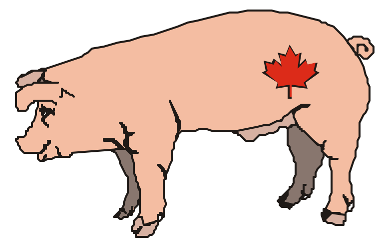
Agriculture and Agri-Food Canada   Agriculture et Agroalimentaire Canada

Quarterly Pork Report

July-September 2005



Manitoba Regional Office

ISSUE #27 AUGUST, 2005

1. Overview of World Situation

On August 2nd, the *Central American-Dominican Republic Free Trade Agreement* with the US became law. This will see reductions/eliminations of tariffs and trade barriers on US red meat exports to Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic

The *European Commission* has released its agricultural forecasts for the EU-25 for 2005 to 2012. Pork production and consumption is projected to continue to increase but at smaller percentages that occurred during the past decade. Pork production is expected to be 21.9 million tonnes in 2005 while consumption will be 19.9 million tonnes. Pork exports for 2005 are projected to fall 9.4% from the previous year to 1.31 million tonnes.

Japan pork imports for the first four months of 2005 indicate that Canada's share of the import market has increased from 21.6% in 2004 to 24% in 2005. Canada exported 74.3 thousand tonnes for the first four months, 13.2% more than the same period in 2004. In total, 309,433 tonnes were imported (about 81% as frozen product). The US market share increased from 92.2 thousand tonnes to 100.8 thousand tones. The increase in market share by Canada and the US was at the expense of Denmark. The increase in imports in April is directly related to the lifting of the pork safeguard on April 1 and the subsequent decline in tariffs.

Reports out of *China* indicate that a bacterial disease, Streptococcus suis, has spread throughout the Sichuan Province. The disease has killed 39 people and sent another 214 to hospital. The transmission to humans has been to those who have slaughtered infected pigs and/or those who have eaten them. Surrounding provinces have banned pork from Sichuan. It is unclear at this time if the suspension of Sichuan pork exports will impact China's pork sales as other provinces may fill this void.

Australian courts will hear an appeal on August 23rd and 24th of the earlier ruling against the import risk assessment that allowed processed pork to be imported. The previous ruling had banned the import of products from Canada, the US and several other countries as the judge had found the imports potentially putting the Australian industry at risk from post-weanling multisystemic wasting syndrome. The Australian Government had taken the approach that the specific permits were not valid, but the process of assessment was sound. The government has launched an appeal while the Australian Pork Ltd. (APL) has decided to ask for a notice of contention to have the ruling applied to all other permits. Although the case will be heard in Federal Court, it could be subject to further appeals at the Supreme Court.

Canada

2. Overview of US Situation

2.1 US Hog Inventories

Table 1 presents the total number of hogs and pigs on farms as of June 1, 2005. Total inventory was 60.8 million head. This was unchanged from June 1, 2004 but up 2% from March, 2005. Market hog inventory, at 54.8 million head, also was unchanged but 2% higher than the last quarter.

The March to May, 2005 pig crop at 25.9 million head was 1% more than 2004. The sows that farrowed in this period were equivalent to 48% of the total number of sows. Pigs saved per litter averaged 9.02 compared to 8.93 the previous year.

Table 1: US Hogs and Pigs On Farms, June 1, 2003 to 2005

	2003	*2004*	*2005*	*2005/2004*	
Total Hogs & Pigs on Farms	000's of head			% Change	
Total Number	59,602	60,698	60,812	nc	
Kept for Breeding	6,026	5,937	5,977	+1	
Market Hogs	53,576	54,760	54,834	nc	
Market Hogs By Weight					
< 60 lbs	20,433	20,292	20,223	nc	
60-119 lbs	12,952	13,500	13,456	nc	
120-179 lbs	10,828	11,256	11,343	+1	
180+ lbs	6,363	9,714	9,813	+1	
	2003	*2004*	*2005*	*2005/ 2003*	*2005/ 2004*
Farrowing Intentions	000's of head (Sows Farrowing)			% Change	
December*-February	2,769	2,836	2,851	+3	+1
March-May	2,886	2,870	2,870	-1	nc
December- May	5,655	5,706	5,721	+1	nc
June- August	2,918	2,905	2,902	-1	nc
September-November	2,856	2,888	2,880	+1	nc
June-November	5,773	5,793	5,783	nc	nc

