



**Ontario Hog Market Information Newsletter – March 2009**  
**By University of Guelph, Ridgetown Campus**

**Ontario Market Hog Prices**

Hog prices have been in the \$120-\$130 range the past few weeks which is an increase from prices in late 2008. Ontario average prices for the week ended February 14, 2009 were down when compared to the previous week but up compared to one year ago (Table 1). The Canadian dollar is approximately \$0.20 lower relative to the U.S. dollar from one year ago which has supported Ontario prices. The pool price is down \$5.87 compared to last week and up \$21.55 vs. last year. The pool plus price is down \$4.61 from a week ago and up \$23.75 from a year ago. The average standard contract price was \$125.95, a decrease of \$4.68 vs. the previous week and up \$22.13 compared to a year ago.

**Ontario Hog Marketings**

Ontario hog marketings were 102,039 head for the week ended February 14, 2009 (Table 2). This is an increase of 744 head compared to the previous week and a decrease of 7,313 head vs. a year ago. Trends for 2009 year-to-date show total marketings are down approximately 11%. This trend is in line with the reduction in the sow herd seen in Ontario in the last year. U.S. figures show hog marketings down 2% for 2009 year-to-date.

**Live Pig Exports to the U.S.**

Total live pig exports to the U.S. through Michigan and New York border crossings were 25,106 head for the week ending February 14, 2009 (Table 3). This is 5,472 head higher compared to the previous week and 13,793 less than a year ago. Trends for 2009 year-to-date show that feeder pig exports are down 30% while slaughter hog exports are down 69% with U.S. Country of Origin Labeling requirements an important factor in this decline. Year-to-date cull sow/boar exports are up 23,707 head (or 133%) compared to a year ago which explains the decreased weekly hog marketings.

**Table 1 Ontario Market Hog Prices**

Price (\$/100 kg dressed)	Week Ending		
	Feb 14- 2009	Feb 7- 2009	Feb 16- 2008
Standard Contract	125.95	130.63	103.82
Pool Plus	125.31	129.92	101.56
Pool	117.91	123.78	96.36
Weighted Average	125.56	130.27	103.19

Source: Ontario Pork.

**Table 2 Ontario Hog Marketings**

Volume (head)	Week Ending		
	Feb 14- 2009	Feb 7- 2009	Feb 16- 2008
Contract	87,488	87,609	92,568
Pool Plus and Pool	14,551	13,686	16,784
Total	102,039	101,295	109,352

Source: Ontario Pork.

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

Volume (head)	Week Ending		
	Feb 14- 2009	Feb 7- 2009	Feb 16- 2008
Feeder Pigs	14,465	10,375	16,614
Slaughter Hogs	4,385	4,674	21,137
Sows/Boars	6,256	4,585	1,148
Total	25,106	19,634	38,899

Source: AAFC, USDA.

## **Ontario Pig Production Distribution**

Ontario hog slaughter figures for 2009 year-to-date are running slightly lower than 2008. Federally inspected slaughter is about 1% higher while provincially inspected is 11% 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 pigs currently show 4,385 hogs for slaughter and 14,465 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 124,425 head/week and for 2009 year-to-date is 14% lower than 2008. This reflects the significant reduction that has occurred in the Ontario sow herd.

Current total Canadian federal and provincial slaughter is 416,874 head/week and for 2009 year-to-date is 6% higher than 2008. U.S. federally inspected slaughter is currently 2.24 million head/week and is running about 2% year-to-date lower than 2008.

## **Feed Grain Prices**

Prices for corn, soybean meal and dried distillers grain (DDGS) for the week ending February 14, 2009 showed Ontario having higher corn, soybean meal and DDGS prices than Iowa (Table 5). Corn and DDGS prices have both decreased 3-4% compared to a year ago. Soybean meal prices are up 11% compared to a year ago.

