# Ontario Hog Market Information Newsletter – June 2009

## By University of Guelph, Ridgetown Campus

### Ontario Market Hog Prices

Ontario average prices for the week ended June 13, 2009 were down when compared to the previous week and down compared to one year ago (Table 1). The Canadian dollar has increased approximately $0.11 (or 15%) relative to the U.S. dollar from early March 2009 which has also negatively impacted Ontario prices. The pool price is down $1.26 compared to last week and down $10.66 vs. last year. The pool plus price is down $1.18 from a week ago and down $21.23 from a year ago. The average standard contract price was estimated to be $115.46, a decrease of $1.65 vs. the previous week and down $22.94 compared to a year ago. Hog prices had been in the $130-$140 range and rising until the H1N1 Flu news story broke on April 24th. The H1N1 Flu, along with packer uncertainty, global recession, and exchange rate fluctuations have caused prices to be about $40-$50 lower when compared to the seasonal price increase that usually happens at this time of year.

**Table 1 Ontario Market Hog Prices**

| Price ($/100 kg dressed) | Week Ending | | |
|---|---|---|---|
| | Jun 13-2009 | Jun 6-2009 | Jun 14-2008 |
| Standard Contract | 115.46* | 117.11 | 138.40 |
| Pool Plus | 116.35 | 117.53 | 137.58 |
| Pool | 119.36 | 120.62 | 130.02 |
| Weighted Average | 115.78* | 117.41 | 138.00 |

Source: Ontario Pork.
Note: *Standard contract and weighted average prices not finalized as of June 15, 2009. Price for standard contract is the 100% Formula Price for the week ending June 13, 2009 and is used in the calculation for the weighted average price.

### Ontario Hog Marketings

Ontario hog marketings were 95,274 head for the week ended June 13, 2009 (Table 2). This is a decrease of 3,252 head compared to the previous week and a decrease of 5,768 head vs. a year ago. Total hog marketings for 2009 year-to-date are down approximately 10%. U.S. figures show hog marketings down 3% for 2009 year-to-date.

**Table 2 Ontario Hog Marketings**

| Volume (head) | Week Ending | | |
|---|---|---|---|
| | Jun 13-2009 | Jun 6-2009 | Jun 14-2008 |
| Contract | 82,838 | 85,362 | 86,534 |
| Pool Plus and Pool | 12,436 | 13,164 | 14,508 |
| Total | 95,274 | 98,526 | 101,042 |

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 22,835 head for the week ending May 29, 2009 (Table 3). This is 5,129 head higher compared to the previous week and 4,716 less than a year ago. Trends for 2009 year-to-date show that feeder pig exports are down 29% while slaughter hog exports are down 71% with U.S. Country of Origin Labeling requirements an important factor in this decline. Year-to-date cull sow/boar exports are up 27,073 head (or 29%) compared to a year ago which explains the decreased weekly hog marketings.

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

| Volume (head) | Week Ending | | |
|---|---|---|---|
| | May 29-2009 | May 22-2009 | May 31-2008 |
| Feeder Pigs | 15,085 | 8,805 | 15,120 |
| Slaughter Hogs | 3,444 | 3,854 | 7,726 |
| Sows/Boars | 4,306 | 5,047 | 4,705 |
| Total | 22,835 | 17,706 | 27,551 |

Source: AAFC, USDA.

## Ontario Pig Production Distribution

Ontario hog slaughter figures for 2009 year-to-date are running 3% lower than 2008. Federally inspected slaughter is about 2% lower while the decrease in provincially inspected slaughter represents about 1%. Total provincially inspected slaughter is 10% lower than a year ago. Total Ontario produced hogs slaughtered in Canada for 2009 year-to-date are 4% lower than a year ago. Exports of live pigs currently show 3,419 hogs for slaughter and 12,991 feeder pigs being exported through Michigan and New York border crossing points (Table 4).

What this all means is that total estimated production for Ontario is currently about 113,583 head/week and for 2009 year-to-date is 15% lower than 2008. This reflects the significant reduction that has occurred in the Ontario sow herd.

Current total Canadian federal and provincial slaughter is 406,971 head/week and for 2009 year-to-date is slightly higher than 2008. U.S. federally inspected slaughter is currently 2.08 million head/week and is running about 3% year-to-date lower than 2008.