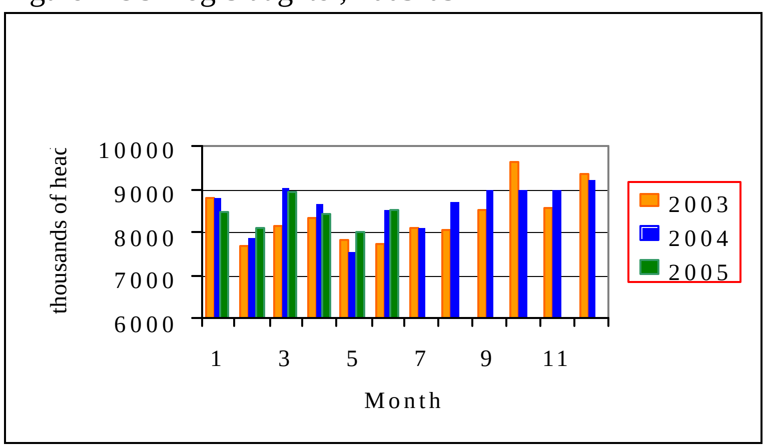
Source: USDA *December from previous year

2.2 US Hog Slaughter and Projections

Commercial hog slaughter for the January to June period was 50.56 million head, relatively unchanged from 2004. Commercial pork meat production totalled 10,158 million lbs up 1% from January to June 2004. This increase in production is related to higher carcass weights (267.2 lbs/carcass in 2004 versus 270 lbs/carcass in 2005).

This stability in hog slaughter/pork production has been accompanied by

Figure 1 US Hog Slaughter, 2003-05



increases in storage stock levels. Storage stocks on January 1st were 482.9 million lbs. They peaked at 563.8 million lbs on May 1st and have declined slightly to 491.7 million lbs by July 1st. As of July 1st, these storage stocks represented a 31.8% higher level than 2004.

National average barrow and gilt prices for the January to March period were US$51.92/cwt compared to US$54.35/cwt in the previous quarter and US$44.18/cwt for the first quarter of 2003. Preliminary results for the second quarter indicate an average of US$52/cwt compared to $54.91/cwt for the same quarter in 2004.

Prices for the third quarter of 2005 are expected to average US$46-48/cwt with the fourth quarter projected at US$40-42/cwt. The annual average price for 2005 is expected to be US$47-49/cwt.

As shown in **Table 2**, preliminary US pork export numbers in 2005 were 2.55 billion lbs up 17% from 2004. Pork exports benefited from disease-related trade restrictions on US beef and poultry products imposed by several countries. Exports for 2006 are projected to be 2.75 billion lbs. Imports of pork have been around the 1.0 billion pound range. Imports have slightly declined over time as US production increases. Expectations are for volumes in 2005 at 1.02 billion lbs with levels declining to 0.96 billion lbs in 2006. About 80% of pork imports are from Canada.

