UNIVERSITY of GUELPH
RIDGETOWN CAMPUS

ONTARIO PORK

Ontario Hog Market Information Newsletter – September 2009

By University of Guelph, Ridgetown Campus

Ontario Market Hog Prices

Ontario average prices for the week ended September 19, 2009 were up slightly when compared to the previous week and down compared to one year ago (Table 1). The pool price is up $1.11 compared to last week and down $26.30 vs. last year. The pool plus price is up $1.40 from a week ago and down $34.84 from a year ago. The average standard contract price was estimated to be $100.82, an increase of $1.56 vs. the previous week and down $41.06 compared to a year ago. Prices are about $30-$40 lower when compared to the previous four year average for the month of September. Prices continue to face downward pressure from the effects of the recession, decreased demand for North American pork exports and a strong Canadian dollar.

Table 1 Ontario Market Hog Prices

Price ($/100 kg dressed)	Week Ending Sep 19-2009	Sep 12-2009	Sep 20-2008
Standard Contract	100.82*	99.26	141.88
Pool Plus	100.44	99.04	135.28
Pool	101.84	100.73	128.14
Weighted Average	101.19*	99.46	140.78

Source: Ontario Pork.
Note: *Standard contract and weighted average prices not finalized as of September 21, 2009. Price for standard contract is the 100% Formula Price for the week ending September 19, 2009 and is used in the calculation for the weighted average price.

Ontario Hog Marketings

Ontario hog marketings were 112,307 head for the week ended September 19, 2009 (Table 2). This is an increase of 28,104 head compared to the previous week (which included a holiday) and an increase of 1,559 head vs. a year ago. The 13 week average prior to the week ending September 12 is 97,287 head. Total hog marketings for 2009 year-to-date are down approximately 8%. U.S. figures show hog marketings down 2% for 2009 year-to-date.

Table 2 Ontario Hog Marketings

Volume (head)	Week Ending Sep 19-2009	Sep 12-2009	Sep 20-2008
Contract	96,331	73,161	94,781
Pool Plus and Pool	15,976	11,042	15,967
Total	112,307	84,203	110,748

Source: Ontario Pork.

Live Pig Exports to the U.S.

Total live pig exports to the U.S. through Michigan and New York border crossings were 20,738 head for the week ending September 5, 2009 (Table 3). This is 3,362 head lower compared to the previous week and 4,015 less than a year ago. Trends for 2009 year-to-date show that feeder pig exports are down 18% while slaughter hog exports are down 66%. The impact of the U.S. Country of Origin Labeling requirements continues to be a major factor in this decline. Year-to-date cull sow/boar exports are up 50,757 head (or 34%) compared to a year ago.

Table 3 Live Pig Exports through Michigan and New York Border Crossings

Volume (head)	Week Ending Sep 5-2009	Aug 29-2009	Sep 6-2008
Feeder Pigs	9,940	13,880	8,802
Slaughter Hogs	3,416	3,906	11,873
Sows/Boars	7,382	6,314	4,078
Total	20,738	24,100	24,753

Source: AAFC, USDA.

Ontario Pig Production Distribution

Table 4 shows the current weekly estimate of Ontario's pig production distribution. Ontario hog slaughter figures for 2009 year-to-date are running 1% lower than 2008. Federally inspected slaughter is down slightly while the decrease in provincially inspected slaughter represents the remainder. Total provincially inspected slaughter is 9% lower than a year ago. Total Ontario produced hogs slaughtered in Canada for 2009 year-to-date are 1% lower than a year ago. Exports of live feeder pigs through Michigan and New York border crossing points year-to-date are approximately 11% of Ontario's total pig production. Comparable year-to-date figures for 2008 showed live feeder pig exports were 12% of Ontario's total production.

What this all means is that total estimated production for Ontario is currently about 110,200 head/week and for 2009 year-to-date is 10% lower than 2008.

Current total Canadian federal and provincial slaughter is 407,964 head/week and for 2009 year-to-date is 2% higher than 2008. U.S. federally inspected slaughter is currently 2.27 million head/week and is running about 2% year-to-date lower than 2008.

Table 4 Ontario Pig Production Distribution

Volume (head)	Week Ending Sep 5-2009	Aug 29-2009	Sep 6-2008
Ontario F.I. Slaughter	83,188	91,953	77,253
Ontario P.I. Slaughter	7,106	7,016	7,259
Hogs Slaughtered in Ontario	90,294	98,969	84,512
Exports to other Provinces*	6,550	9,229	3,236
Total Ontario Hogs Slaughtered in Canada	96,844	108,198	87,748
Exports to U.S. -Slaughter Hogs	3,416	3,906	11,873
Exports to U.S. -Feeder Pigs	9,940	13,880	8,802
Total Estimated Production*	110,200	125,984	108,423
Canada F.I. & P.I. Slaughter	407,964	437,028	349,915
U.S. F.I. Slaughter	2,267,913	2,202,935	2,049,431

Source: AAFC, USDA.
Notes: F.I. = Federally Inspected; P.I. = Provincially Inspected; *Estimated; Figures not yet available for week ending September 12, 2009.