**Table 4 Ontario Pig Production Distribution**

| Volume (head) | Week Ending Jun 6-2009 | May 30-2009 | Jun 7-2008 |
|---|---|---|---|
| Ontario F.I. Slaughter | 83,719 | 86,130 | 82,998 |
| Ontario P.I. Slaughter | 6,926 | 6,938 | 7,170 |
| Hogs Slaughtered in Ontario | 90,645 | 93,068 | 90,168 |
| Exports to other Provinces* | 6,528 | 5,066 | 5,534 |
| Total Ontario Hogs Slaughtered in Canada | 97,173 | 98,134 | 95,702 |
| Exports to U.S. -Slaughter Hogs | 3,419** | 3,444 | 11,814 |
| Exports to U.S. -Feeder Pigs | 12,991** | 15,085 | 13,139 |
| Total Estimated Production* | 113,583 | 116,663 | 120,655 |
| Canada F.I. & P.I. Slaughter | 406,971 | 414,427 | 393,483 |
| U.S. F.I. Slaughter | 2,080,000 | 1,821,762 | 2,107,802 |

Source: AAFC, USDA.
Notes: F.I. = Federally Inspected; P.I. = Provincially Inspected; *Estimated; **Estimated based on previous 13 week average. Figures not yet available for week ending June 6, 2009.

## Feed Grain Prices

Prices for corn, soybean meal and dried distillers grain (DDGS) for the week ending June 13, 2009 showed Ontario having higher corn (+10%), soybean meal (+13%) and DDGS (+12%) prices than Iowa (Table 5). Ontario corn has decreased about 23% compared to a year ago while DDGS prices have increased 4%. Ontario soybean meal prices are up 26% compared to a year ago.

Estimated feed grain costs for a farrow-to-finish operation show Iowa currently having an advantage by approximately $9/head which is down $1 compared to the previous week. Ontario actually had a $0.50/head advantage a year ago. The regional difference between Ontario and Iowa has switched due in part to the decline in the value of the $C which has increased the Ontario basis. 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 ($C/tonne) | Week Ending Jun 13-2009 | Jun 6-2009 | Jun 14-2008 |
|---|---|---|---|
| **Ontario** | | | |
| Corn (No. 2) | 192.80 | 197.29 | 250.18 |
| Soybean Meal (48%) | 580.44 | 555.86 | 460.64 |
| DDGS | 197.50 | 187.50 | 190.00 |
| F-F Feed Grain Cost ($C/head)* | 88.02 | 87.60 | 95.21 |
| **Iowa** | | | |
| Corn (No. 2) | 175.93 | 177.05 | 258.60 |
| Soybean Meal (48%) | 513.79 | 477.86 | 434.64 |
| DDGS | 176.28 | 168.24 | 195.11 |
| F-F Feed Grain Cost ($C/head)* | 79.29 | 77.25 | 95.71 |
| Exchange Rate ($C/$US) | 0.9005 | 0.9122 | 0.9774 |

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. Both producers and processors are losing money right now.

For processors, the gross margin is the wholesale cutout value less the hog value. Cutout values are down $25/head compared to a year ago while hog values are down $23/head. The gross margin is currently $18/head which is down about $2/head compared to a week ago and 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. Cutout values are down mainly due to weak pork demand.

For producers, the gross margin is estimated as current hog value less current feed grain costs (from Table 5). The gross margin is down about $1/head compared to a week ago and down $16/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<br>Jun 13-2009 | <br>Jun 6-2009 | <br>Jun 14-2008 |
|---|---|---|---|
| **Processor** | | | |
| Cutout Value* | 134 | 137 | 159 |
| Hog Value | 116 | 117 | 139 |
| Gross Margin | 18 | 20 | 20 |
| Hog Value / Cutout Value (%) | | | |
| **Producer** | | | |
| Hog Value | 116 | 117 | 139 |
| Farrow-to-Finish Feed Grain Costs* | 88 | 88 | 95 |
| Gross Margin | 28 | 29 | 44 |
| Feed Grain Costs / Hog Value (%) | | | |

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

## Pig Inventory Figures

The USDA hogs and pigs survey on March 1, 2009 showed the U.S. breeding herd was down 3% from last year and down 1% from last quarter. Market pig figures were down 3% from a year ago and down 2% 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 April 1, 2009 survey showed Canadian market pig figures were down 9% from a year ago and down 3% from January 1. The Canadian breeding herd was down 6% from last year and down 1% from last quarter. The figures for Ontario showed that the breeding herd was down 5% from last year and down slightly from January 1. Ontario market pig figures were down 12% from last year and 5% from last quarter. This is the 14th consecutive quarter that the Ontario breeding herd figures have decreased from the previous quarter and 17th consecutive quarter that the Canadian breeding herd figures have decreased.

**Table 7 U.S. and Ontario Pig Inventory Figures**

| | Head (million head)<br>US (Mar 1) | <br>Canada (Apr 1) | <br>Ontario* (Apr 1) | <br>Ontario** (Mar 1) |
|---|---|---|---|---|
| Breeding Herd | 6.011 | 1.383 | 0.359 | 0.373 |
| Market Pigs | 59.378 | 10.502 | 2.617 | 3.003 |
| All Pigs | 65.389 | 11.885 | 2.976 | 3.377 |

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

The March 1, 2009 survey done by University of Guelph, Ridgetown Campus estimated the Ontario breeding herd at 373,400 head. This is down 2,900 head from December 1, 2008 estimates and down 8% from a year ago. Market pig figures were estimated at 3.003 million head which is down 3% from December and down 6% from a year ago.

