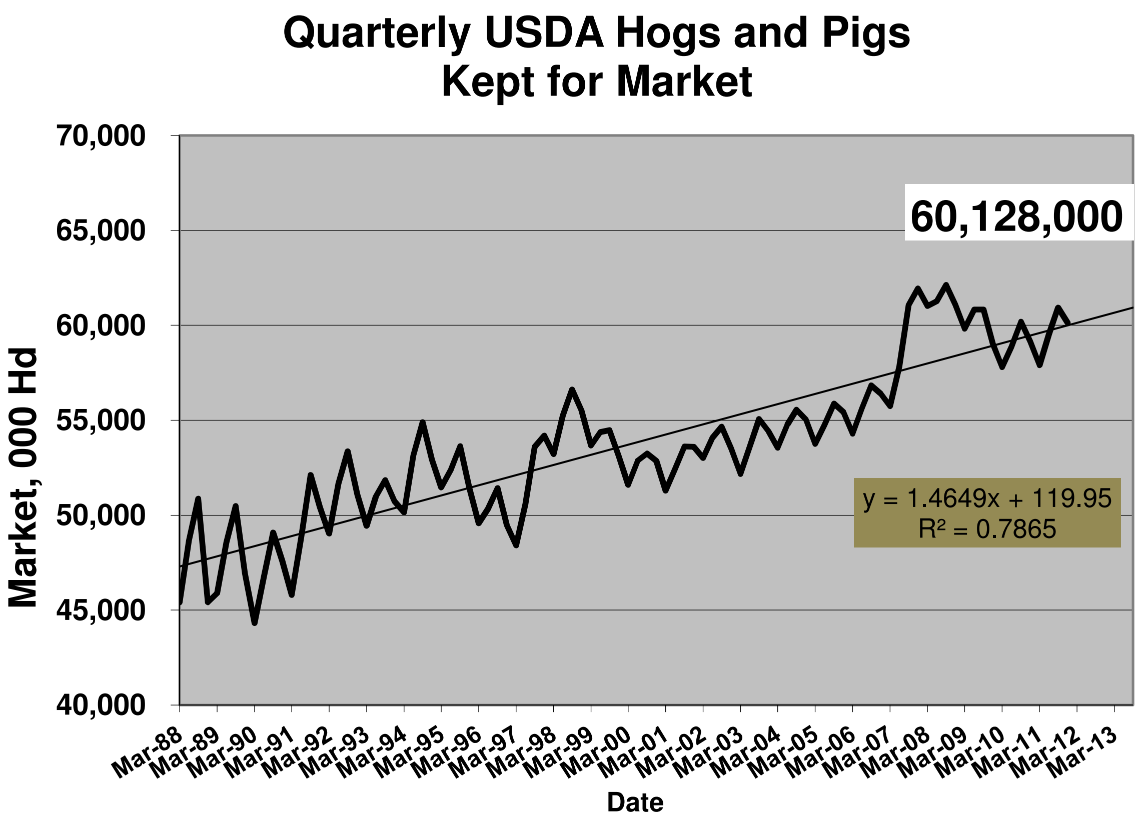
With an approximate wean-finish inventory of 60 million pigs (it was 60.128 million on December 1), this means long term the industry must construct 2 million new or replacement spaces per year. Facility construction is not done every year, but rather has a cyclic nature associated with years of profit and/or anticipated profit. Two million pig spaces translate into 800 2500-hd sites/facilities if all of the new facilities were wean-finish spaces. For the past several years, there has been limited new construction so a pent-up demand is emerging.

While it doesn't seem so long ago to many of us working in the industry, barns being constructed today are replacing the first wave of confinement facilities that were constructed in the late 1970's and early 1980's in addition to providing space for the increase in pig numbers associated with improved productivity, etc.

Another driving force for new facilities is the desire by successful grain farmers for access to manure. With the ethanol boom leading many corn producers to switch to more corn-on-corn, the demand for manure is increasing as research reports and producer experiences document the value of manure in this type of cropping system versus using only inorganic fertilizer resources. Both builders and production companies tell me that they are receiving calls from corn producers wanting to invest in and own production facilities because of the manure.

As evidenced by the spot market price this past week for weaned pigs ($63 top and $56.22/hd average price as reported by USDA), producers are optimistic about the summer market. There is no evidence in this report of expansion plans that will impact pig numbers for some time. If the sow herd expands this summer, the first pigs from the expansion won't hit the market until the late summer of 2013 at the earliest. December and January matings result in market pigs in October and November. This USDA report suggests only a modest increase in pig numbers next fall. However, total pork meat available will continue to climb because of the continued improvements in reproductive efficiency and increases in sale weights.


US Hogs and Pigs Dec 1 Inventory
Million Pigs
90
80
70
60
50
40
30
1930
1935
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010