Estimated feed grain costs for a farrow-to-finish operation show Iowa currently having an advantage by approximately \$3-4/head which is about the same as the previous week. Iowa had a \$1/head advantage a year ago. The regional difference has increased due in part to the decline in the value of the \$C which has increased the Ontario corn 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 4 Ontario Pig Production Distribution**

Volume (head)	Week Ending		
	Feb 14-2009	Feb 7-2009	Feb 16-2008
Ontario F.I. Slaughter	93,560	92,307	90,361
Ontario P.I. Slaughter	7,623	7,601	8,008
Hogs Slaughtered in Ontario	101,183	99,908	98,369
Exports to other Provinces*	4,392	3,549	4,338
Total Ontario Hogs Slaughtered in Canada	105,575	103,457	102,707
Exports to U.S. -Slaughter Hogs	4,385	4,674	21,137
Exports to U.S. -Feeder Pigs	14,465	10,375	16,614
Total Estimated Production*	124,425	118,506	140,458
Canada F.I. & P.I. Slaughter	416,874	431,831	422,782
U.S. F.I. Slaughter	2,236,000	2,216,230	2,221,135

Source: AAFC, USDA.

Notes: F.I. = Federally Inspected; P.I. = Provincially Inspected; \*Estimated

**Table 5 Ontario and Iowa Feed Grain Prices**

Value (\$C/tonne)	Week Ending		
	Feb 14-2009	Feb 7-2009	Feb 16-2008
<b><u>Ontario</u></b>			
Corn (No. 2)	172.81	170.50	179.28
Soybean Meal (48%)	459.34	452.90	412.23
DDGS	185.00	185.00	190.00
F-F Feed Grain Cost (\$C/head)*	74.94	73.92	73.56
<b><u>Iowa</u></b>			
Corn (No. 2)	168.01	165.47	185.49
Soybean Meal (48%)	418.99	415.15	371.87
DDGS	171.54	175.06	185.57
F-F Feed Grain Cost (\$C/head)*	71.06	70.15	72.56
Exchange Rate (\$C/\$US)	0.8084	0.8104	1.0009

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.

For processors, the gross margin is the wholesale cutout value less the hog value. Cutout values are up compared to a year ago but hog values are as well resulting in a gross margin that is lower than a year ago. Cutout values are up mainly due to increased values for primals. The gross margin is up about \$6/head compared to a week ago and down \$8/head vs. a year ago.

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 \$6/head compared to a week ago but up \$21/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.

### **Pig Inventory Figures**

The USDA hogs and pigs survey on December 1 showed market pig figures were down 2% from a year ago and from last quarter. The U.S. breeding herd was down 2% from last year and up slightly from last quarter. The liquidation that has been happening in the U.S. is now showing up in reduced market animals.

The Statistics Canada January 1 survey showed Canadian market pig figures were down 11% from a year ago and 4% from October 1. The Canadian breeding herd was down 7% from last year and 1% from last quarter. The figures for Ontario showed that the breeding herd was down 11% from last year and 1% from October 1. Ontario market pig figures were down 16% from last year and 3% from last quarter. This is the 13th consecutive quarter that the Ontario breeding herd figures have decreased from the previous quarter and 16th consecutive quarter that the Canadian breeding herd figures have decreased.

**Table 6 Estimated Processor and Producer Gross Margins**

Price (\$/head)	Week Ending		
	Feb 14 -2009	Feb 7- 2009	Feb 16- 2008
<b><u>Processor</u></b>			
Cutout Value*	144	143	130
Hog Value	126	131	104
Gross Margin	18	12	26
Hog Value / Cutout Value (%)	88	92	80
<b><u>Producer</u></b>			
Hog Value	126	131	104
Farrow-to-Finish Feed Grain Costs*	75	74	74
Gross Margin	51	57	30
Feed Grain Costs / Hog Value (%)	60	56	71

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

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

	Head (million head)			
	US (Dec 1)	Canada (Jan 1)	Ontario* (Jan 1)	Ontario** (Dec 1)
Breeding Herd	6.081	1.405	0.360	0.376
Market Pigs	60.627	10.996	2.744	3.284
All Pigs	66.708	12.400	3.104	3.660

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

The December 1 survey done by University of Guelph, Ridgetown Campus estimated the Ontario breeding herd at 376,300 head. This is down 4,900 head from September 1 estimates and down 10% from a year ago. Market pig figures were estimated at 3.284 million head which is down slightly from September.

