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Cornhusker Economics

Agricultural Economics Department

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## Changing Hog Markets

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# Cornhusker

## Economics

Cooperative Extension

 Institute of Agriculture & Natural Resources  
 Department of Agricultural Economics  
 University of Nebraska – Lincoln

### Changing Hog Markets

Market Report	Yr Ago	4 Wks Ago	10/4/02
<b><i>Livestock and Products, Average Prices for Week Ending</i></b>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt .....	\$66.52	\$63.26	\$63.77
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt .....	86.50	*	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg .....	96.39	87.33	86.21
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt .....	105.59	98.12	99.81
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt .....	45.00	24.00	33.25
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd .....	34.65	14.50	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt .....	115.90	82.67	98.09
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt .....	*	68.50	72.75
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt .....	123.74	161.62	155.54
<b><i>Crops, Cash Truck Prices for Date Shown</i></b>			
Wheat, No. 1, H.W. Omaha, bu .....	2.81	4.84	4.89
Corn, No. 2, Yellow Omaha, bu .....	1.83	2.70	2.45
Soybeans, No. 1, Yellow Omaha, bu .....	4.20	5.41	5.17
Grain Sorghum, No. 2, Yellow Kansas City, cwt .....	3.49	5.05	4.80
Oats, No. 2, Heavy Minneapolis, MN, bu .....	2.09	2.00	2.28
<b><i>Hay, First Day of Week Pile Prices</i></b>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton .....	115.00	142.50	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton .....	77.50	92.50	82.50
Prairie, Sm. Square, Good Northeast Nebraska, ton .....	105.00	120.00	115.00

\* No market.

Pork producers may yet dodge the worst possibilities of the fourth quarter of 2002. With hog slaughter at or near record numbers in the third quarter, it appeared that a replay of the 1998 price disaster could have been in the making.

The September Hogs and Pigs Report gave some respite. The lean hog futures contract responded with gains in all months. In mid-September, the contracts for the spring and summer of 2003 indicated some uncertainty, as shown by the May contract (Figure 1).<sup>1</sup> The Hogs and Pigs Report gave solid support to the up-trends.

At this point some Nebraska producers have the opportunity to market at a profit in 2003. Data from the Nebraska Swine Enterprise records and the Nebraska Farm Business Association<sup>2</sup> shows that the top one third of Nebraska producers could return a profit of slightly over \$6.00 per hog sold in 2003. The top 10 percent of Nebraska producers could profit over \$13.00 per head on 2003 sales.

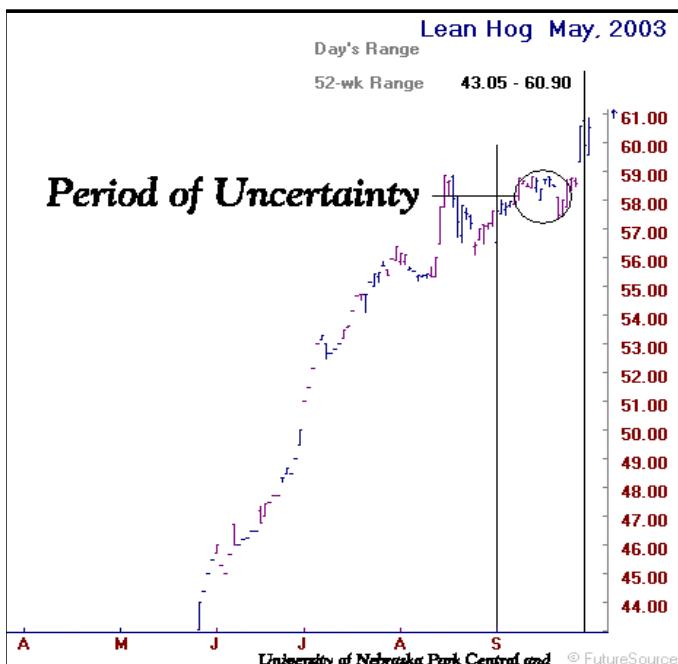
Of the categories analyzed, the largest year-to-year decline in the September Hog and Pigs Report was the 1.7 percent decline in the breeding herd inventory. Simmer marketings of sows and gilts foretold this possibility. The report confirmed that pork producers were reducing the breeding herd inventory. It appears producers reacted to the increasing supply of pork and