Quarterly USDA Hogs and Pigs
Kept for Market
60,128,000
y = 1.4649x + 119.95
R² = 0.7865
Market, 000 Hd
70,000
65,000
60,000
55,000
50,000
45,000
40,000
Mar-88
Mar-89
Mar-90
Mar-91
Mar-92
Mar-93
Mar-94
Mar-95
Mar-96
Mar-97
Mar-98
Mar-99
Mar-00
Mar-01
Mar-02
Mar-03
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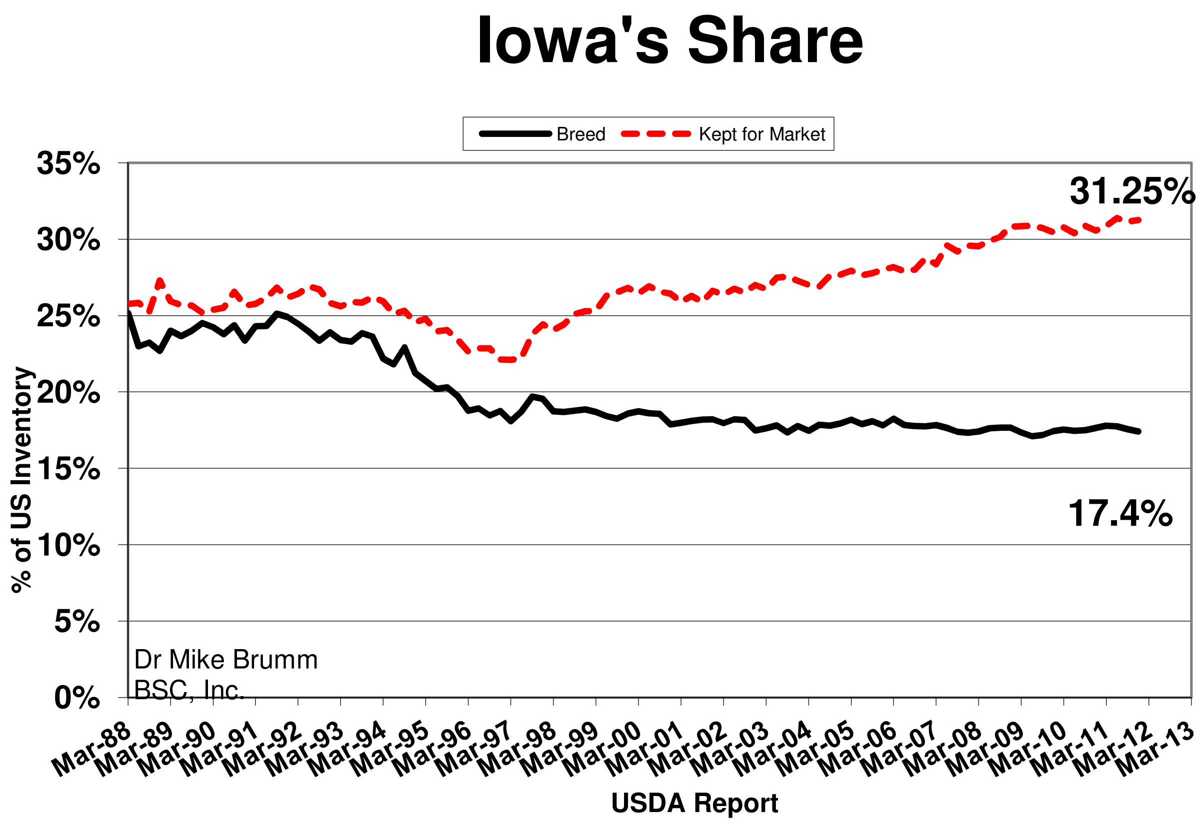
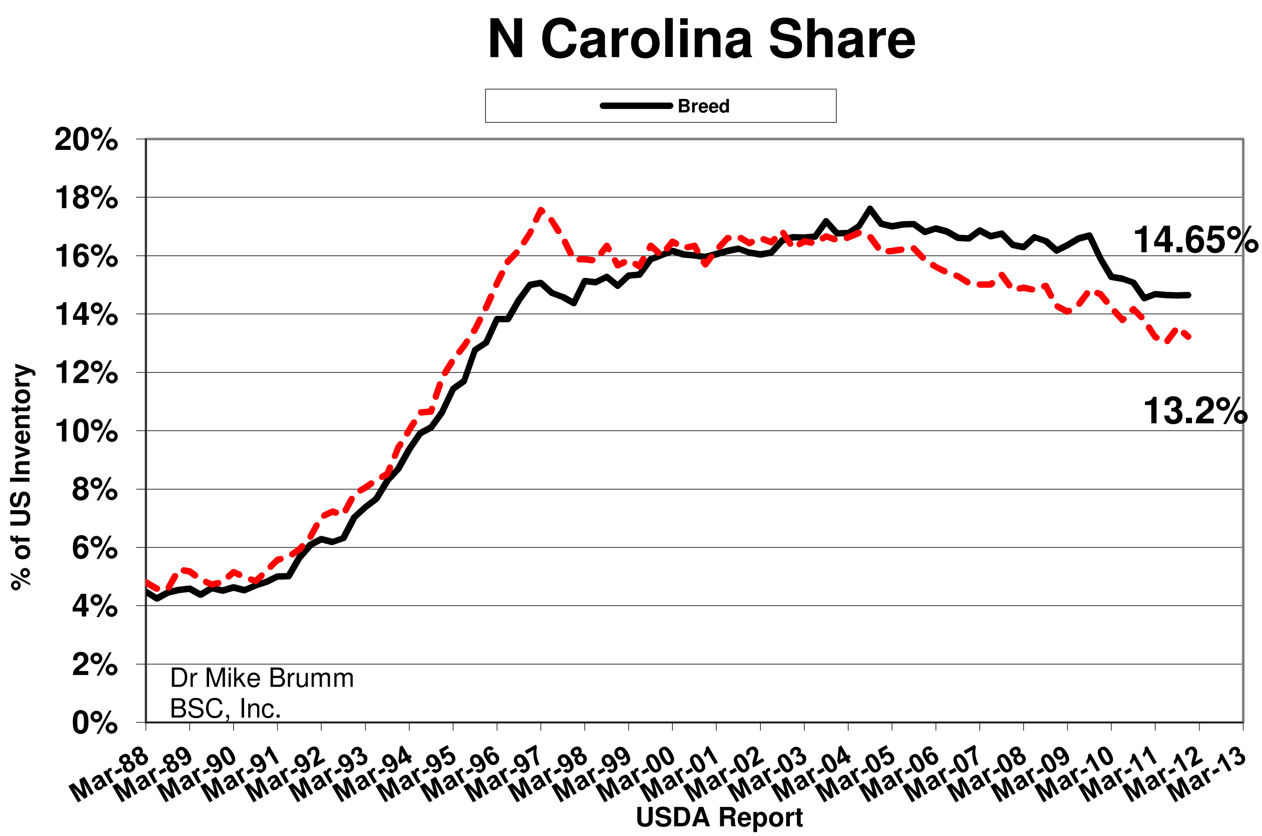
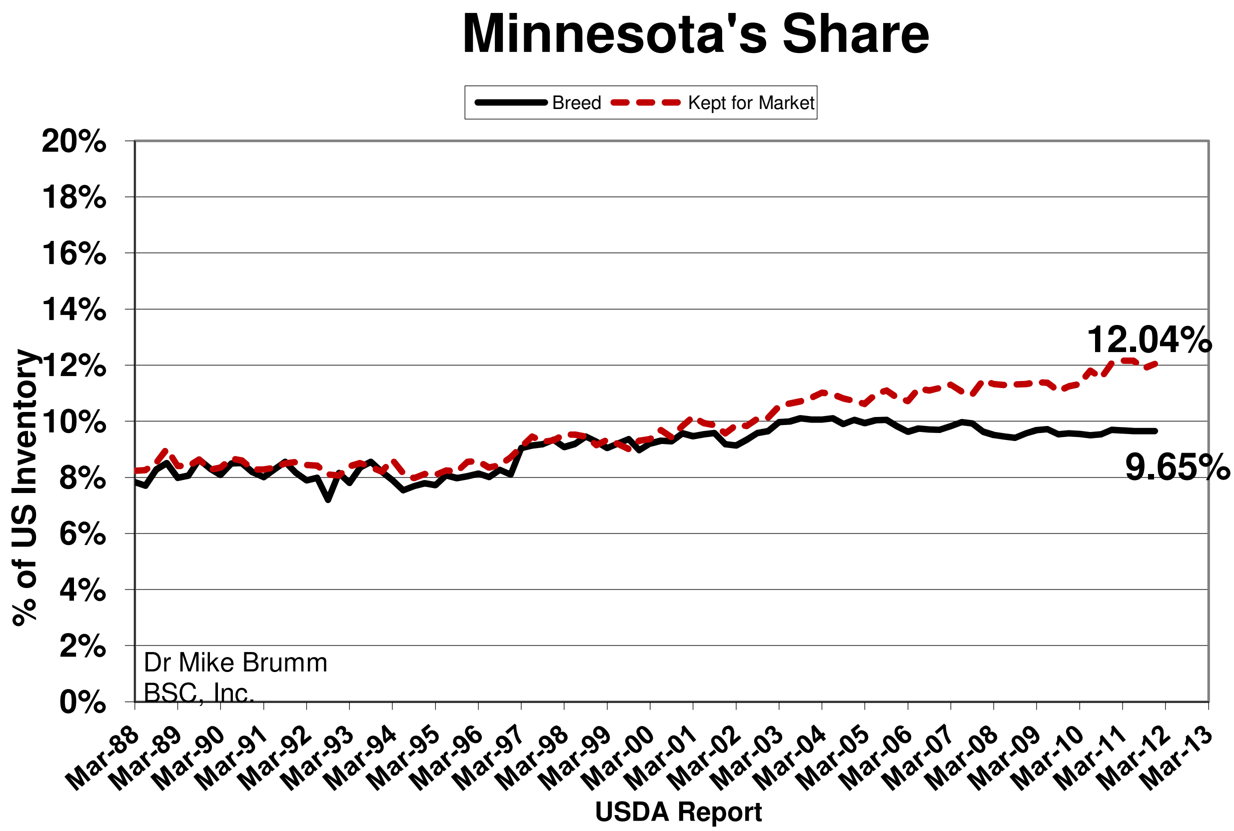
Mar-11
Mar-12
Mar-13
Date


Iowa's Share
Breed
Kept for Market
35%
30%
25%
20%
15%
10%
5%
0%
% of US Inventory
31.25%
17.4%
Dr Mike Brumm
BSC, Inc.
Mar-88 Mar-89 Mar-90 Mar-91 Mar-92 Mar-93 Mar-94 Mar-95 Mar-96 Mar-97 Mar-98 Mar-99 Mar-00 Mar-01 Mar-02 Mar-03 Mar-04 Mar-05 Mar-06 Mar-07 Mar-08 Mar-09 Mar-10 Mar-11 Mar-12 Mar-13
USDA Report


N Carolina Share
Breed
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
% of US Inventory
14.65%
13.2%
Dr Mike Brumm
BSC, Inc.
Mar-88 Mar-89 Mar-90 Mar-91 Mar-92 Mar-93 Mar-94 Mar-95 Mar-96 Mar-97 Mar-98 Mar-99 Mar-00 Mar-01 Mar-02 Mar-03 Mar-04 Mar-05 Mar-06 Mar-07 Mar-08 Mar-09 Mar-10 Mar-11 Mar-12 Mar-13
USDA Report