## Outlook

According to Statistics Canada, the Canadian breeding herd has decreased by about 100,000 sows in the last year while Ontario's breeding herd has been reduced by about 40,000 sows. These figures represent approximately 7% of the Canadian breeding herd and 11% of the Ontario breeding herd respectively. These reductions in the Ontario and Canadian herds have resulted in significantly fewer pigs currently being produced here. This combined with reductions of about 150,000 sows in the U.S. breeding swine herd during the last year should contribute to lower total hog production in North America in 2009 than 2008.

The outlook for Ontario hog prices for the next 10 months shows low prices during the spring but prices are expected to increase during the second and third quarters of 2009. Table 8 shows Ontario Pork Forward Contract Prices, the 10 year average basis and the estimated net price for March 2009 to January 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 December 2008 show that Iowa producers lost money 10 out of 12 months. The average loss for the year was approximately \$US 22/head (source: Iowa State University). Similar calculations done by OMAFRA show estimated farrow-to-finish losses averaged approximately \$C 39/head for the January to December 2008 period (source: OMAFRA).

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

Hog prices are forecast to remain below cost of production until the spring of 2009. If feed costs were locked in right now for the next several months and hog prices are similar to those projected in Table 8, Ontario producers may start to see some profits in the second and third quarters of 2009.

**Table 8 Ontario Pork Forward Contract Prices, February 20, 2009**

(\$/100 kg dressed, index 100)	Forward Contract Price	10 Year Average Basis	Estimated Net Price
Period			
March 16—April 14, 2009	134.72	-6.49	128.23
April 15—May 15, 2009	159.95	-16.23	143.72
May 16—June 14, 2009	162.96	-2.43	160.53
June 15—July 15, 2009	164.93	-0.72	164.21
July 16—August 14, 2009	163.66	-0.63	163.03
August 15-September 15, 2009	147.13	+11.81	158.94
September 16—October 14, 2009	146.99	+0.74	147.73
October 15—November 15, 2009	144.10	-2.58	141.52
November 16—December 14, 2009	144.10	-9.94	134.16
December 15—January 15, 2010	153.49	-20.45	133.04
Average	152.20	-4.69	147.51

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			
January-March 09	43-46	40-44	123-142
April-June 09	57-61	48-52	148-188
July-September 09	59-63	53-57	163-194
October-December 09	45-48	42-46	129-148
Average	51-55	46-50	142-169

Source: December Quarterly Hogs & Pigs Report Summary, Glenn Grimes and Ron Plain; December Hog and Pig Report Summary, John Lawrence  
 Note: Ontario Equivalent based on Ontario Base Price Formula calculation using a \$C 1 = \$US 0.80 exchange rate. Does not include the estimated basis.

## Summary

Hog numbers have started to fall below year ago levels as we move into the 2009 year. Prices will continue to be below estimated cost of production until the second and third quarters of 2009. A couple of positive factors right now that will help producer margins are the current lower Canadian dollar which is helping to boost Ontario hog prices and feed grain prices that are lower than they were for a long period in 2008.