Figure 2 US Cold Storage Stocks, 2003-05

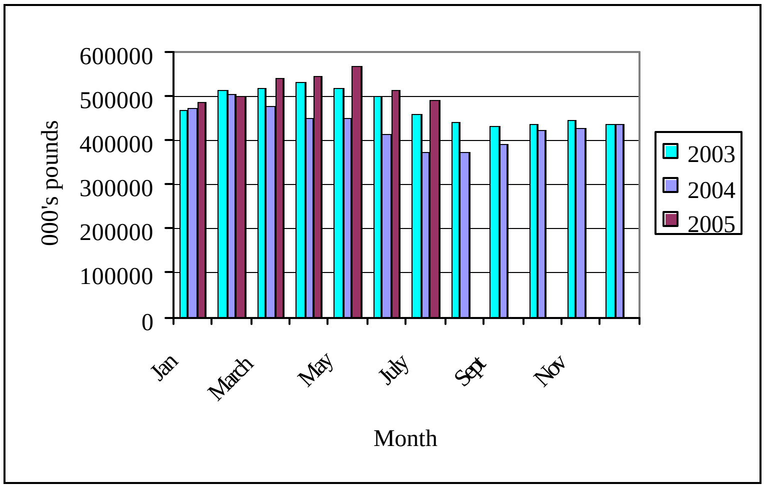


Figure 3 US Average Live Weight of Hogs Slaughtered

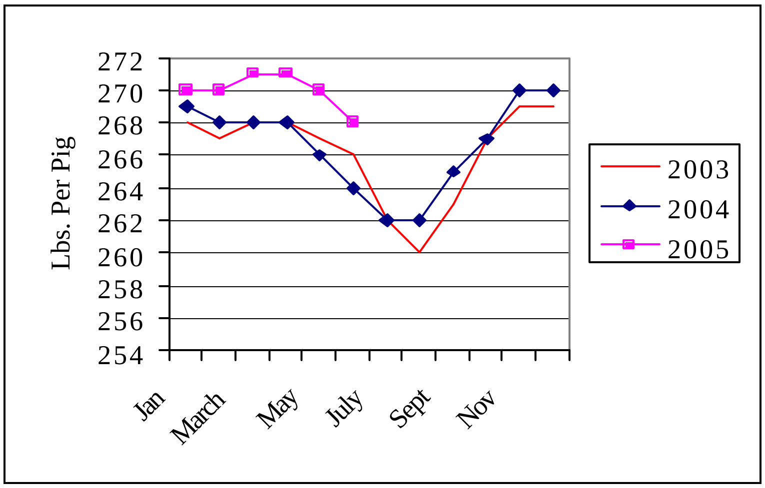


Table 2: Pork Prices and Trade Actual and Projected Values, 2001-2006

Timeframe	Barrow & Gilt Prices National Base $/cwt	Pork Exports Millions of Pounds	Pork Imports Millions of Pounds
2001, annual	45.81	1,560	951
2002, annual	34.92	1,611	1,070
2003, annual	39.45	1,717	1,185
1st quarter, 2004	44.18	523	275
2nd quarter, 2004	54.91	546	265
3rd quarter, 2004	56.58	486	291
4th quarter, 2004	54.35	624	268
2004, annual	52.51	2,179	1,099
1st quarter, 2005	51.92	630	245
2nd quarter, 2005	53-54	635	250
3rd quarter, 2005	48-50	580	270
4th quarter, 2005	40-44	700	250
2005, annual	48-50	2,545	1,015
1st quarter, 2006	44-48	665	240
2nd quarter, 2006	46-50	690	235
3rd quarter, 2006	na	na	na
4th quarter, 2006	na	na	na
2006, annual	43-47	2745	960

Source, USDA, Economic Research Service, Livestock, Dairy & Poultry Outlook, July 18, 2005

3. Canadian Situation

3.1 Canadian Hog Inventories

Table 3 indicates the July 2005 statistics related to hogs on farms in Canada. Total hog numbers were virtually the same being only 0.9% higher than the same date in 2004. Breeding herd numbers were up 0.9% while market hog inventories were up 1% overall weight categories.