Feed Grain Prices

Prices for corn, soybean meal and dried distillers grain (DDGS) for the week ending September 12, 2009 showed Ontario having higher corn (+29%), soybean meal (+15%) and DDGS (+33%) prices than Iowa (Table 5). Ontario corn has decreased about 31% compared to a year ago while DDGS prices have decreased 37%. Ontario soybean meal prices are up 10% compared to a year ago.

Estimated feed grain costs for a farrow-to-finish operation show Iowa currently having an advantage by approximately $14/head which is about the same as the previous week. Iowa had a $9/head advantage a year ago.

It should be noted that these estimated feed grain costs are dependent upon several assumptions including market hog weight, ration, productivity, and which locations are used for corn and soybean meal prices. This comparison is meant to show the approximate relative differences in the raw corn and soybean meal costs only to raise a pig from birth to 115 kg live market weight and individual producer costs may vary significantly from these figures.

Table 5 Ontario and Iowa Feed Grain Prices

Value ($C/tonne)	Week Ending Sep 12-2009	Sep 5-2009	Sep 13-2008
Ontario			
Corn (No. 2)	161.68	162.85	235.72
Soybean Meal (48%)	519.92	588.78	473.74
DDGS	120.00	123.50	190.00
F-F Feed Grain Cost ($C/head)*	75.97	80.75	92.28
Iowa			
Corn (No. 2)	125.16	129.11	208.39
Soybean Meal (48%)	451.32	513.75	442.31
DDGS	90.29	92.13	165.18
F-F Feed Grain Cost ($C/head)*	61.98	67.07	83.11
Exchange Rate ($C/$US)	0.9279	0.9094	0.9343

Source: Farm Market News, University of Guelph, Ridgetown Campus, OMAFRA, USDA, Iowa State University.
Note: Feed grain costs only include raw corn and soybean meal costs. There has been no cost added for grind, mix and transportation charges; *Estimated; F-F = Farrow-to-Finish

Estimated Gross Margin Profitability Indicators

Table 6 shows estimated gross margin calculations for Ontario pork processors and producers based on a market hog weighing 115 kg live. Producers are losing money right now while it's hard to say if processors are currently profitable or not.

For processors, the gross margin is the wholesale cutout value less the hog value. Cutout values are down $46/head compared to a year ago while hog values are down $47/head. The gross margin is currently $24/head which is down $5/head compared to a week ago and up $1/head vs. a year ago. The estimated industry standard cost to process a hog into primals that are ready for the cut floor is about $20/head.

For producers, the gross margin is estimated as current hog value less current feed grain costs (from Table 5). The gross margin is up $8/head compared to a week ago and down $31/head vs. a year ago.

It should be noted that these estimated gross margins do not include all costs for processors or producers and therefore do not indicate if a processor or producer is profitable. These gross margins can be treated as a relative profitability indicator which shows how much margin is left to cover all other costs besides the major costs of hog procurement for the processor and feed grain costs for the producer.

Table 6 Estimated Processor and Producer Gross Margins

Price ($/head)	Week Ending		
	Sep 12-2009	Sep 5-2009	Sep 13-2008
Processor			
Cutout Value*	124	126	170
Hog Value	100	97	147
Gross Margin	24	29	23
Hog Value / Cutout Value (%)	81	77	86
Producer			
Hog Value	100	97	147
Farrow-to-Finish Feed Grain Costs*	76	81	92
Gross Margin	24	16	55
Feed Grain Costs / Hog Value (%)	76	84	63

Source: University of Guelph, Ridgetown Campus estimates using data from Ronald A. Chisholm Ltd., Ontario Pork, Farm Market News, University of Guelph, Ridgetown Campus, OMAFRA, and industry sources.
Note: Feed Grain Costs only include corn and soybean meal. *Estimated

Pig Inventory Figures

The USDA hogs and pigs survey on June 1, 2009 showed the U.S. breeding herd was down 3% from last year and down slightly from last quarter. Market pig figures were down 2% from a year ago but up 1% from last quarter. The reduction that has been happening in the U.S. is expected to continue through the rest of 2009.