Minnesota's Share
Breed
Kept for Market
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
% of US Inventory
12.04%
9.65%
Dr Mike Brumm
BSC, Inc.
Mar-88
Mar-89
Mar-90
Mar-91
Mar-92
Mar-93
Mar-94
Mar-95
Mar-96
Mar-97
Mar-98
Mar-99
Mar-00
Mar-01
Mar-02
Mar-03
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Mar-05
Mar-06
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Mar-11
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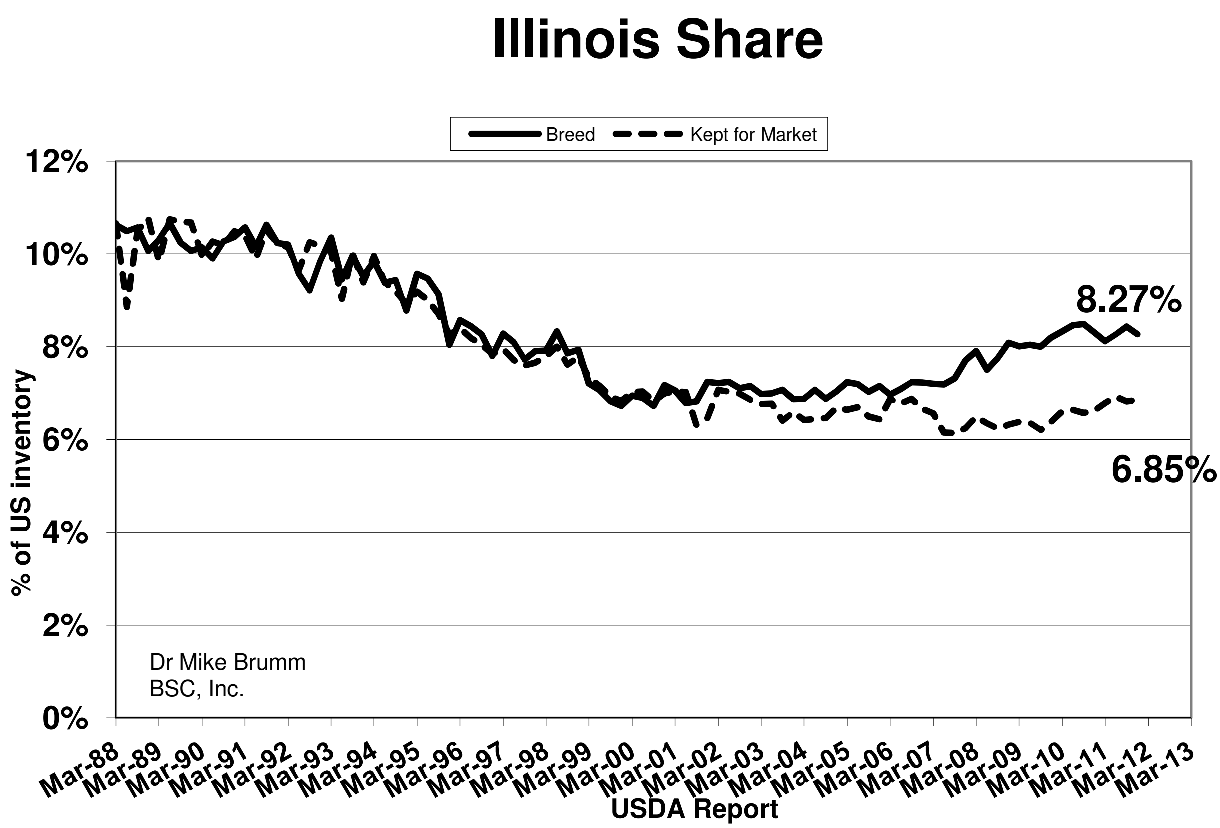
Mar-13
USDA Report


Illinois Share
Breed
Kept for Market
12%
10%
8%
6%
4%
2%
0%
% of US inventory
8.27%
6.85%
Dr Mike Brumm
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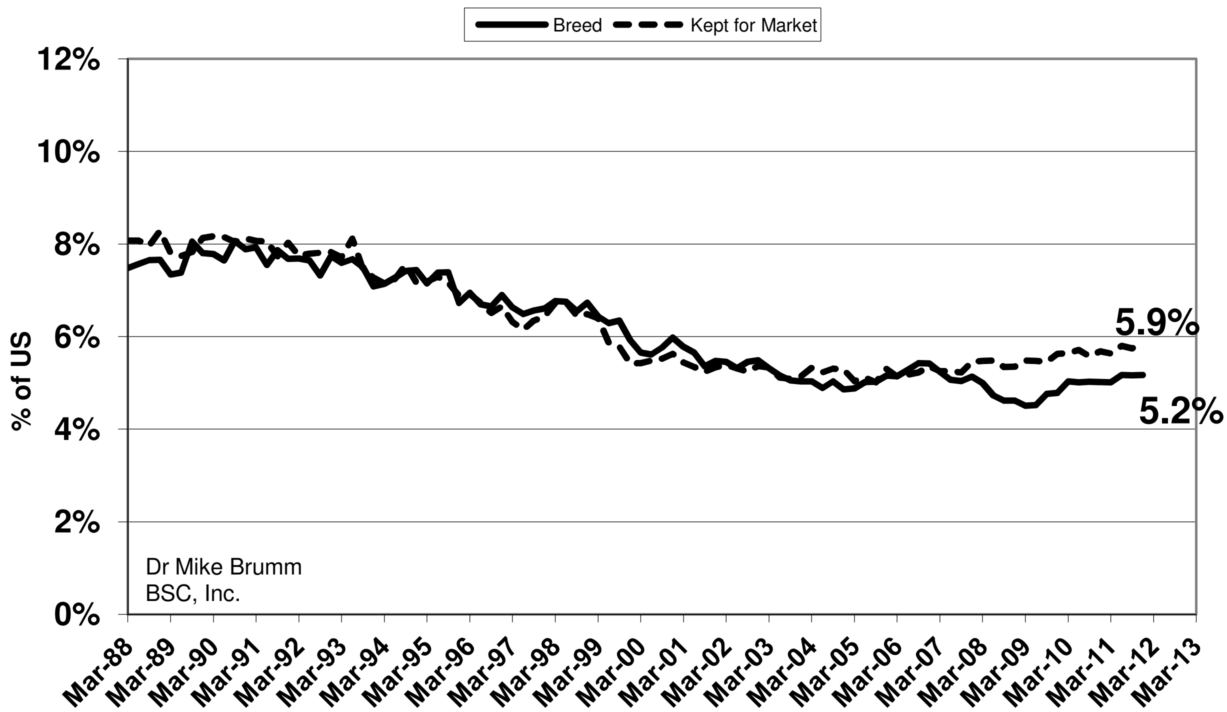
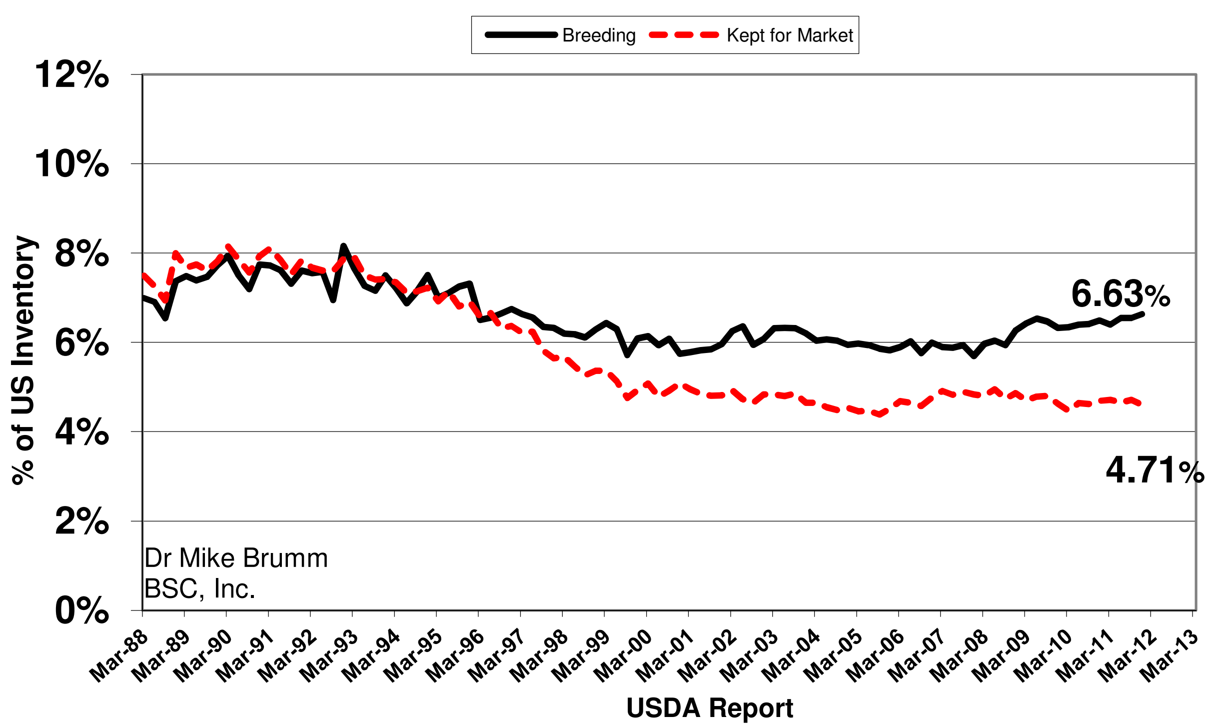
Mar-88
Mar-89
Mar-90
Mar-91
Mar-92
Mar-93
Mar-94
Mar-95
Mar-96
Mar-97
Mar-98
Mar-99
Mar-00
Mar-01
Mar-02
Mar-03
Mar-04
Mar-05
Mar-06
Mar-07
Mar-08
Mar-09
Mar-10
Mar-11
Mar-12
Mar-13
USDA Report

