

Lean hog and pork cutout futures opened up sharply higher this morning, and for good reason. The results of the quarterly USDA 'Hogs and Pigs' report were outside the range of pre-report estimates and market participants need to adjust their supply and price expectations for the next few months. Below are a couple of key numbers from the report. On page 2 we have included a full summary of the report results:

- USDA reported the **inventory of all hogs** at 75.352 million head, 3.082 million head or 3.9% lower than a year ago. Coming into the report analysts were expecting the total inventory of market hogs as of September 1 to be 1.7% lower than a year ago. The 1.75 million head difference between the survey and pre-report estimates implies a significant reassessment of supply availability during the fall and winter.

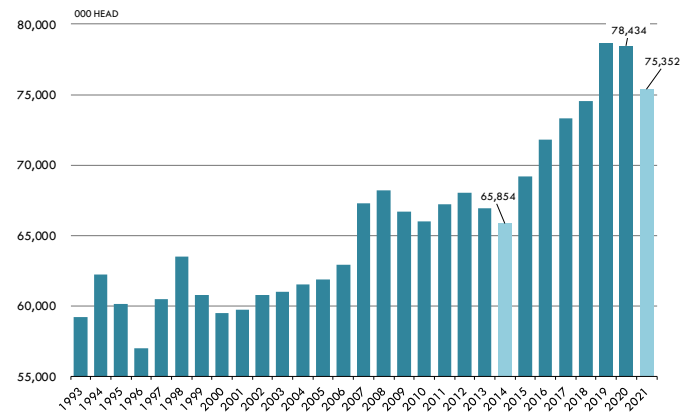
- The **inventory of market hogs** was estimated to be 69.162 million head, down 2.9 million from a year ago. Much of the y/y reduction was in the inventory of hogs under 120 pounds, hogs that should come to market this winter. Weekly hog slaughter could be down as much as 6% y/y during that period.

- In addition to providing a very bullish estimate for supplies later this year, USDA also made some **significant revisions to previous inventory estimates**. USDA lowered the pig crop for the Dec-Feb period by 1.292 million head or 3.9%, one of the biggest revisions on record. The reduction reflects the lower than expected slaughter during the Jun-Aug quarter. Many market participants have noted the impact that a new variant of PRRS had on producers last winter and the USDA report finally recognizes the shortfall in supply we saw during the summer months. USDA did not make any adjustments to the Mar-May period but that may happen in December once the slaughter numbers for the Sep-Nov quarter are collected. We think slaughter this quarter will be smaller than the survey suggests, which will probably result in more downward revisions.

- The other bullish number in the report concerned the size of the **breeding herd**. The USDA survey pegged the September 1 breeding herd at 6.190 million head or 2.3% lower than a year ago. This is about 70k head lower than analysts were expecting and 0.6% lower than the June quarter. Normally September breeding herd is higher than June. This is the first time since 2013 (coincidentally another high feed cost year) where the September inventory has been lower than June. We view the smaller breeding herd as bullish for next spring and summer. Coming into the report we thought analyst estimates for only a 1.1% decline in the breeding herd were too optimistic. High feed costs, uncertainty about China demand and upcoming changes in California marketing rules, presented producers with a lot of risk. Gilt retention was low and when combined with a relatively high sow slaughter it resulted in a notable reduction in the breeding herd.

September 1 Inventory of All Hogs and Pigs. 1993 - 2021

Source: USDA



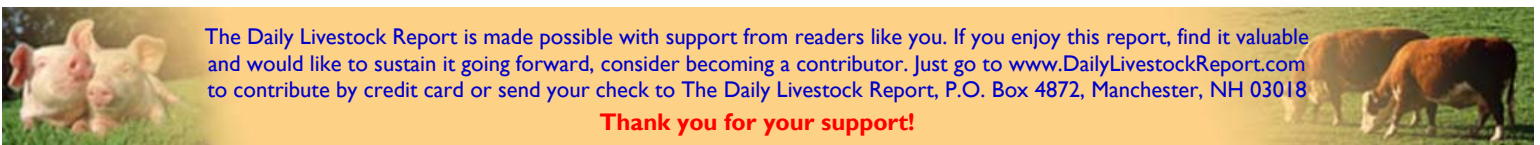
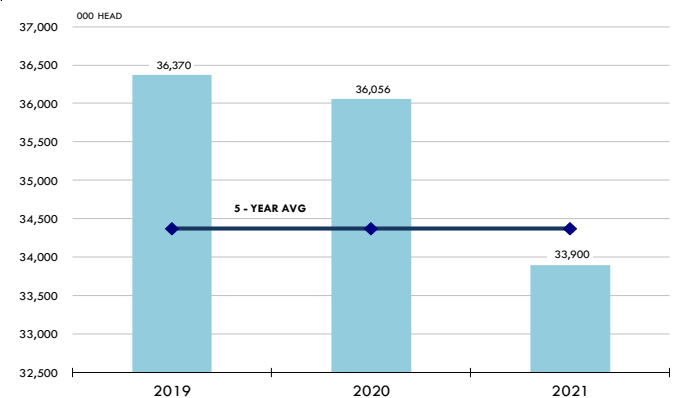
Hogs Kept for Breeding. Quarterly Inventory. '000 Head