Table 3: Canadian Hog Inventories, July 1, 2005

	BC	AB	SK	MB	ONT	QUE	CANADA
Total Hogs & Pigs on Farms				*Thousands of Head*			
2004	170.0	2,030.0	1,350.0	2,890.0	3,690.0	4,350.0	14,837.7
2005	170.0	2,020.0	1,395.0	2,940.0	3,725.0	4,380.0	14,976.0
% change	nc	-0.5	+3.3	+1.7	+0.9	+0.7	+0.9
Female Breeding Herd				*Thousands of Head*			
2004	21.0	207.0	128.8	362.0	431.7	416.5	1,599.5
2005	20.7	216.8	131.2	366.6	430.0	416.3	1,614.2
% change	-1.4	+4.7	+1.9	+1.3	-0.4	nc	+0.9
Market Hogs				*Thousands of Head*			
2004	148.2	1,816.2	1,216.5	2,521.7	3,247.3	3,927.2	13,201.3
2005	148.6	1,796.6	1,259.5	2,568.1	3,284.4	3,957.9	13,327.4
% change	+0.3	-1.1	+3.5	+1.8	+1.1	+0.8	+1.0
Farrowing Intentions				*Thousands of Head*			
July-Sept 2005	10.0	110.0	72.0	213.0	237.0	212.5	871.7
% change 05/04	nc	+6.5	+12.3	-2.2	-0.8	+3.5	+1.8
Oct-Dec 2005	9.7	113	71.8	215	234	214.3	875.1
% change	+2.1	-1.7	-1.9	-2.5	-6.2	+0.3	-2.7

Source: Statistics Canada

3.2 Canadian Hog Slaughter

Federal and provincial slaughterings in Canada to July 30th are shown in **Table 4**. The weekly hog data would compare July 30, 2005 to July 24, 2004. Although final monthly figures are not available yet, the July 31, 2004 compared to July 30, 2005 would provide a close approximation. Based on the monthly data, Manitoba's slaughter was 3.5% more than in the first six months of 2004, reflecting a continued decrease in live hog exports into the U.S. **Table 5** indicates the origin of the hogs slaughtered. Manitoba had significant increases in 2005 compared to 2004.

Table 4: Canadian Hog Slaughter (Federal and Provincial), January to July, 2004 and 2005

Province	Jan 1 -July 31 2004	Jan 1-July 24 2004	Jan 1-July 30 2005	% change Jan 1-July 31, 2004 compared to Jan 1-July 30, 2005
	Number of head			
BC	304,630	294,775	292,087	-4.1
Alberta	1,774,231	1,714,163	1,758,745	-0.9
Saskatchewan	686,335	668,318	610,502	-11.0
Manitoba	2,521,220	2,437,816	2,609,076	+3.5
Ontario	2,756,639	2,675,784	2,650,883	-3.8
Quebec	4,863,726	4,703,262	4,668,363	-4.0
Atlantic	302,634	293,884	264,050	-12.7
Canada	13,209,415	12,788,002	12,853,706	-2.7

Source: Agriculture and Agri-Food Canada, Red Meat Section, weekly hog statistics, July 31, 2004 and July 30, 2005.

Table 5: Canadian Hog Slaughter By Province of Origin, January to July, 2004 and 2005

Province	Jan 1-July 31, 2004	Jan 1-July 24 2004	Jan 1-July 30 2005	% change Jan 1-July 31, 2004 compared to Jan 1-July 30, 2005
	Number of head			
BC	145,975	141,537	133,398	-8.6
Alberta	2,046,971	1,978,095	2,011,531	-1.7
Saskatchewan	789,633	767,386	735,859	-6.8
Manitoba	2,303,837	2,228,054	2,389,622	+3.7
Ontario	3,097,769	3,003,408	3,039,280	-1.9
Quebec	4,475,509	4,330,215	4,229,012	-5.5
Atlantic	349,721	339,307	315,004	-10
Canada	13,209,415	12,788,002	12,853,706	-2.7

Source: Agriculture and Agri-Food Canada, Red Meat Section, weekly hog statistics, July 31, 2004 and July 30, 2005.

3.3 Canadian Exports

Table 6 indicates live hog exports for the first six months of 2005 compared to 2004. The data indicates that volumes of weanlings, feeder and slaughter hogs have declined. This trend is expected to continue as the Canadian industry expands its slaughter/processing capacity and reduces its dependence on the US market.