The Statistics Canada July 1, 2009 survey showed Canadian market pig figures were down 7% from a year ago and up 2% from April 1. The Canadian breeding herd was down 5% from last year and down slightly from last quarter. This is the 18th consecutive quarter that the Canadian total breeding herd figures have decreased. The figures for Ontario showed that the breeding herd was down 3% from last year and up 1% from April 1. Ontario market pig figures were down 4% from last year and up 5% from last quarter.

Table 7 U.S. and Ontario Pig Inventory Figures

	Head (million head)			
	US (Jun 1)	Canada (Jul 1)	Ontario* (Jul 1)	Ontario** (Jun 1)
Breeding Herd	5.967	1.380	0.363	0.371
Market Pigs	60.112	10.725	2.738	2.948
All Pigs	66.079	12.105	3.101	3.318

Source: USDA, Statistics Canada, University of Guelph, Ridgetown Campus
Note: *Statistics Canada estimate; **University of Guelph, Ridgetown Campus estimate.

The June 1, 2009 survey done by University of Guelph, Ridgetown Campus estimated the Ontario breeding herd at 370,500 head. This is down 2,900 head from March 1, 2009 estimates and down 6% from a year ago. Market pig figures were estimated at 2.948 million head which is down 2% from March and down 8% from a year ago.

Outlook

The USDA June hogs and pigs report and the Statistics Canada July inventory report showed that the rate of reduction in the North American breeding herd appears to have slowed. The figures from the USDA September report won't be released until later in September. It will be interesting to see if the U.S. breeding herd reduction rate picks up again.

Canadian producers are waiting to hear more details of the Federal government's assistance plan which was announced in August which makes funds available for producers to transition out of the hog industry and cease production for at least three years. The government program also contains an international pork marketing fund and long-term loan provisions with government-backed credit.

Feed costs have provided some relief compared to a year ago at this time. The USDA is forecasting the second largest corn crop on record for the U.S. this fall. U.S. corn prices are projected to be 18% lower for this crop year. Soybean meal prices are projected to be 15% lower as well.

The outlook for Ontario hog prices for the next 10 months shows low prices that are below the breakeven well into 2010. Table 8 shows Ontario Pork Forward Contract Prices, the 5 year average basis and the estimated net price for October 2009 to July 2010. The Forward Contract Prices incorporate both the Chicago Mercantile Exchange's lean hog and the Canadian dollar futures prices.

Table 9 shows US prices that were forecast for the next few quarters by Glen Grimes, Ron Plain and John Lawrence based on the June USDA hogs and pigs report. Since the June report, futures and cash market prices have declined with the result that current prices are much lower than these forecasts.

Farrow-to-finish profitability calculations done by John Lawrence at Iowa State University for January to August 2009 show that Iowa producers lost money all 8 months. The average loss for the year-to-date was approximately $US 24/head (source: Iowa State University). Similar calculations done by OMAFRA show estimated farrow-to-finish losses averaged approximately $C 35/head for the January to August 2009 period (source: OMAFRA).

Based on current costs, estimated farrow-to-finish cost of production in Ontario for September is approximately $160/head.

Table 8 Ontario Pork Forward Contract Prices, September 17, 2009

($/100 kg dressed, index 100)	Forward Contract Price	5 Year Average Basis	Estimated Net Price
Period			
October 15—November 15, 2009	100.45	-3.14	97.31
November 16—December 14, 2009	100.45	-9.87	90.58
December 15—January 15, 2010	112.86	-17.18	95.68
January 16—February 14, 2010	112.86	-8.40	104.46
February 15—March 15, 2010	122.86	-9.79	113.07
March 16—April 14, 2010	122.90	-8.87	114.03
April 15—May 15, 2010	134.57	-15.11	119.46
May 16—June 14, 2010	140.16	-1.36	138.80
June 15—July 15, 2010	139.03	-1.09	137.94
July 16—August 14, 2010	136.58	-3.39	133.19
Average	122.27	-7.82	114.45

Source: Ontario Pork.

Table 9 Forecast Hog Prices Based on June 2009 USDA Hogs & Pigs Report

Quarter	Forecast Hog Prices		
	Lawrence ($US/cwt live)	Grimes/Plain ($US/cwt live)	Ontario Equivalent ($C/100 kg, index 100)
Period			
July-September 09	42-45	43-47	112-126
October-December 09	40-43	40-44	107-118
January-March 10	44-47	41-45	110-126
April-June 10	48-51	45-49	120-136
Average	44-47	42-46	112-126

Source: June Quarterly Hogs & Pigs Report Summary, Glenn Grimes and Ron Plain; June Hog and Pig Report Summary, John Lawrence
Note: Ontario Equivalent based on Ontario Base Price Formula calculation using a $C 1 = $US 0.92 exchange rate. Does not include the estimated basis.