## Outlook

According to Statistics Canada, the Canadian breeding herd has decreased by 238,000 sows since it's peak of 1.597 million head on January 1, 2005. Ontario's breeding herd has been reduced by about 81,000 sows since it's peak of 433,300 head on April 1, 2005. These figures represent a reduction of 15% of the Canadian breeding herd and 19% of the Ontario breeding herd respectively. These reductions have resulted in significantly fewer pigs currently being produced here. This combined with reductions of about 222,000 sows in the U.S. breeding swine herd since December 1, 2007 will contribute to lower total hog production in North America in 2009 than 2008.

Producers had been looking forward to higher seasonal prices heading into the summer that would have provided breakeven or small profits. However, the H1N1 Flu and the recession have caused pork demand to decrease which has depressed prices. The outlook for Ontario hog prices for the next 10 months shows low prices that are below the breakeven well into the spring of 2010. Table 8 shows Ontario Pork Forward Contract Prices, the 5 year average basis and the estimated net price for July 2009 to May 2010. The Forward Contract Prices incorporate both the Chicago Mercantile Exchange's lean hog and the Canadian dollar futures prices.

Table 9 shows US price forecasts for the next few quarters by Glen Grimes, Ron Plain and John Lawrence. Prices have been converted to an Ontario equivalent price but don't incorporate the estimated basis for Ontario.

Farrow-to-finish profitability calculations done by John Lawrence at Iowa State University for January to May 2009 show that Iowa producers lost money all 5 months. The average loss for the year-to-date was approximately $US 20/head (source: Iowa State University). Similar calculations done by OMAFRA show estimated farrow-to-finish losses averaged approximately $C 31/head for the January to May 2009 period (source: OMAFRA).

Based on current costs, estimated farrow-to-finish cost of production in Ontario for June is approximately $160-170/head.

**Table 8 Ontario Pork Forward Contract Prices, June 15, 2009**

| ($/100 kg dressed, index 100) | Forward Contract Price | 5 Year Average Basis | Estimated Net Price |
|---|---|---|---|
| Period | | | |
| July 16—August 14, 2009 | 121.81 | -3.39 | 118.42 |
| August 15—September 15, 2009 | 116.25 | +8.26 | 124.51 |
| September 16—October 14, 2009 | 116.23 | -0.90 | 115.33 |
| October 15—November 15, 2009 | 119.69 | -3.14 | 116.55 |
| November 16—December 14, 2009 | 119.69 | -9.87 | 109.82 |
| December 15—January 15, 2010 | 131.46 | -17.18 | 114.28 |
| January 16—February 14, 2010 | 131.46 | -8.40 | 123.06 |
| February 15—March 15, 2010 | 140.44 | -9.79 | 130.65 |
| March 16—April 14, 2010 | 140.25 | -8.87 | 131.38 |
| April 15—May 15, 2010 | 155.07 | -15.11 | 139.96 |
| Average | 129.24 | -6.84 | 122.40 |

Source: Ontario Pork.

**Table 9 Forecast Hog Prices**

| Quarter | Forecast Hog Prices | | |
|---|---|---|---|
| | Lawrence ($US/cwt live) | Grimes/Plain ($US/cwt live) | Ontario Equivalent ($C/100 kg, index 100) |
| Period | | | |
| April-June 09 | 53-56 | 48-52 | 139-162 |
| July-September 09 | 53-56 | 51-55 | 148-162 |
| October-December 09 | 45-48 | 44-48 | 127-139 |
| January-March 10 | 44-47 | 46-49 | 127-142 |
| Average | 49-52 | 47-51 | 137-150 |

Source: March Quarterly Hogs & Pigs Report Summary, Glenn Grimes and Ron Plain; March Hog and Pig Report Summary, John Lawrence
Note: Ontario Equivalent based on Ontario Base Price Formula calculation using a $C 1 = $US 0.85 exchange rate. Does not include the estimated basis.

## Summary

Hog numbers are well below year ago levels. Prices are below estimated breakeven levels. Futures prices are currently projecting losses to continue to at least the spring of 2010. A positive factor that will help future producer prices is the reduction in the North American breeding herd that is expected to continue through the rest of 2009.