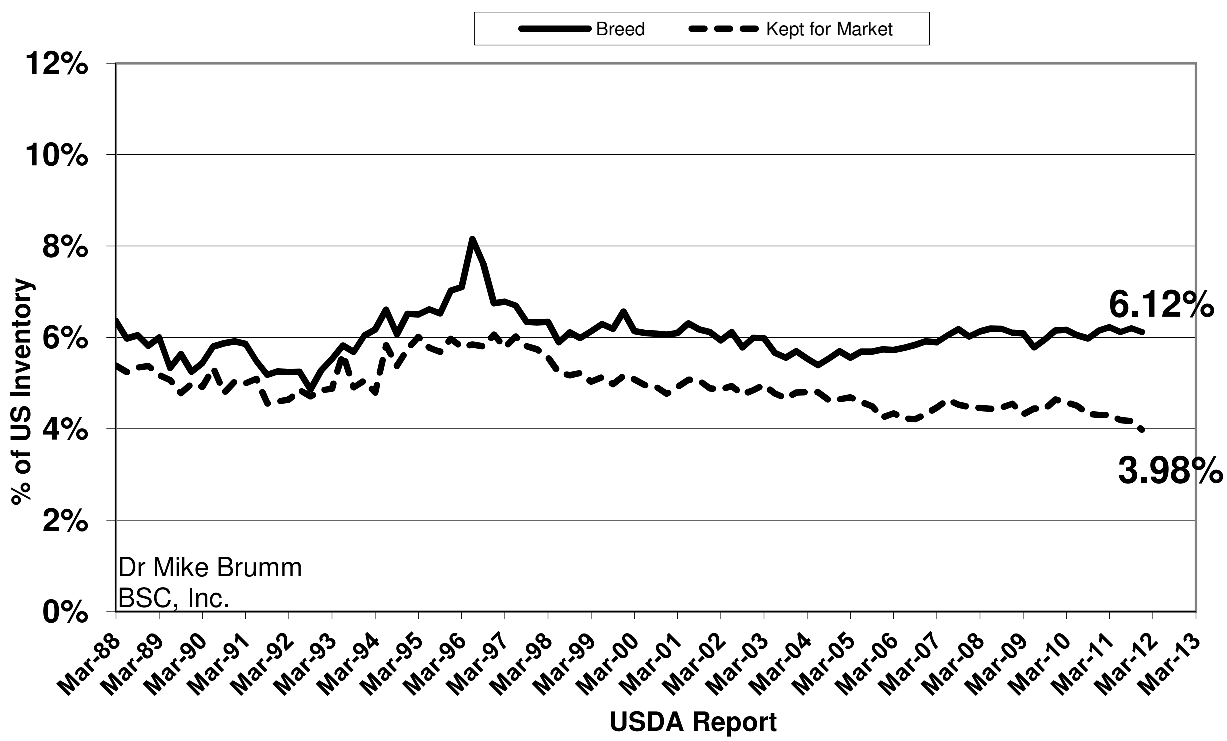
Indiana Share



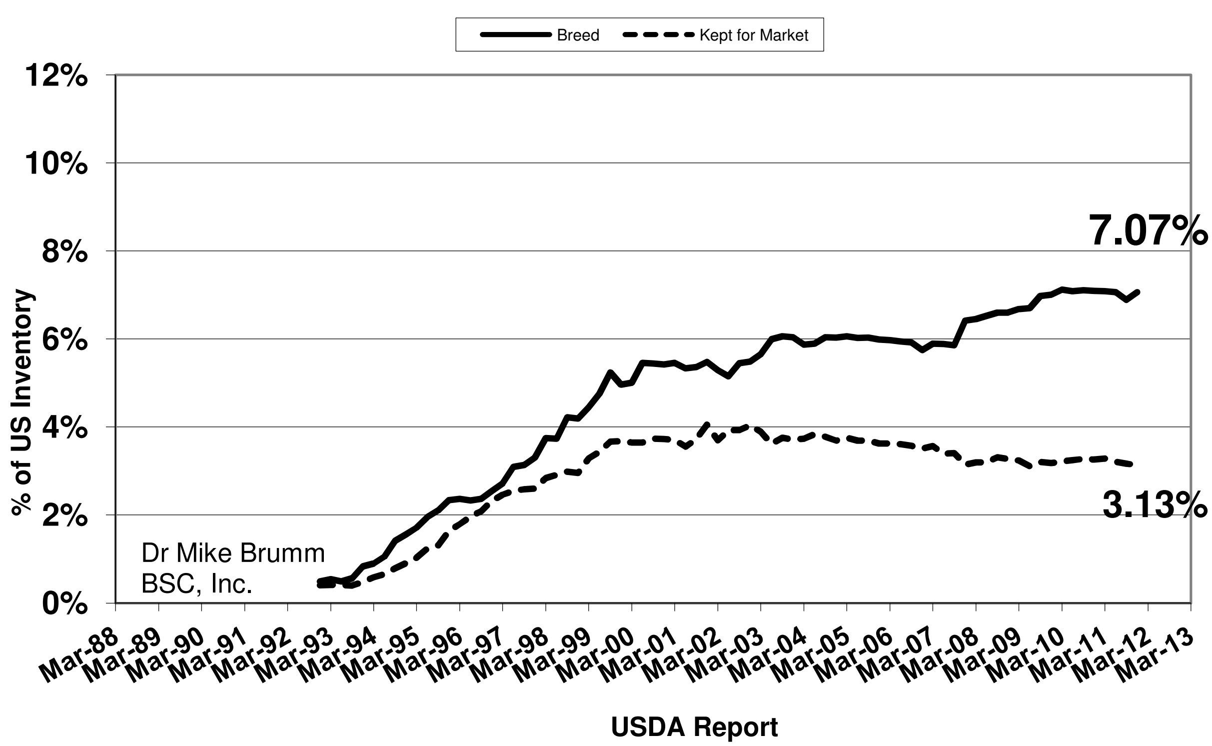
Nebraska's Share



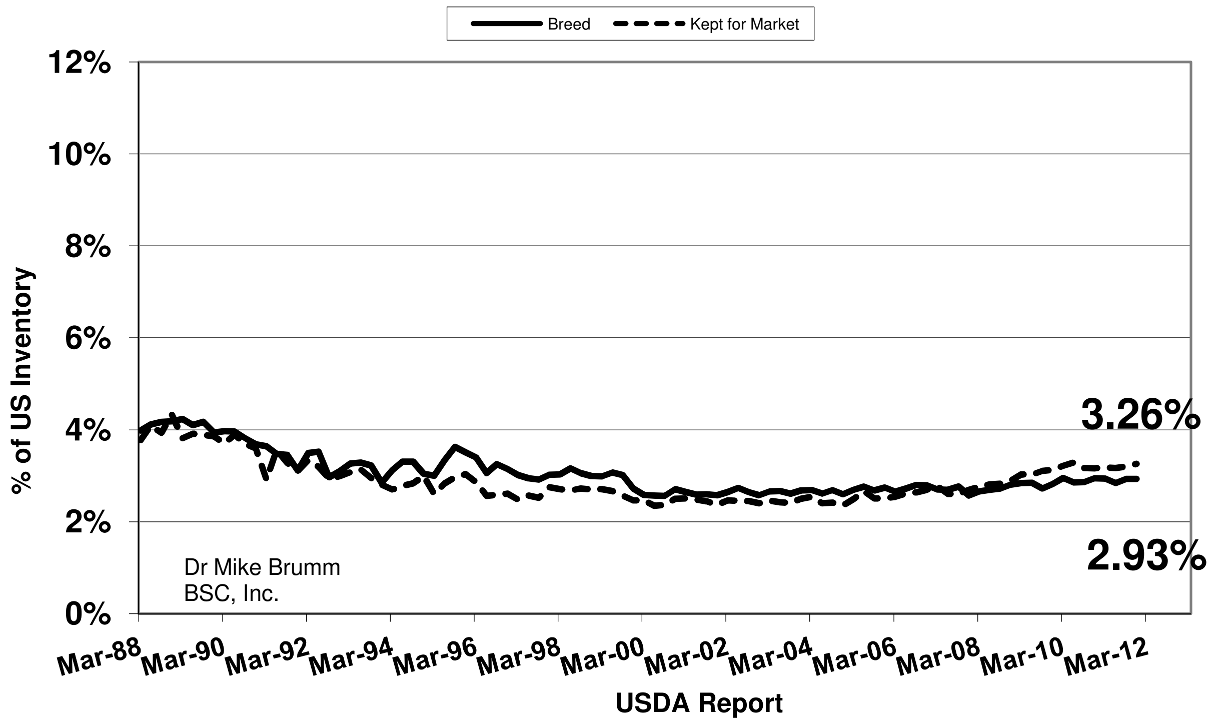
Missouri Share



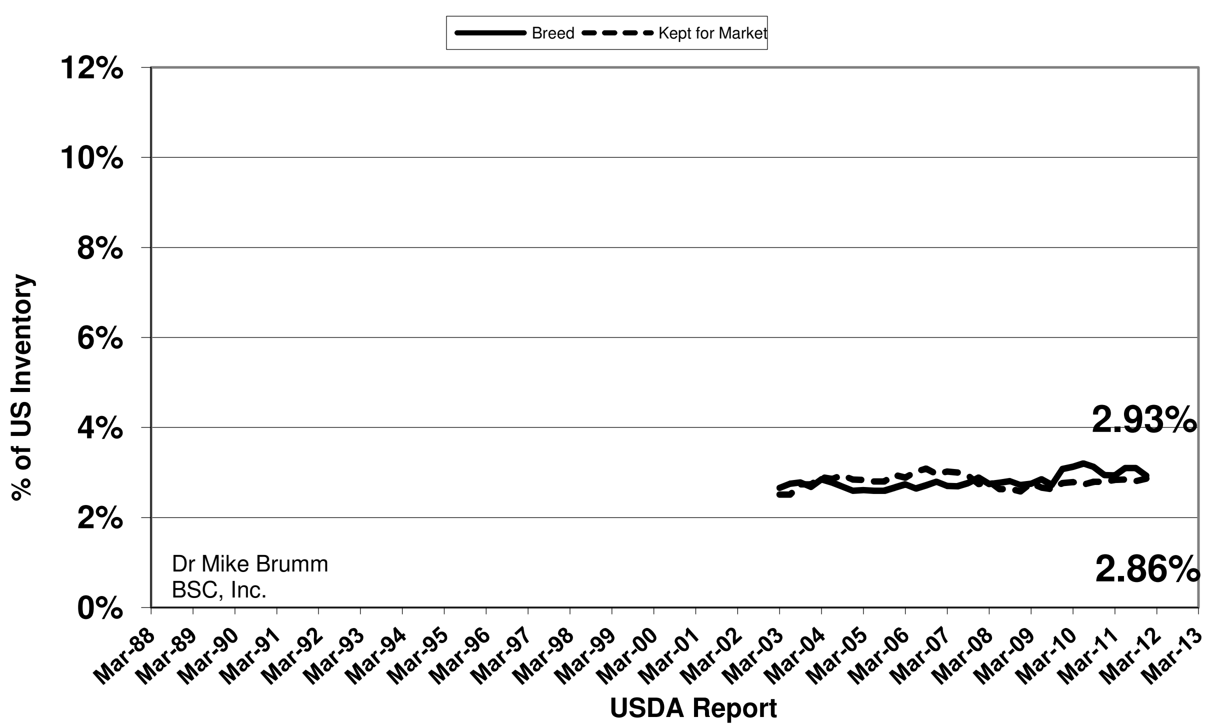
Oklahoma Share



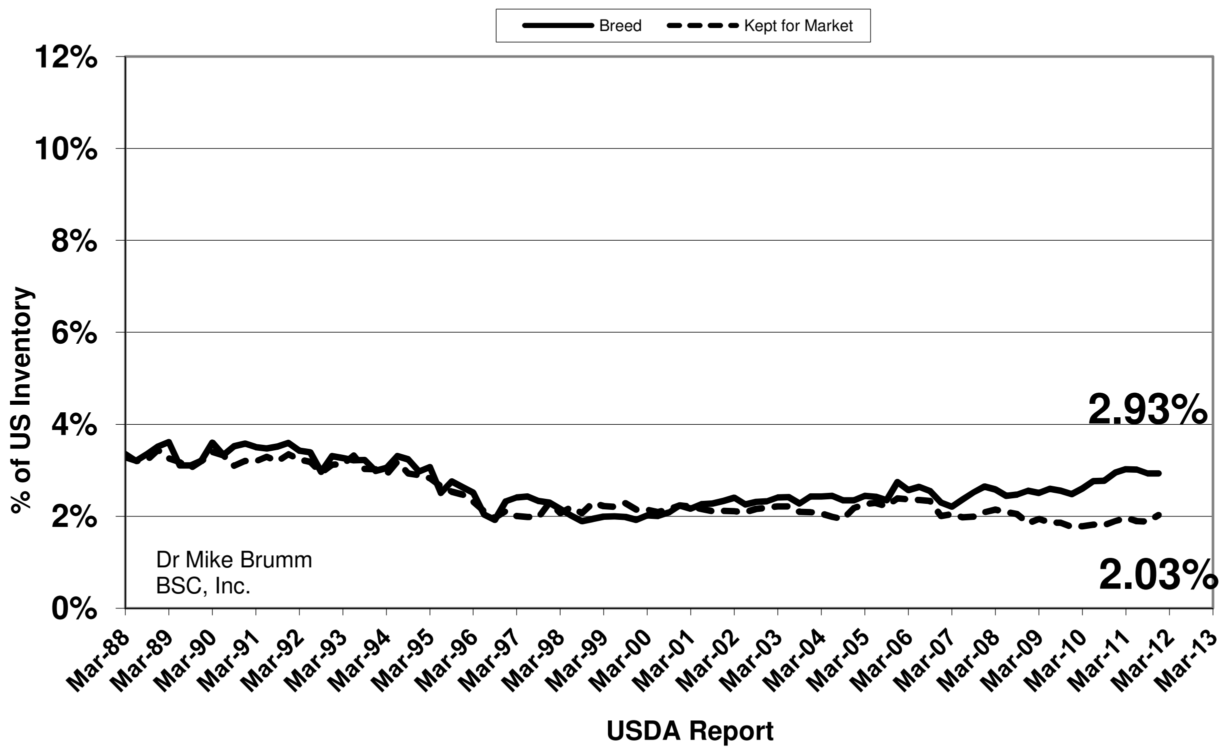
Ohio's Swine Industry



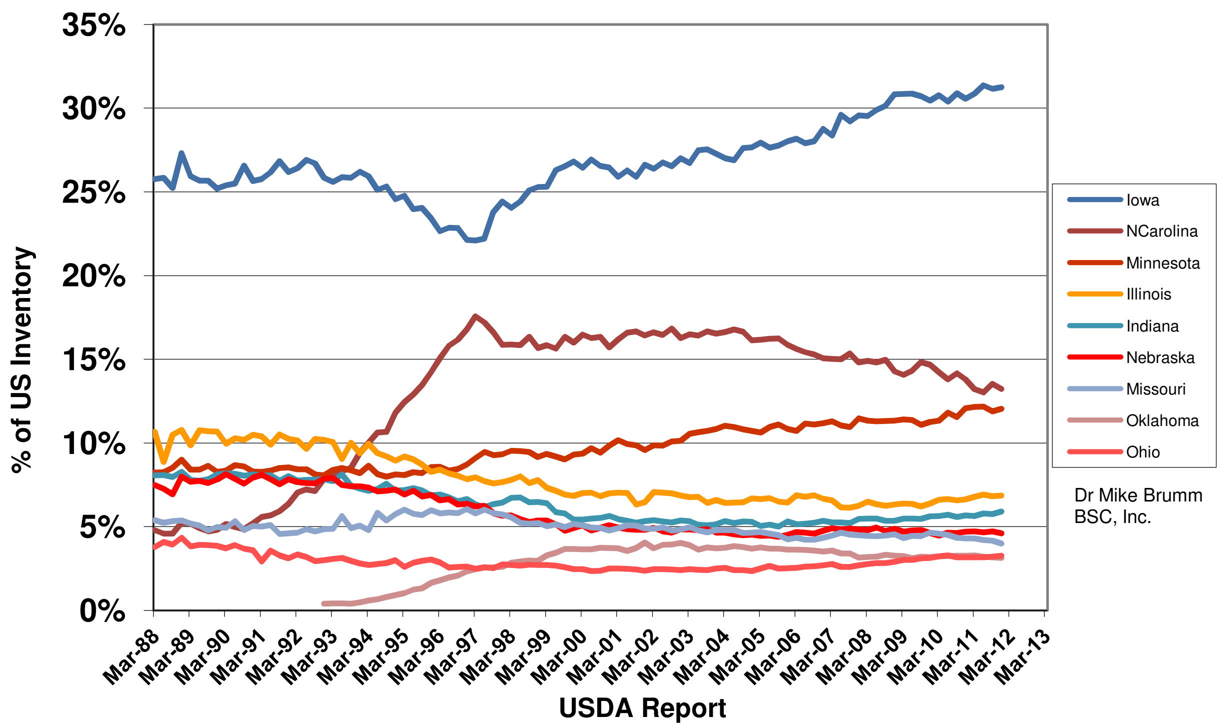
