



**Ontario Hog Market Information Newsletter – March 2010**  
**By University of Guelph-Ridgetown Campus**

**Ontario Market Hog Prices**

Ontario average market hog prices for the week ended March 27, 2010 were down when compared to the previous week but up compared to one year ago (Table 1). The Pool price is down \$4.45 compared to last week but up \$1.23 vs. last year. The Pool Plus price is down \$4.49 from a week ago but up \$5.53 from a year ago. The average Standard Contract price was estimated to be \$130.62, a decrease of \$3.43 vs. the previous week and up \$4.16 compared to a year ago. Prices are about \$8-\$15 higher when compared to the previous four year average for this time of year with Ontario prices having risen \$12-\$14 since January 1. The Canadian dollar has strengthened since late December causing downward pressure on Ontario hog prices. However, higher U.S. hog prices have more than compensated for the change in the dollar. This has supported higher Ontario hog prices.

**Ontario Hog Marketings**

Ontario hog marketings were 88,499 head for the week ended March 27, 2010 (Table 2). This is an increase of 2,674 head compared to the previous week but a decrease of 6,291 head vs. a year ago. The 13 week average prior to the week ending March 27 was 91,609 head. This is down 5,000 head per week from the same period last year. Total hog marketings for 2010 year-to-date are down 7%. U.S. figures show hog marketings down 3% for 2010 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 29,551 head for the week ending March 13, 2010 (Table 3). This is 6,782 head higher than the previous week and 4,428 higher than a year ago. Total exports to the U.S. for the most recent 13 week period are similar when compared to the same period in 2009 but the mix has changed. Trends for 2010 year-to-date show feeder pig exports up 24% while slaughter hog exports are down 24%. Year-to-date cull sow/boar exports are down 14,078 head (or 21%) compared to a year ago.

**Table 1 Ontario Market Hog Prices**

Price (\$/100 kg dressed)	Week Ending		
	Mar 27- 2010	Mar 20- 2010	Mar 28- 2009
Standard Contract	130.62*	134.05	126.46
Pool Plus	131.59	136.08	126.06
Pool	133.15	137.60	131.92
Weighted Average	130.81*	134.38	126.54

Source: Ontario Pork.

Note: \*Standard contract and weighted average prices not finalized as of March 26, 2010. Price for standard contract is the 100% Formula Price for the week ending March 27, 2010 and is used in the calculation for the weighted average price.

**Table 2 Ontario Hog Marketings**

Volume (head)	Week Ending		
	Mar 27- 2010	Mar 20- 2010	Mar 28- 2009
Contract	78,386	75,162	82,058
Pool Plus and Pool	10,113	10,663	12,732
Total	88,499	85,825	94,790

Source: Ontario Pork.

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

Volume (head)	Week Ending		
	Mar 13- 2010	Mar 6- 2010	Mar 14 -2009
Feeder Pigs	21,070	12,570	15,615
Slaughter Hogs	3,389	5,117	3,349
Sows/Boars	5,092	5,082	6,159
Total	29,551	22,769	25,123

Source: AAFC, USDA.

## Ontario Pig Production Distribution

Table 4 shows the current weekly estimate of Ontario's pig production distribution. Total Ontario hog slaughter figures for 2010 year-to-date are running 6% lower than 2009. Federally inspected slaughter is down 7% while the increase in provincially inspected slaughter represents the remainder. Total provincially inspected slaughter is 9% higher than a year ago. Total Ontario produced hogs slaughtered in Canada for 2010 year-to-date are 6% lower than a year ago. Exports of live feeder pigs through Michigan and New York border crossing points year-to-date are approximately 14% of Ontario's total pig production. Comparable year-to-date figures for 2009 showed live feeder pig exports were 11% of Ontario's total production.

Total estimated production for Ontario is currently about 112,000-117,000 head/week and for 2010 year-to-date is 3% lower than 2009.

Current Canadian federal and provincial slaughter is 419,226 head/week and for 2010 year-to-date is up slightly vs. 2009. Recent U.S. federally inspected slaughter is averaging under 2.15 million head/week and is running 3% year-to-date lower than 2009.

## Feed Grain Prices

Prices for corn, soybean meal and dried distillers grain (DDGS) for the week ending March 27, 2010 showed Ontario having higher corn (+12%), soybean meal (+4%) and DDGS (+31%) prices than Iowa (Table 5). Ontario corn has decreased 18% compared to a year ago while DDGS prices have decreased 24%. Ontario soybean meal prices are down 28% compared to a year ago.

