



## Pork: PEDv Losses Not As Large As Expected

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The headline for the [last USDA Hogs and Pigs report](#) could have been: "PEDv Losses Not as Large as Expected." A week later, spring and summer lean futures are down nearly \$10 per hundredweight, or about eight percent.

For the pork industry, the USDA's [March Hogs and Pigs report](#) was the most anticipated in decades. The report was the first national comprehensive measure of baby pig losses over the past six months due to the PED virus and the harsh winter. USDA received data from 6,100 pork operations across the country that were randomly surveyed in early March. As such, it is the broadest measure of the losses from an unbiased source.

Analysis of the report numbers suggests the nation's baby pig death loss over the past six months was about five percent. In contrast, one widely circulated report from an investment firm had predicted an 11 percent loss for pigs coming to market in 2014, with peak losses exceeding 20 percent for late summer marketings.

To gauge the magnitude of losses implied in the report, the actual number of pigs per litter can be compared with the trend adjusted pigs per litter that would have been expected. During the September to November 2013 quarter, baby pig losses were about two percent. Producers reported 10.17 pigs per litter to USDA compared to an expected trend adjusted rate of 10.4 pigs for the fall quarter. PEDv is thought to have had its biggest impact during cold weather months, and as expected, the losses were greater in the winter quarter which spans from December 2013 through February 2014. The national pigs per litter rate dropped to 9.53 compared to an expected trend rate of 10.3, a decline of over seven percent. Using this method of analysis suggests baby pig losses over the six months from September to February 2014 were about 2.7 million head, a number approaching five percent.

Data provided by USDA in the [Hogs and Pigs](#) report also allow an evaluation of the number of pigs per litter by month. This enables a comparison of the monthly pigs per liter relative to the expected trend adjusted rate. These results are consistent with the quarterly data but provide more detail regarding the timing of the losses. While PEDv was in some hog herds last summer, the national data does not pick up any impact on pigs per litter during the warm weather. The losses begin to show up in September 2013 with a pigs per litter reduction of 0.5 percent from trend rates. Then as the weather cooled the baby pig losses became greater:

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October -2%; November -3%; December -5%; January -8%; and February -8%. The large losses experienced in February probably mean that losses will continue to be large into March, but may lighten as the weather warms into April and the rest of spring. The USDA report only contained data through February 2014.

An additional contributor to fewer pigs per litter could have been the harsh winter weather. It is not possible to sort out how much of the lower rate is due to PEDv and how much is due to unusual weather. There are also some clues regarding where the virus was most destructive in the winter. Early indications are that the disease was very destructive in some states, others were moderately impacted, and others had little impact. This again is derived by examining state level pigs per litter this past winter relative to the trend adjusted expected pigs per litter rate. USDA reports for only 16 of the major production states. States that had heavy losses this past winter by this analysis were: Ohio -21%, Missouri -16%, Colorado -14%, North Carolina -14%; Oklahoma -13%, and Michigan -10%. Those states that seemed to experience a moderate impact were: Iowa -6%; Kansas -6%, Indiana -4%; Illinois -2% and Nebraska -2%. Those states that showed little to no impact on pigs per litter were Minnesota, Pennsylvania, Texas, Utah, and South Dakota. A note of caution: This analysis may be providing misleading implications since the USDA survey was not designed to answer the specific question of pig loss by state.

What about the impact of pig losses on spring and summer slaughter numbers? April and May hog supplies would be down three percent and summer supplies down about four percent. One reason these supplies are not even lower is that pork producers were already into an expansion phase in which the winter's farrowings were up three percent. So a three percent increase in winter farrowings with a seven percent decline in pigs per litter provides about four percent lower summer slaughter. These more modest reductions in hog slaughter numbers will be further offset by higher marketing weights this spring and summer. Thus, pork supplies will not be dramatically reduced. Weights will run nearly three percent higher this spring and summer, so pork supplies may only be down one to two percent if the USDA inventory count is close?

Hog and pork prices are still so high that they seem unjustified by current USDA inventory numbers. Wholesale pork prices shot to record highs on anticipation of large baby pig death loss, but producers told USDA those losses are not so large. The average pork cut price is about 50 cents per pound, or 60 percent, higher than at the same time last year while pork loins are up 38 cents, hams up 55 cents and pork bellies used to make bacon are up 66 cents per pound. These are extraordinarily high prices, especially if pork supplies are only down marginally this spring and summer as the USDA inventory count suggests. To maintain these lofty prices some market participants will have to hold to the belief that the death loss was actually much higher than USDA captured in this survey.

Hog prices and lean futures are expected to remain unsettled and potentially very volatile over the spring and summer. No one knows for sure what the death losses have been, or what they will be in the future. Market participants will watch daily and weekly slaughter rates for signals of what the true death loss was. Even with the nearly \$10 drop in summer lean futures in the week after the report, they are still suggesting \$89 per hundredweight live prices for the second quarter and \$82 for the third quarter. These provide record high profits for those not heavily affected by PEDv. Live prices for the last quarter of the year are expected to be in the mid-\$60's with winter prices in the very low \$60s. These would make 2014 a record profit year for the industry which should stimulate further expansion of farrowings.

Producers using lean futures to hedge spring and summer contracts will want to make sure they have a hedging line of credit with their lender as volatile markets could imply substantial margin calls.

## References

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