Kansas's Swine Industry

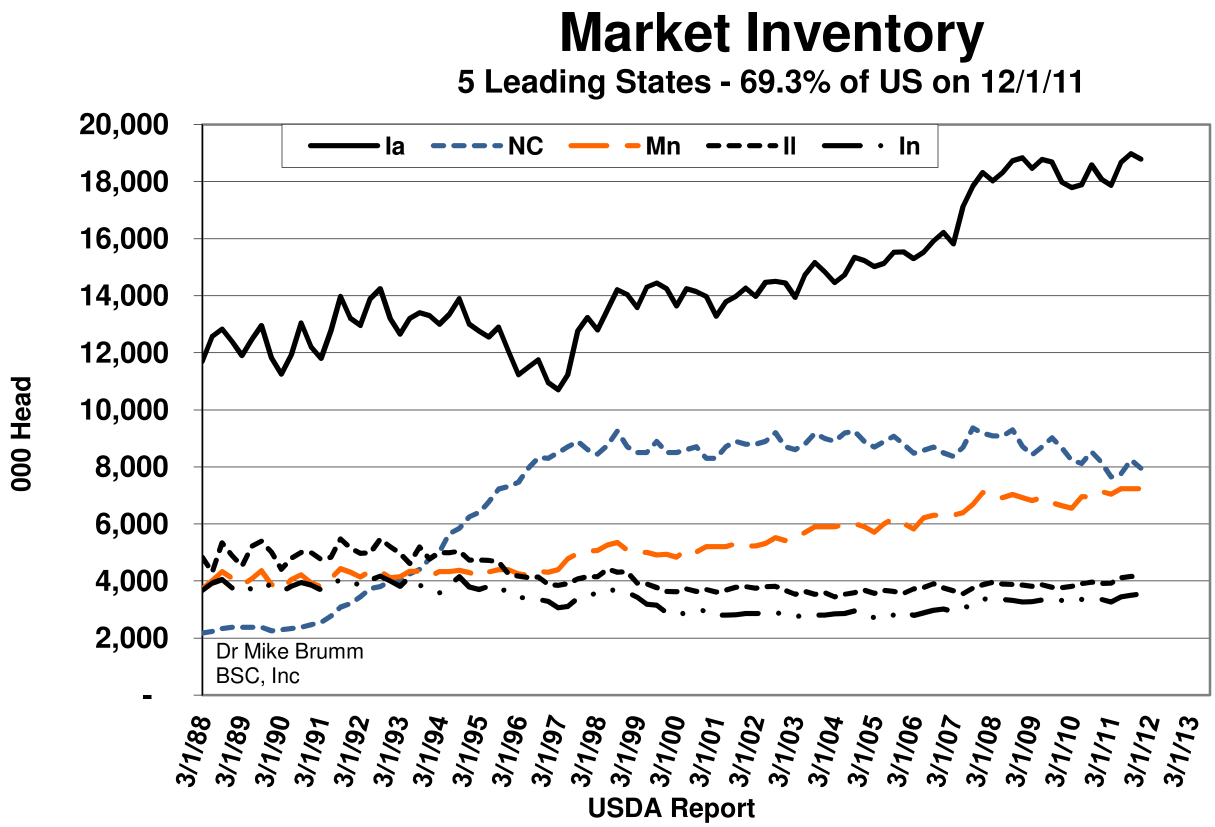


South Dakota's Swine Industry



Where is the market pig inventory?




Market Inventory
5 Leading States - 69.3% of US on 12/1/11
Ia
NC
Mn
Il
In
000 Head
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
Dr Mike Brumm
BSC, Inc
3/1/88