U.S. price projections for the 2009/10 crop year are \$3.45-\$3.75/bushel for corn and \$280-\$310/ton for soybean meal which are down 6%-15% compared to last year. Canadian price projections for corn are \$135-\$155/tonne which is 7%-19% lower than last year.

Table 5 shows that estimated feed grain costs for a farrow-to-finish operation show Iowa currently having an advantage by approximately \$5/head which is similar to the previous week. Iowa had a \$4/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 4 Ontario Pig Production Distribution

Volume (head)	Week Ending		
	Mar 20-2010	Mar 13-2010	Mar 21-2009
Ontario F.I. Slaughter	78,777	78,969	86,303
Ontario P.I. Slaughter	7,107	7,268	5,991
Hogs Slaughtered in Ontario	85,884	86,237	92,294
Exports to other Provinces*	3,569	3,179	4,408
Total Ontario Hogs Slaughtered in Canada	89,453	89,416	96,702
Exports to U.S. -Slaughter Hogs	4,650**	3,389	3,287
Exports to U.S. -Feeder Pigs	16,068**	21,070	14,120
Total Estimated Production*	110,171	113,875	114,109
Canada F.I. & P.I. Slaughter	419,226	423,512	411,978
U.S. F.I. Slaughter	2,166,000	2,134,336	2,157,718

Source: AAFC, USDA.

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

\*\*Previous 13 week average, figures not yet available; Complete figures not yet available for week ending March 27, 2010.

Table 5 Ontario and Iowa Feed Grain Prices

Value (\$C/tonne)	Week Ending		
	Mar 27-2010	Mar 20-2010	Mar 28-2009
<b>Ontario</b>			
Corn (No. 2)	149.54	152.75	182.25
Soybean Meal (48%)	322.23	308.44	446.91
DDGS	138.00	150.00	182.00
F-F Feed Grain Cost (\$C/head)*	59.96	59.90	76.59
<b>Iowa</b>			
Corn (No. 2)	133.60	135.72	176.50
Soybean Meal (48%)	308.41	300.98	401.80
DDGS	105.24	109.40	162.84
F-F Feed Grain Cost (\$C/head)*	54.90	54.97	72.16
Exchange Rate (\$C/\$US)	0.9783	0.9845	0.8123

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. The OMAFRA monthly swine budgets have now shown a loss for 40 consecutive months. It is estimated that Ontario processors currently are showing slight losses to possibly being breakeven in terms of profitability. As of early March, U.S. wholesale cutout values had increased \$17 per head since late December but have since decreased a little. However, this has supported U.S. hog prices. A stronger Canadian dollar has dampened the impact on Canadian wholesale pork values.

For processors, the gross margin is the wholesale cutout value less the hog value. Cutout values are similar to a year ago while hog values are also similar. The gross margin is currently \$19/head which is down \$5/head compared to a week ago but up \$2/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 \$4/head from a week ago and up \$17/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 March 1, 2010 showed the U.S. breeding herd was down 4% from last year and down 2% from December 1. The breeding herd has dropped 8% since it's last peak in December 2007. Market pig figures were down 3% from a year ago and down 2% from last quarter. U.S. average weekly sow slaughter numbers in the first part of 2010 are down 3% compared to 2009.

The Statistics Canada January 1, 2010 survey showed Canadian market pig figures were down 5% from a year ago and down 2% from October 1. The Canadian breeding herd was down 4% from last year and down 1% from last quarter. The breeding herd figures are the lowest since 2000. Ontario figures showed that the breeding herd was down 3% from last year and down 2% from October 1. Ontario market pig figures were down 8% from last year and down 5% from last quarter.

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

Price (\$/head)	Week Ending		
	Mar 20-2010	Mar 13-2010	Mar 21-2009
<b><u>Processor</u></b>			
Cutout Value*	153	154	152
Hog Value	134	130	135
Gross Margin	19	24	17
Hog Value / Cutout Value (%)	88	84	89
<b><u>Producer</u></b>			
Hog Value	134	130	135
Farrow-to-Finish Feed Grain Costs*	60	60	78
Gross Margin	74	70	57
Feed Grain Costs / Hog Value (%)	45	46	58

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

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

	Head (million head)			
	US (Mar 1)	Canada (Jan 1)	Ontario* (Jan 1)	Ontario** (Dec 1)
Breeding Herd	5.760	1.335	0.348	0.362
Market Pigs	58.228	10.295	2.520	2.810
All Pigs	63.988	11.630	2.868	3.172

Source: USDA, Statistics Canada, University of Guelph, Ridgetown Campus

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

The December 1, 2009 survey done by University of Guelph, Ridgetown Campus estimated the Ontario breeding herd at 362,120 head. This is down 1% from September 1, 2009 estimates and down 4% from a year ago. Market pig figures were estimated at 2.810 million head which is down 3% from September and down 9% from a year ago.