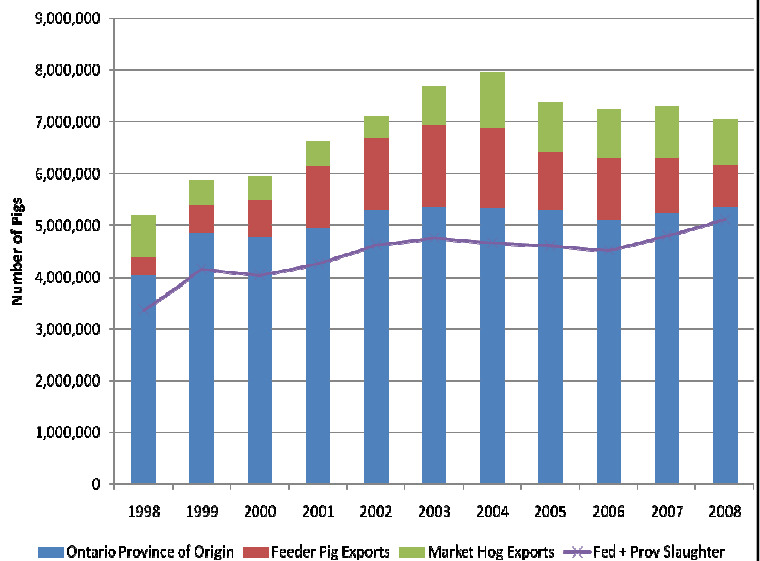
**The Imbalance Between Production and Slaughter Capacity in Ontario (Commentary by Randy Duffy, University of Guelph, Ridgetown Campus)**

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

For several years, Ontario hog production has exceeded Ontario hog slaughter. This has resulted in large numbers of Ontario raised pigs being exported to either other provinces for slaughter (i.e. Quebec) or to the U.S.. This gap between what is produced here and what is processed here has widened over time. This issue has become arguably the most important factor impacting the Ontario industry. Figure 1 shows total Ontario pig production (vertical bars) compared to total Ontario federal and provincial hog slaughter (line). Total Ontario production is estimated as Ontario hogs slaughtered within Canada plus feeder pig exports and market hog exports through Michigan and New York border points. This assumes that all exports through these border points are Ontario raised pigs which may or may not be the case. Figure 1 shows that production increased annually from about 5.2 million head in 1998 to about 8 million pigs produced in 2004. This has since decreased to about 7 million pigs produced in 2008. Over the 1998 to 2008 time period total production averaged about 6.9 million pigs. This increase in production of 1.8 million head from 1998 to 2008 can be broken down into increased slaughter within Canada of 1.3 million head and increased exports of about 0.5 million head. During this same time period, Ontario federal and provincial slaughter increased from 3.4 million head in 1998 to 5.1 million head in 2008. This is an increase of 1.7 million head. Assuming all Ontario slaughter is Ontario raised pigs which may or may not be the case, then the increase in Ontario slaughter capacity has almost kept pace with the increase in Ontario's total pig production. However, because there was a gap between total production and Ontario slaughter in 1998 of about 1.8 million head or about 35,000 pigs/week, this gap still exists. Interestingly enough, in 2008 this gap was about 1.9 million pigs or 37,000/week. So far in 2009, this gap has shrunk to about 30,000/week. This is due to the large sow reduction we have seen in Ontario in the past couple of years. Total weekly pig production is now about 130,000 head and Ontario federal and provincial slaughter is about 102,000/week. This gap of about 30,000 pigs/week is the output of approximately 70,000 sows if you assume 22 pigs sold/sow/year.

If Ontario were to move towards a more balanced system where production was similar to processing and there was less reliance on exports to other provinces and to the U.S. to take the excess production, is this the answer? Should the Ontario industry move towards this goal? Does the Ontario industry have 70,000 too many sows? Trade factors such as Country of Origin Labeling requirements by the U.S. and the indications from Quebec that they themselves are moving towards a balanced system for their provincial industry which is resulting in less demand in Quebec for Ontario raised pigs is causing lots of uncertainty. This issue of the production and slaughter imbalance in Ontario is probably the most important issue facing the Ontario industry today. These figures and questions are intended to encourage people to think about and discuss the issue.

**Figure 1. Ontario Production vs Ontario Slaughter**



Source: AAFC, Statistics Canada

*This newsletter was made possible due to the financial support of Ontario Pork through funding from the Agricultural Management Institute.*

## **Funding support for this project**



This project is funded in part through contributions by the Agricultural Management Institute (AMI), which is funded by the Government of Canada and the Province of Ontario under the Agricultural Policy Framework, designed to position Canada's agri-food sector as a world leader. The Agricultural Adaptation Council administers the AMI program on behalf of the Government of Canada and the Province of Ontario.