3/1/89
3/1/90
3/1/91
3/1/92
3/1/93
3/1/94
3/1/95
3/1/96
3/1/97
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3/1/02
3/1/03
3/1/04
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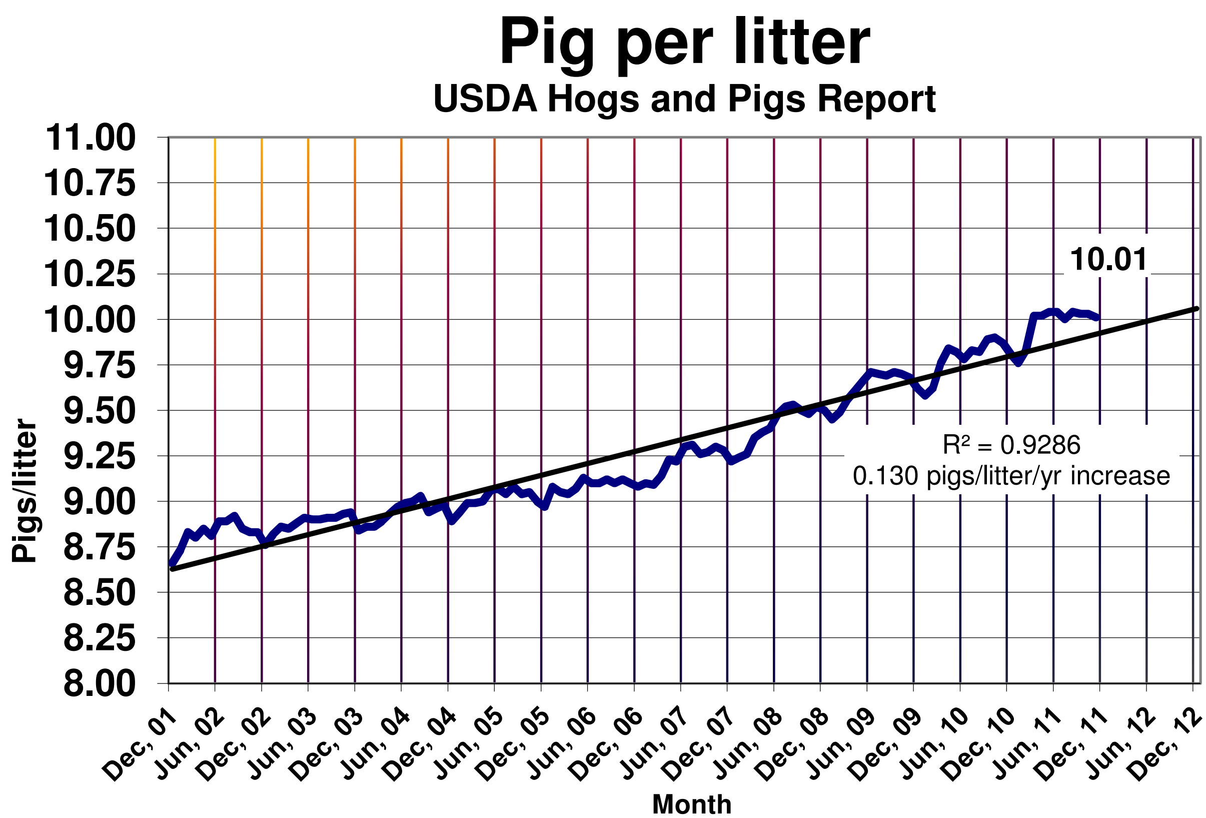
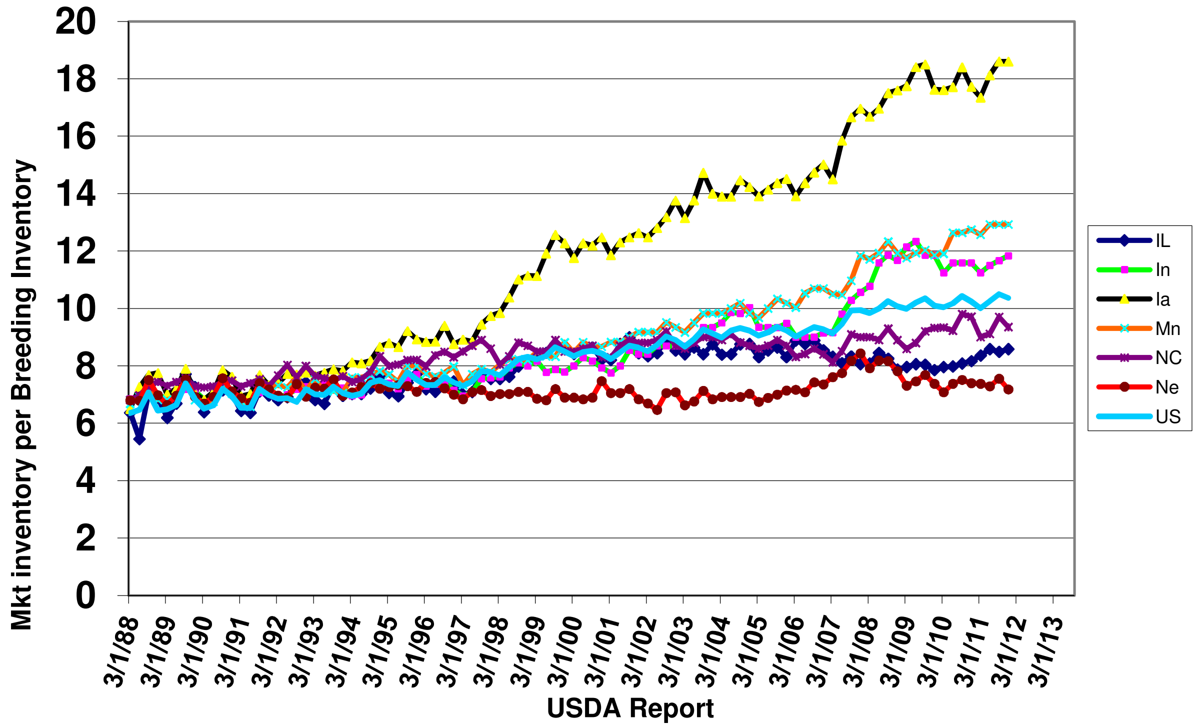
3/1/08
3/1/09
3/1/10
3/1/11
3/1/12
3/1/13
USDA Report