Table 6: Live Hog Exports, $000's and number of head

Item	Jan-Dec 2004	Jan-June 2004	Jan-June 2005
hogs less than 50 kg			
Value	245,888	121,295	151,610
Number	5,626,871	2,850,029	2,619,733
hogs 50 kg or more			
Value	453,501	207,890	208,724
Number	2,876,320	1,390,313	1,223,296
purebred breeding stock			
Value	3,442	1,146	1,441
Number	7,672	2,540	5,091

Source: Statistics Canada, CATS Database

Table 7 indicates year end Canadian pork exports and exports for the first six months of 2005 compared to 2004. The sales value for frozen pork has increased significantly (up 36%) compared to 2004. Increases also occurred for offal (+26%) and fat (+40%). Chilled pork exports were relatively unchanged while processed product sales declined 26%. Overall values increased 11.3% for the first six months of 2005 compared to 2004 and tonnages were 11.1% higher. The decline in live hog exports has seen an increase in domestic slaughter and expansion of pork exports.

Table 7: Canadian Pork Exports, $ 000 and tonnes

Item	Jan-Dec 2004	Jan-June 2004	Jan-June 2005
Chilled			
Value	1,127,251	542,261	539,983
Tonnage	333,562	157,250	164,627
Frozen			
Value	950,010	480,556	653,431
Tonnage	338,895	177,284	219,279
Offal			
Value	126,774	57,468	72,680
Tonnage	122,162	58,276	65,933
Fat			
Value	48,269	23,224	32,634
Tonnage	44,433	23,444	26,396
Processed			
Value	402,118	199,392	151,499
Tonnage	92,121	45,641	36,526
Total			
Value	2,654,422	1,302,901	1,450,227
Tonnage	931,173	461,895	512,761

Source: Statistics Canada CATS database

3.4 Market Outlook

As shown in **Table 8** the George Morris Centre expects hog prices to follow traditional seasonal patterns.

Table 8: Market Price Forecasts

Average Hog Price Forecasts		
Period	Ontario C$/100kg	Alberta C$/100kg
September, 2005	135-140	130-135
October, 2005	130-135	125-130
November, 2005	120-125	115-120
Fourth Quarter	130-135	125-130
First Quarter, 2006	140-145	130-135
Second Quarter, 2006	145-150	140-145

Source: George Morris Centre, Canadian Pork Market Review, August 19, 2005.

4. Manitoba Situation

4.1 Manitoba Production/Inventories

As shown in **Table 9** , the expansion of the hog industry in Manitoba has continued from the previous year with the greatest increase in the number of market hogs in the under 20 kg reflecting the decrease in the number of weanlings that had previously been exported into the US.

Table 9: Comparison on Manitoba Hog Numbers on Farms, 000's Head

Category	July 1, 2004	April 1, 2005	July 1, 2005	% change July 1/05 to July 1/04
Sows & Gilts for Breeding	362.0	370.2	366.6	+1.1
Boars	6.3	5.4	5.3	-20.6
Total Market Hogs	2,521.7	2,534.4	2568..1	+1.8
<20 kg	977.0	1,019.8	1,020.3	+4.4
20-60 kg	782.2	756.9	796.8	+1.9
>60 kg	762.5	757.7	751.0	-1.5
Total Hogs	2,890.0	2,910.0	2,940.0	+1.7

Source: Statistics Canada

4.2 Manitoba Slaughter

Manitoba hog slaughterings for January to July of 2005 totalled 2,537,760 head in federally inspected plants and 71,316 head in provincial plants. The federal slaughterings were 4% more than for January to July, 2004 while provincial numbers for the same period were 12.8% less than year ago levels. Of the total number of hogs slaughtered in Manitoba, 2,389,622 head, 92% originated in Manitoba.

4.3 Manitoba Exports

Table 10 indicates Manitoba exports of live hogs and pork. Live hog exports continue to increase to the US reflecting the demand of US producers for quality weanlings. In terms of pork exports, sales for the first half of 2005 were $248.8 million, about 15% less than 2004 as increases in the volumes and value of frozen pork, offal and fat did not offset declines in processed pork products. Manitoba's exports were 36% chilled, 34% frozen and about 21% offal on a volume basis.