## Outlook

The USDA March hogs and pigs report and the Statistics Canada January inventory report showed that the North American breeding herd is continuing to contract. U.S. hog prices have strengthened recently with futures prices forecasting small profits for U.S. producers in the second and third quarters of 2010. The U.S. breeding herd needs to contract more to offset productivity gains but this reduction may be slowed due to the higher hog prices.

Canadian producers have just gone through the final tender process of the Hog Farm Transition Program. The first three tenders combined involved \$60.3 million allotted to 334 successful bids representing 103,751 sows, 220,618 weaners (up to 30 kg) and 333,042 hogs (from 31 kg to market weight) which will be removed from production for three years. Based on the July 1, 2009 Statistics Canada inventory figures (since the program was announced in August 2009) this production represents about 8% of the national sow herd. Detailed results for the pig numbers of the fourth and final tender involving \$15 million have not been released yet.

Feed costs have declined since the December newsletter and are significantly lower than a year ago at this time. The USDA has estimated the 2009 U.S. corn and soybean crops as the largest on record. U.S. corn prices are projected to be 8%-15% lower (\$0.31-\$0.61/bushel) for this crop year than last year. Soybean meal prices are projected to be 6%-15% lower (\$21-\$51/ton). AAFC is projecting Canadian corn prices in the \$135-\$155/tonne range which are 7%-19% lower than last year.

The outlook for Ontario hog prices for the next 10 months shows prices that are close to the breakeven with the potential for a small profit through the summer period of 2010. Table 8 shows Ontario Pork Forward Contract Prices, the 5 year average basis and the estimated net price for April 2010 to January 2011. The Forward Contract Prices incorporate both the Chicago Mercantile Exchange's lean hog and the Canadian dollar futures prices.

Table 9 shows U.S. forecast prices based on the March USDA hogs and pigs report. Since the December report, futures and cash market prices have increased and currently appear to be on an upward trend.

Farrow-to-finish profitability estimates by Iowa State University for January and February 2010 show that the average loss for Iowa producers was \$US 2/head. OMAFRA estimates Ontario farrow-to-finish losses at \$C 22/head for the same period. The estimated cost for Ontario for March is \$145-\$155/head.

**Table 8 Ontario Pork Forward Contract Prices, March 26, 2010**

(\$/100 kg dressed, index 100)	Forward Contract Price	5 Year Average Basis	Estimated Net Price
Period			
April 15—May 15, 2010	144.72	-15.11	129.61
May 16—June 14, 2010	149.65	-1.36	148.29
June 15—July 15, 2010	150.37	-1.09	149.28
July 16—August 14, 2010	148.94	-3.39	145.55
August 15—September 15, 2010	130.80	+8.26	139.06
September 16—October 14, 2010	130.96	-0.90	130.06
October 15—November 15, 2010	126.68	-3.14	123.54
November 16—December 14, 2010	126.68	-9.87	116.81
December 15—January 15, 2011	130.71	-17.18	113.53
Average	137.72	-4.86	132.86

Source: Ontario Pork.

**Table 9 Forecast Hog Prices Based on March 2010 USDA Hogs & Pigs**

Quarter	Forecast Hog Prices		
	Lawrence (\$US/cwt live)	Grimes/Plain (\$US/cwt lean)	Ontario Equivalent (\$C/100 kg, index 100)
Period			
January-March	n.a.	68.60	126
April-June	n.a.	71-75	131-138
July-September	n.a.	73-77	135-142
October-December	n.a.	66-70	122-129
2010 Average	n.a.	70-73	129-135

Source: March 2010 Quarterly Hogs & Pigs Report Summary by Glenn Grimes and Ron Plain; March 2010 Hog and Pig Report analysis by Iowa State University (John Lawrence) not available (n.a.).

Note: Ontario Equivalent based on Ontario Base Price Formula calculation using a \$C 1 = \$US 0.98 exchange rate. Does not include the estimated basis.

## Summary

The latest U.S. hogs and pigs report for March 1 is being viewed as bullish for prices. U.S. and Canadian breeding herd inventories are at their lowest levels in years. The current strengthening Canadian dollar is putting downward pressure on Ontario hog prices. However, the recent hog and wholesale pork price increases in the U.S., increased international export demand for U.S. pork, along with lower feed prices has allowed for some cautious optimism going forward.