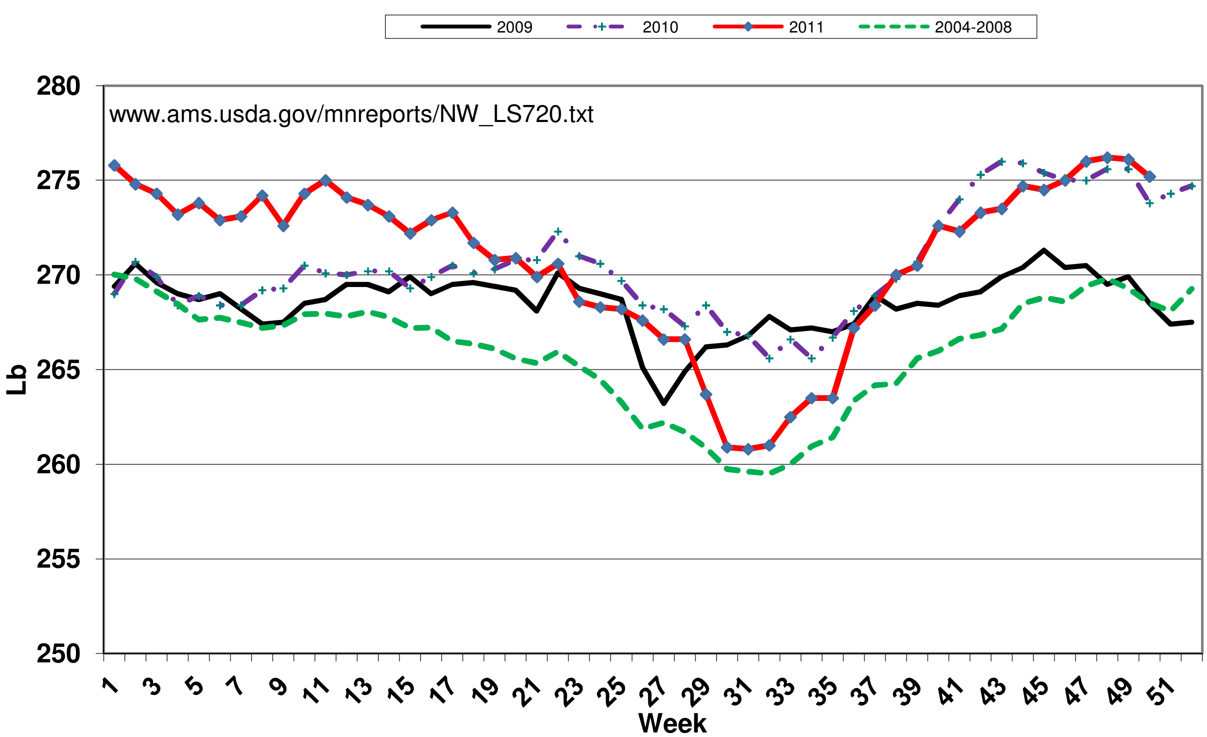

Pig per litter
USDA Hogs and Pigs Report
Pigs/litter
11.00
10.75
10.50
10.25
10.00
9.75
9.50
9.25
9.00
8.75
8.50
8.25
8.00
10.01
R² = 0.9286
0.130 pigs/litter/yr increase
Dec, 01
Jun, 02
Dec, 02
Jun, 03
Dec, 03
Jun, 04
Dec, 04
Jun, 05
Dec, 05
Jun, 06
Dec, 06
Jun, 07
Dec, 07
Jun, 08
Dec, 08
Jun, 09
Dec, 09
Jun, 10
Dec, 10
Jun, 11
Dec, 11
Jun, 12
Dec, 12
Month