<sup>1</sup> AgWeb at: <http://www.agweb.com/><sup>2</sup> Nebraska Swine Enterprise Records are adjusted for inflation and 2003 feed cost. Nebraska Farm Business Records are adjusted for 2003 feed cost. 2003 feed cost are CBOT prices for corn and soybean meal available on 10-1-02.

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the pressure from competing meats to reduce production quicker than expected.

If the producers continue to react quickly to changing market conditions many could already be considering holding steady or even increasing production for 2003. Producers, who can profit from the prices currently being offered, may hold their herd size steady or increase slightly.

Larger operations produced 75 percent of the pig crop in 2001<sup>3</sup> (Figure 2). If those larger operations have profitable prospects for the 2003 marketings, the breeding herd may stabilize quickly. This could limit the reduction in available market hogs and temper the highs that might be expected in 2003. Pork producers will want to be aware of the potential limits on price. Glen Grimes and Ron Plain<sup>4</sup> have concerns about the slow down in breeding herd reduction as well.

In September they noted a decline in sow slaughter and expressed concern that the "decline in sow slaughter does not indicate producers are slowing the reduction in the breeding herd that we believe started during the last half of June." They emphasized that the "U.S. breeding herd needs to be reduced much more to get live hog prices to a level that would cure the wounds of 2002."

It is evident that there is considerable possibility that prices will not recover enough to **"cure the wounds of 2002."** The changing structure of the hog production industry may well create a market similar to that in some grains. Corn prices at terminal locations often do not reflect break even cost for most producers. However, with a combination of income extracted from price protection strategies and farm program payments, most corn producers will survive and some will thrive.

The hog production industry may be approaching a similar situation. Markets, as reported, may not reflect all the value that producers are extracting from a variety of sources. Producers may be extracting added value from intangible assets such as market price risk management, from premiums on consistent high quality production and from other contractual arrangements.

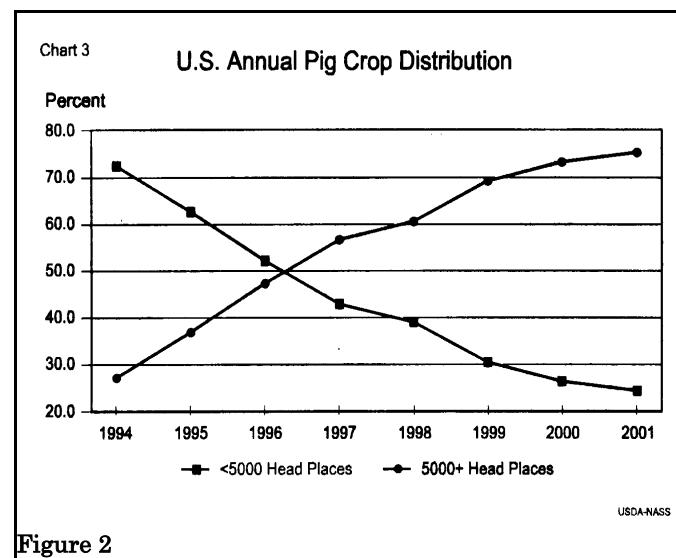


Figure 2

<sup>3</sup> U.S. Hog Breeding Structure, Agricultural Statistics Board, September 2002 5 NASS, USDA

<sup>4</sup> Glenn Grimes and Ron Plain, *Hogs and Pigs Report*, September 30, 2002, <http://agebb.missouri.edu/mkt/bull8c.htm>

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