Source: USDA-NASS. Analysis by Steiner Consulting



Pig Crop During Jun - Aug. '000 Head

5-YR AVERAGE (2015-20, 2019, 2020 and 2021)



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USDA HOGS AND PIGS REPORT: SEPTEMBER 1, 2021

| CATEGORY | 2019 | 2020 | 2021 | 2022 | 2021 AS % OF 2019 | 2021 AS % OF 2020 | 2022 AS % OF 2021 |
|-------------------------------|---------------|---------------|---------------|-------|----------------------|----------------------|----------------------|
| ALL HOGS AND PIGS | 78,583 | 78,434 | 75,352 | | 95.9% | 96.1% | |
| KEPT FOR BREEDING | 6,431 | 6,333 | 6,190 | | 96.3% | 97.7% | |
| KEPT FOR MARKET | 72,153 | 72,101 | 69,162 | | 95.9% | 95.9% | |
| 180 Pounds and over | 12,899 | 13,069 | 12,899 | | 100.0% | 98.7% | |
| 120 - 179 Pounds | 14,654 | 14,867 | 14,656 | | 100.0% | 98.6% | |
| 50 - 119 Pounds | 21,224 | 21,020 | 19,751 | | 93.1% | 94.0% | |
| Under 50 Pounds | 23,376 | 23,144 | 21,855 | | 93.5% | 94.4% | |
| <u>SOW FARROWINGS</u> | | | | | | | |
| DEC - FEB ^{1,2} | 3,098 | 3,068 | 2,922 | 2,962 | 94.3% | 95.2% | 101.4% |
| MAR - MAY | 3,132 | 3,149 | 3,067 | | 97.9% | 97.4% | |
| DEC - MAY ¹ | 6,231 | 6,217 | 5,989 | | 96.1% | 96.3% | |
| JUN - AUG | 3,274 | 3,260 | 3,046 | | 93.0% | 93.4% | |
| SEP - NOV ³ | 3,197 | 3,132 | 3,000 | | 93.8% | 95.8% | |
| JUN - NOV ⁴ | 6,471 | 6,392 | 6,046 | | 93.4% | 94.6% | |
| <u>PIG CROP</u> | | | | | | | |
| DEC - FEB ¹ | 33,164 | 33,745 | 31,978 | | 96.4% | 94.8% | |
| MAR - MAY | 34,455 | 34,644 | 33,584 | | 97.5% | 96.9% | |
| DEC - MAY ¹ | 67,619 | 68,389 | 65,563 | | 97.0% | 95.9% | |
| JUN - AUG | 36,370 | 36,056 | 33,900 | | 93.2% | 94.0% | |
| SEP - NOV | 35,459 | 34,713 | | | | | |
| JUN - NOV | 71,829 | 70,770 | | | | | |
| <u>PIGS PER LITTER</u> | | | | | | | |
| DEC - FEB ¹ | 10.70 | 11.00 | 10.94 | | 102.2% | 99.5% | |
| MAR - MAY | 11.00 | 11.00 | 10.95 | | 99.5% | 99.5% | |
| DEC - MAY ¹ | 10.85 | 11.00 | 10.95 | | 100.9% | 99.5% | |
| JUN - AUG | 11.11 | 11.06 | 11.13 | | 100.2% | 100.6% | |
| SEP - NOV | 11.09 | 11.05 | | | | | |
| JUN - NOV | 11.10 | 11.06 | | | | | |

(1) - Dec. preceding year

(2) - Intentions for 2022

(3) - Intentions for 2021

(4) - Actual farrowings for June-August plus intentions for September-November