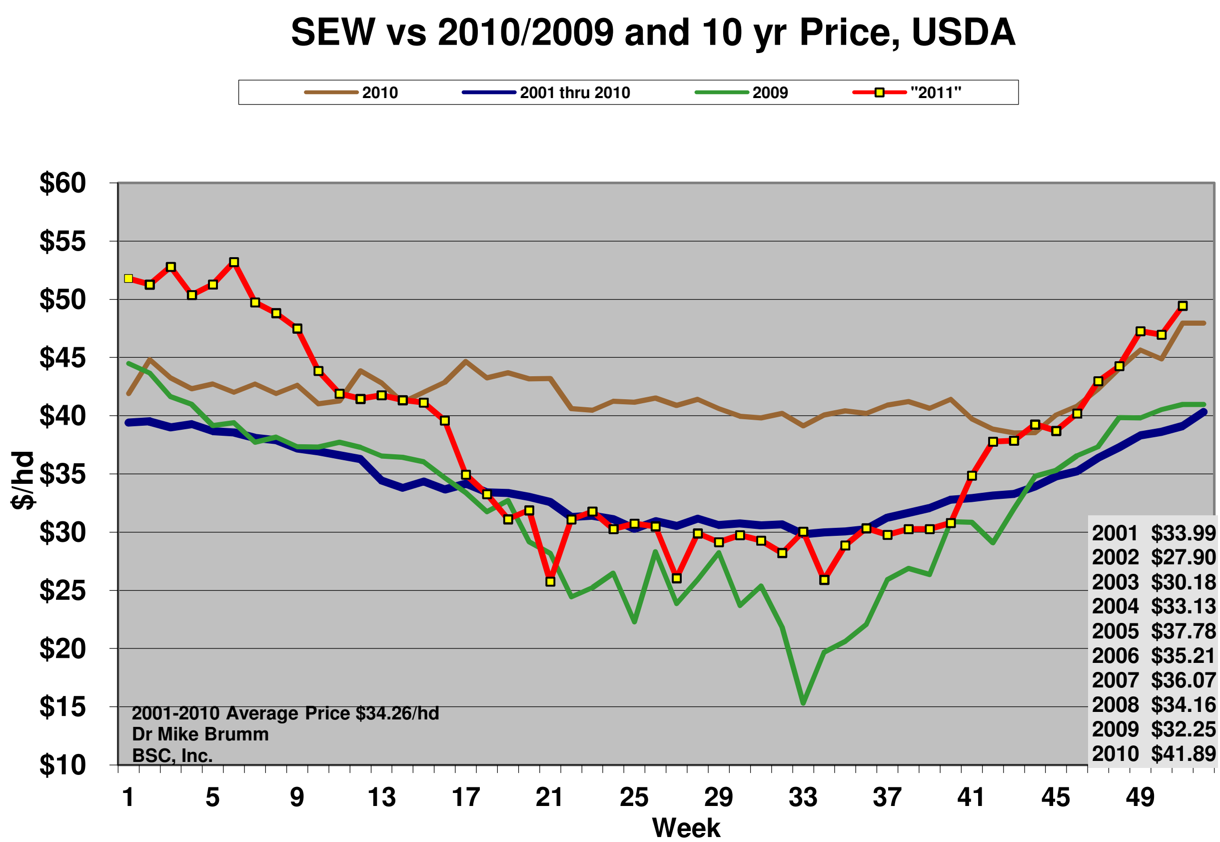
Market inventory per breeding inventory

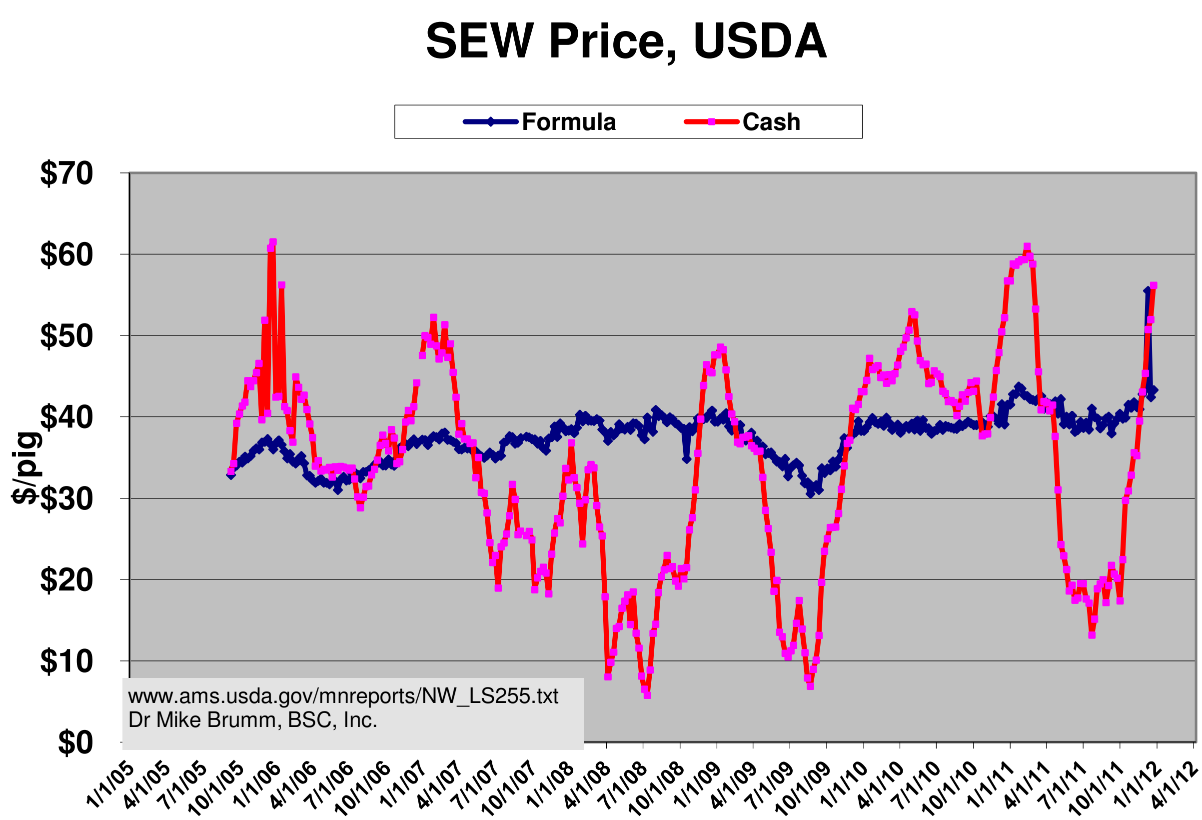
top 6 states in total inventory - 12/1/11



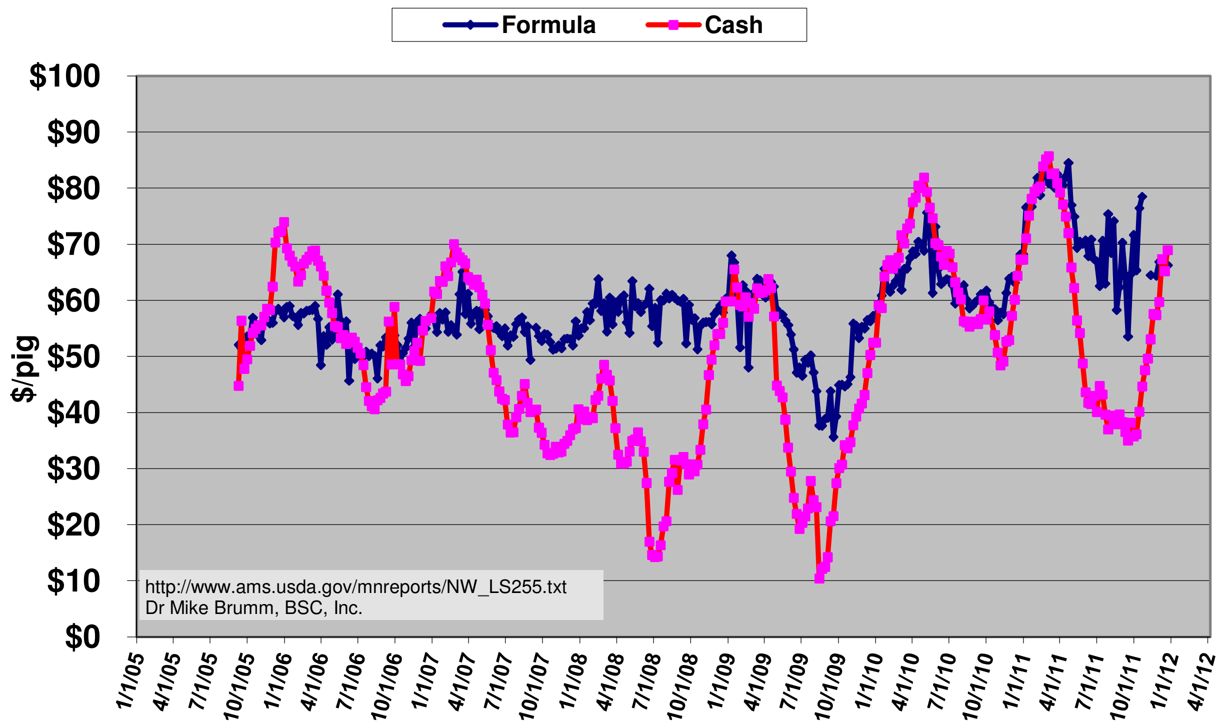
IA-SMN Liveweight at Slaughter




SEW vs 2010/2009 and 10 yr Price, USDA
2010
2001 thru 2010
2009
"2011"
$60
$55
$50
$45
$40
$35
$30
$25
$20
$15
$10
$/hd
2001-2010 Average Price $34.26/hd
Dr Mike Brumm
BSC, Inc.
2001 $33.99
2002 $27.90
2003 $30.18
2004 $33.13
2005 $37.78
2006 $35.21
2007 $36.07
2008 $34.16
2009 $32.25
2010 $41.89
1
5
9
13
17
21
25
29
33
37
41
45
49
Week


SEW Price, USDA
Formula
Cash
$70
$60
$50
$40
$30
$20
$10
$0
$/pig
www.ams.usda.gov/mnreports/NW_LS255.txt
Dr Mike Brumm, BSC, Inc.
1/1/05
4/1/05
7/1/05
10/1/05
1/1/06
4/1/06
7/1/06
10/1/06
1/1/07
4/1/07
7/1/07
10/1/07
1/1/08
4/1/08
7/1/08
10/1/08
1/1/09
4/1/09
7/1/09
10/1/09
1/1/10
4/1/10
7/1/10
10/1/10
1/1/11
4/1/11
7/1/11
10/1/11
1/1/12
4/1/12

40 Lb Feeder Pig Price, USDA



Canadian Feeder Exports to US

Pigs < 55 kg