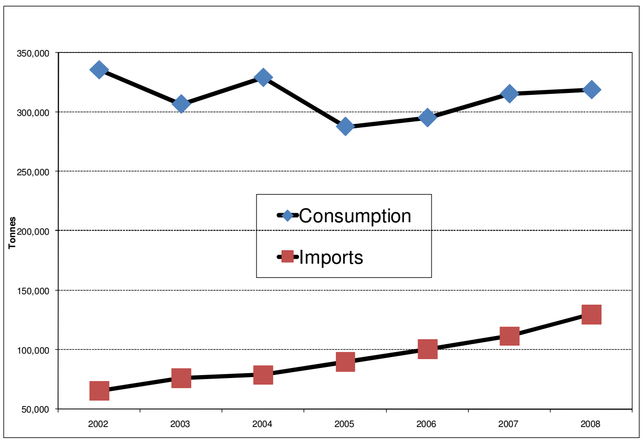
## Trends in Ontario Pork Consumption and Trade

### (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.*

Pork consumption in Canada has seen some variability over the past several years. The latest data shows that pork available per person (also referred to as consumption or disappearance) for 2007 was 24.68 kg/person (carcass basis). This is down from the 15 year high of 30.09 kg/person in 1999. However, it is an increase of 1.35 kg/person from 2006. Assuming the figures for Ontario are similar to those for Canada and that 2008 figures are similar to 2007, we can estimate the total quantity of pork that is consumed in Ontario. Figure 1 shows the estimated total pork consumed in tonnes in Ontario from 2002 to 2008. In 2008, this was approximately 319,000 tonnes.

**Figure 1. Ontario Pork Consumption vs. Imports, 2002-2008**

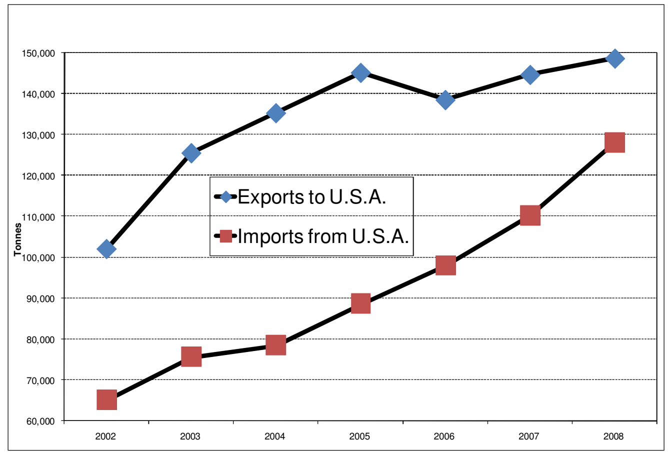



Source: AAFC, Statistics Canada

It would be interesting to know how much of the pork consumed in Ontario is imported from other countries and other provinces. It is difficult to estimate imports from other provinces because of the lack of data availability. There is data for imports of pork from other countries into Ontario. Figure 1 also shows the total quantity of pork imports coming into Ontario. In 2008, this amount was about 130,000 tonnes and represented an amount equal to 40% of Ontario's pork consumption. However, it is likely not the case that all of these pork imports are consumed in Ontario because many importers may use Ontario as a point of entry and then distribute these products to other provinces within Canada. In 2008, approximately 98% of these imports were from the U.S.A..

Ontario also exports the majority of it's pork exports to the U.S.A. (58% in 2008). Figure 2 shows Ontario pork exports to the U.S.A. and imports from the U.S.A.. From 2002 to 2008, the trade surplus (difference between exports and imports) has narrowed significantly and in 2008 Ontario imported (128,000 tonnes) from the U.S.A. almost as much as it exported (149,000 tonnes) to that country. The irony of this situation is that Ontario hog prices have been below break-even costs for most of the last 3 years because of an abundance of pork resulting in low pork prices. Yet, imports of pork have risen.

**Figure 2. Ontario Pork Trade With the U.S.A., 2002-2008**




Source: AAFC, Statistics Canada

This raises the issue of meat labeling on imported pork products. Section 7.21.1 of the Meat Hygiene Manual of Procedures used by the Canadian Food Inspection Agency (CFIA) contains mandatory labeling requirements for imported meat products and states:

A. "product of (country of origin)" is to appear in close proximity to the product description; it shall be at least half the height of the largest letter on the main panel;
B. The inspection stamp or the statement of inspection of the exporting country replaces the Meat Inspection Legend.

This means that for imported pork products from the U.S.A. for example, the package needs to contain "product of U.S.A." and a USDA inspection stamp. Ask yourself if you have ever picked up a pork product in a retail store and had trouble finding a country of origin on the label? Are these mandatory labeling requirements being enforced on every imported product being sold in Canadian retail stores?

This is an important issue since Canadian exports to the U.S.A. are now subject to mandatory country-of-origin-labeling (COOL) laws. Canada is forced to label every product it sends to the U.S.A. but is Canada enforcing labeling requirements for every product entering Canada? The next time your local grocery store has a sales feature on pork tenderloin or pork ribs check the package to see if you can find a country of origin on the label.

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