**The North American Retail Environment.**  
**(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.*

During the past couple of years, there have been several price features in Canadian grocery stores involving low priced pork tenderloin, loins and ribs. These are products that are among the most popular and highest demanded pork cuts and yet these price features are typically less than half of the historical normal price range of these cuts. Sometimes these products are Canadian origin but often they are U.S. origin. This is a good news bad news situation. It's good from the standpoint that pork is being featured and a large volume is being sold and consumed by Canadian consumers. The bad news is it's at a low price and it's likely U.S. product. It has sometimes been easy to point a finger at a retailer (or processor) and complain that they are playing hardball with producers and not treating them fairly. If we look at the environment that these companies have to compete in, perhaps we can better understand the competition they face.

The largest pork processor in Canada is Maple Leaf Foods and the largest food retailer is the Loblaw Companies. These companies face intense competition from large international competitors. The U.S. based Wal-Mart is far and away the largest North American (and global) retailer at \$401.2 billion in sales. Ranked number three in North America (#8 in the world) is U.S. based Costco with sales of \$71 billion. Both of these companies have stores throughout Canada. The Loblaw Companies rank number 6 in North America (#24 in the world) with sales of \$28.9 billion.

In terms of food processors, Maple Leaf Foods ranks 23<sup>rd</sup> in North America in sales. Seven U.S. based companies with significant pork product presence in the North American retail market including Tyson Foods (#2), Smithfield Foods (#8), ConAgra Foods (#11), JBS USA (#13), Sara Lee (#16), Hormel Foods (#17), and Cargill (#21) are all larger than Maple Leaf in terms of food sales. This fierce competition at the retail and processing level creates a lot of pressure on the Canadian pork industry supply chain to continually search for advantages in costs, quality and innovation.

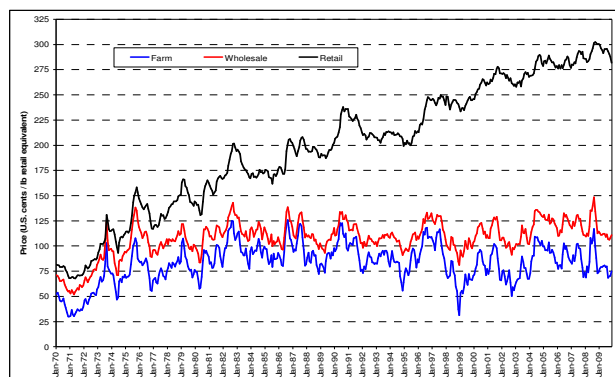
Retailers need a certain volume of product. There is the perception that Canadian retailers can't source enough Canadian product in a timely manner for these price features. It is much cheaper now to buy U.S. product due to the strong Canadian dollar. As long as the Canadian dollar remains strong relative to the U.S. dollar and the U.S. has similar food safety standards as Canada, there is going to be competition from U.S. pork products.

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There is also competition from other protein sources. Boneless chicken breasts and rib and t-bone beef steaks have also been sold during this same period for half to less than half of their historical normal price ranges. During a recession, consumers often switch to lower priced meat cuts. This has created downward pressure on the higher priced cuts like tenderloin and ribs.

Yes, retailers face aggressive competition but Figure 1 shows that the long term trend for monthly retail pork prices in the U.S. from 1970 to 2009 has been up while wholesale and farm prices tend to be more stable. The situation is similar in Canada.

**Figure 1. Monthly Pork Prices, U.S., 1970-2009**



Source: USDA

The retail-wholesale price spread has increased significantly over time as a result of these price trends while the wholesale-farm price spread has been relatively flat over time. This has put increasing pressure on wholesalers (i.e. processors) to look for efficiencies and cost-cutting measures through increased adoption of new technologies, value added measures and throughput. This in turn has put pressure on producers to do the same thing. It appears that retailers are able to pass on their increased costs to consumers easier than processors and producers. Processors and producers need to be able to do this as well. However, in today's competitive retail environment this is not easy.

There needs to be more detailed information shared among pork value chain participants. How much product is moved at retail level in terms of fresh/frozen vs. processed, type of cuts, price levels, branded vs. no name, and etc. Should producers know this information? Absolutely. Will producers ever know this information? Probably not, due to the extremely competitive and proprietary retail environment. But with all this talk about the importance of value chains and the need for information sharing among participants it is required now more than ever. That is, if Canadian retailers want to be able to provide Canadian produced pork to Canadian consumers in the long term.

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