Summary

Hog numbers are below year ago levels. Prices are well below estimated breakeven levels. Futures prices are currently projecting losses to continue into 2010. There is a need for further reduction in the North American breeding herd to occur. Smithfield and Tyson intend to reduce their breeding herds. Hopefully, this encourages others in the U.S. to follow suit.

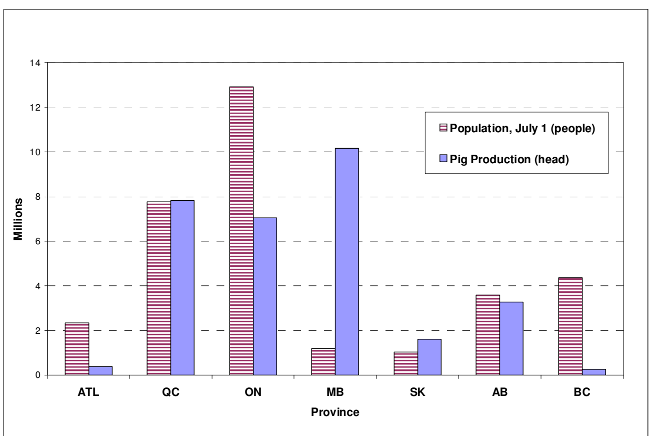
What about Supply Management in Pork?
(Commentary by Randy Duffy, University of Guelph, Ridgetown Campus)

Any views or opinions expressed are solely those of the author and do not necessarily represent those of Ontario Pork.

The devastating market conditions that have existed in the Canadian pork industry the last three years has instigated the discussion of the concept of supply management for the sector. Supply management attempts to match domestic production with estimated domestic consumption. Some people support the concept while some people oppose it. This will not change. Let's highlight some of the main issues and questions that may arise in any discussion involving supply management and the pork industry.

The Canadian pork industry is highly dependent on exports with an estimated 60-70% of total production exported internationally as either live animals or pork in 2008. A move to supply management would see a large reduction in Canada's total production. It would have to be national in scope and have the support of all provinces with a stake in it. How would production be allocated across provinces? Should it be based on historical provincial pig production, current provincial population or a combination? If it's based on historical pig production should it be based on total pigs produced or sow/gilt inventory? Figure 1 shows human population and total pig production by province for 2008.

Figure 1. Population vs. Pig Production by Province, 2008



Source: AAFC, Statistics Canada

In 2008, Ontario had about 39% of Canada's total population and 23% of Canada's total pig production. Manitoba, the largest pig-producing province had 33% of Canada's total production and 4% of total population. Supply management would likely have to incorporate historical production share. Supporting that argument is the fact that there is an existing capital intensive infrastructure of hog barns already in place. If it was based on population, then provinces like B.C., Ontario and the Maritime provinces would stand to benefit as their % share of production is less than their % share of population.

There would be trade implications. Currently, there are five supply managed commodities in Canada (dairy, turkey, egg, chicken and hatching egg) that are collectively known as the Supply Management Five (SM5). Canada and the SM5 are under intense international pressure to change or disband supply management. Canada has obligations under previous W.T.O. and N.A.F.T.A. trade agreements that will impact whether supply management could be implemented for pork in Canada. The ability to control imports is also an important component and would be difficult to achieve through the use of trade barriers (e.g. Tariffs) since current international trade agreements have the goal of lowering barriers over time. Anything that would restrict imports would most definitely result in a trade dispute with the U.S. and other countries. However, should the pork industry care about that at this point in time? The U.S. has shown through it's implementation of Country Of Origin Labeling (COOL) that it is in a protectionist mode looking to reduce imports through any means possible.

What about the impact on other partners (eg. feed, health, processing, etc.) in the pork industry? The movement to a supply management system would involve considerable downsizing of the existing Canadian swine herd. The implications of this downsizing to up-stream business partners would be far-reaching and in some cases could mean closure. Within Canada, there are several processing plants that specialize in exporting to foreign markets (e.g. Maple Leaf plant located in Lethbridge). Also, there are value-added further processing plants that market considerable volumes of pork product that would have to alter their business plans or shut-down. There are parts of the pig that are almost exclusively exported (eg. snouts, tails, hearts, etc.) which could negatively impact the value of the whole cutout and therefore processor profitability if these products could no longer be exported.

Other questions to keep in mind include:
How would quota be valued and what rights would quota give a producer?
What about the trend in recent years that has seen domestic pork consumption per person decreasing?

As you can see there are many questions and issues involved in any discussion involving supply management in the pork industry. Could Ontario implement a more balanced production vs. slaughter model in the meantime? It appears that Ontario is moving towards this scenario already.

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