Table 10: Manitoba Exports of Hogs and Pork

	Value$000's		Quantity no. of head or tonnes	
	Jan-June 2004	Jan-June 2005	Jan-June 2004	Jan-June 2005
hogs less than 50 kg	76,193	102,006	1,637,410	1,789,555
50 kg and up	85,630	101,617	572,656	588,339
purebred	12	162	40	229
Total Live Hogs	161,835	203,785	2,210,106	2,378,123
chilled pork	112,624	113,448	35,872	33,585
frozen pork	73,942	102,705	27,203	31,783
offal	17,674	21,727	18,329	19,368
fat	3,283	6,674	3,370	6,786
processed pork	8,253	4,271	2,090	1,332
Total Pork	291,969	248,825	86,864	92,854

Source: Statistics Canada CATS database.

5. Industry News in North America

WTO Update

Talks are continuing. Topics under discussion range from use of the green and blue boxes to developing a methodology for implementing tariff reductions. State trading agencies and the future of the Canadian Wheat Board will be of particular interest to Western Canadian farmers. For further updates on the WTO refer to www.agr.gc.ca/itpd-dpci/indexe.html.

CODEX Proposal

The Codex Alimentarius Commission (CAC) will establish a new task force next year to develop a holistic approach to antimicrobial resistance. The World Heath Organization (WHO) and United Nations Food and Agriculture Organization (FAO) consider resistance to antimicrobial drugs due to antibiotic usage as an emerging public health issue. Because the issue crosses different sectors from animal health to human health to drug manufacturing the task force will have a challenging time. The task force will use previously developed guidelines for the “prudent use of antimicrobials” as the starting point for these discussions.

5.1 US News Summary

Central American Free Trade Agreement (CAFTA) Passed

The US has signed a free trade agreement with Costa Rica, El Salvador, Guatemala, Honduras, the Dominican Republic and Nicaragua. The agreement will provide duty-free access to more than half of all US agricultural exports to the region and is expected to enhance exports of the $1.5 billion sales made to the region annually. Full details on the agreement can be found at www.ustr.gov

Triumph Foods Plant Prepares to Open

Construction of the $130 million hog processing plant in St. Joseph, Missouri is almost complete. The facility will process 1,000 head per hour and will eventually employ 1,000 people per shift. The plant will have some contract producers and also buy pigs as required on the spot market. Some analysts have suggested that a second shift may commence within two years.

Tyson and Producers Settle

Tyson Foods Inc has reached an out of court settlement with a group of 85 former contract growers for the company. Tyson has agreed to pay $42.5 million and the growers have agreed to properly close environmental waste systems no longer in use on their farms. Tyson had announced a restructuring three years ago which affected 130 contract growers and eliminated 200 other jobs on company farmers. The company reduced its sow herd from 100,000 head to 70,000 head in the process. The company reached a settlement with about 40 growers without litigation while the balanced filed a lawsuit against Tyson. The settlement was reached prior to next month's court date.

Red Ink Ahead?

Ron Plain is calling for prices in the low $30/cwt range by late 2007. Prices will be under pressure as producers are expected to increase the national sow herd by 150,000 sows in 2006. With pork demand down due to the Aikens diet honeymoon over, it may be difficult to keep prices up. Even with the growth in live hog demand, hog prices are expected to be near breakeven for the average-cost producer. Plain has stated that the breeding herd needs to decline 3-4% to maintain prices. A 3% increase in breeding herd would translate to 110 million hogs in 2007.

Fish Oil Supplements

USDA researchers are testing the use of fish oil and other supplements in swine diets to help boost immunity in piglets and reduce usage of traditional antibiotics. The use of spray-dried plasma in the feed starting at a 5-7% ration and reducing to 2.5-3.5 % over time is showing promising results.

Majestic Foods Fiasco

A group of hog producers has retained legal counsel to try and recoup monies owed them for hogs delivered to the plant. Legal counsel for the producers claims they have a stronger claim than others and is awaiting the analysis by Packers and Stockyards on the bond claims. Producers are owed $1.2 million.

Corporate Farming Law Challenged

A suit will proceed against Nebraska's 1982 law which prohibits corporations and certain other business entities from owning farmland or engaging in agricultural activity. The legislation requires at least one family member who owns the farm to be engaged in the day-to-day physical activities. The lawsuit contends that this law discriminates against people with disabilities.

Open Air Lagoons Gone?

North Carolina has had the Clean Hog Farms Act introduced into the assembly. This bill would ban open air lagoons and set a deadline for converting farms with more than 250 hogs to new systems. Studies are currently underway at North Carolina State University to determine if there are environmentally superior and economic alternatives.

Atkins Nutritional Inc. Seeks Bankruptcy Protection

Atkins Nutritional Inc, the company behind the low carbohydrate diet, has filed for bankruptcy protection on August 7th in New York State. The company which was founded in 1989 has claimed that rival products have flooded the marketplace and reduced sales. For 2004, the company had $301 million in assets and $325.1 million in liabilities, recording a loss of almost $341 million on sales.

5.2 Canada News Summary

Maple Leaf in Saskatoon

Maple Leaf Foods has announced that it plans to invest $160 million in a 20,000 head per week slaughter plant and to expand its fresh and value-added pork processing facilities. Of the total investment, $110 million will be spent on the new slaughter facility. This new facility will replace the 65-year old Mitchell plant that is running at 17,000 head/week capacity. Construction is scheduled to begin in mid to late 2006 with opening planned for 18 to 24 months later. The plant should employ 1,400 people with an additional 300 jobs if it is double shifted.

Brandon Second Shift Still Planned

Maple Leaf Foods insists its plans are still on for a second shift at Brandon. Rumours had been spreading that the shift had been shelved with the $110 million new slaughter facility in Saskatoon and the recently announced $250 million hog processing plant planned for Hamilton. Maple Leaf contends that the second shift at Brandon will depend on an expanded wastewater treatment facility and new overseas markets.

Olymel Looking for Concessions
Olymel is looking to employees to take a 20% wage cut citing the lower pork demand in Japan and more competition in international markets. The 450 employees have been told that they have until October to accept the reduction or face a plant shut down.

Community Pork Ventures Sold?
Court approval has been received to sell Community Pork Ventures 13 facilities in Saskatchewan and 3 in Manitoba (12,000 sows) to Big Sky Farms. The sale will increase Big Sky's herd to 52,000 sows. The Ventures system is contracted to Olymel in Red Deer. There is the potential that Big Sky may expand these sites as it may be easier to obtain the necessary permits than if one was to construct new facilities.

6. Documents/Events/Web Sites

6.1 Documents and Events
For the latest market reports and listing of events, please refer to AAFC's website at
http://ats.agr.ca/info/mkinfo-e.htm
http://ats.agr.ca/events/events-e.htm

This site is updated monthly.

6.2 Web Sites
There tends to be some confusion as to what Manitoba Agriculture Food and Rural Initiatives produces in terms of information and data and what Agriculture and Agri-Food Canada prepares. Manitoba Agriculture Food and Rural Initiatives as on its web site production economics (cost of production information), livestock sector profiles, trade information and the Weekly Market Report. Very useful information for both the generalist as well as the specialist!
Manitoba Agriculture Food and Rural Initiatives http://www.gov.mb.ca/agriculture/index.shtml

Agriculture Canada–Red Meat Section www.agr.ca/redmeat

Other web sites of value are:
The Canadian Swine Exporters Association at http://www.canadianswine.com/

Manitoba Pork at www.manitobapork.com
Canada Pork International at www.canadapork.com
Canada Pork Council at www.cpc-ccp.com
The US National Pork Producers site is http://www.nppc.org/
Good general website to connect to all universities, governments and industry associations is at:
http://www.umanitoba.ca/afs/animal_science/links.html

For the latest on Foot and Mouth Disease, go to the Canadian Food Inspection Agency site at: http://www.cfia-acia.agr.ca/english/toce.shtml

Export information can be found at the following sites: http://ats.agr.ca
http://www.itcan-cican.gc.ca/menu-en.asp
http://exportsource.gc.ca

The staff of the Manitoba Regional office would like to thank Patti Negrave of the Red Meat Section of Agriculture and Agri-Food Canada for her comments and suggestions provided to the authors prior to the document's final release.

Should you know of a person, company or other organization who would like to subscribe to this report (no charge), please have them contact:

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