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2004 Hog Prices - the "Perfect Storm"?

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Cornhusker Economics

Cooperative Extension

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

2004 Hog Prices - the “Perfect Storm”?

Market Report	Yr Ago	4 Wks Ago	10/8/04
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$97.96	\$81.18	\$83.58
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	110.99	128.26	125.21
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	111.07	116.07	110.85
Choice Boxed Beef, 600-750 lb. Carcass	165.19	130.81	132.99
Western Corn Belt Base Hog Price Carcass, Negotiated	51.74	72.02	71.23
Feeder Pigs, National Direct 45 lbs, FOB	42.78	42.17	45.72
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	60.04	71.70	74.29
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	91.25	93.50	89.00
National Carcass Lamb Cutout, FOB	211.62	215.53	219.84
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.25	3.39	3.16
Corn, No. 2, Yellow Omaha, bu	2.01	2.07	1.79
Soybeans, No. 1, Yellow Omaha, bu	6.95	5.41	4.88
Grain Sorghum, No. 2, Yellow Columbus, cwt	3.50	3.04	2.80
Oats, No. 2, Heavy Minneapolis, MN, bu	1.58	1.74	1.61
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	115.00	115.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	62.50	62.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	65.00	57.50	57.50
* No market.			

In 2004 we've had the highest hog prices since 1997 (Figure 1). At the same time, we have had record hog slaughter. Perhaps the most telling comment for this year was made by Glen Grimes at the National Pork Board Educators Seminar in September. Glen stated that in all his years he has never seen anything like this. Supply has been up and price has been up more.

September 7, 2004 was the largest single day hog slaughter, **ever!** Eight of the ten largest hog daily hog slaughter came between August (2) and September (6) 2004.¹ Despite the supply increase pork products have sold at higher prices. Total pork production for September was over 6 percent higher than September 2003, while pork cutout values were over 14 percent higher.

Cutout value indicates willing buyers. A number of explanations have been offered as to why buyers are so willing to pay up when supply is high. One is the export situation. With borders closed to movement of beef products, pork may have enjoyed some increased movement due to substitution. Also, problems with poultry which restricted international trade should have helped pork. On the domestic side, high protein diets have improved the image of eating meat, especially beef and pork. Has this been, in a positive sense, “the perfect storm” for pork?

For Nebraska pork producers all of this has led to a good year, so far. Using the Nebraska Swine Enterprise Records and Analysis Program (NSER&A) data, updated for 2004 feed cost, an average producer could have had a breakeven of \$40 per cwt live weight basis. Using average costs and the Nebraska hog price² Nebraska pork producers could have netted an average of \$27.45 per hog sold in 2004. The low came in January at -\$2.57 per head and the high was July at \$48.65 (Table 1).

¹ Ron Plain, Swine Economics Report, University of Missouri, October 6, 2004.

² Nebraska Ag Statistics Hog Price Series for Jan. through Sept. 2004.

Table 1. Hog Price, Breakeven and Profit Margins, 2004

	NASS Price	Breakeven Cost	Margin per cwt.	Profit per 260 lb. hog
January	\$39.30	\$40.29	-\$0.99	-\$2.57
February	\$43.70	\$40.29	\$3.41	\$8.87
March	\$48.20	\$40.29	\$7.91	\$20.57
April	\$48.50	\$40.29	\$8.21	\$21.35
May	\$57.20	\$40.29	\$16.91	\$43.97
June	\$58.00	\$40.29	\$17.71	\$46.05
July	\$59.00	\$40.29	\$18.71	\$48.65
August	\$57.30	\$40.29	\$17.01	\$44.23
September	\$56.00	\$40.29	\$15.71	\$40.85
Average \$ per hog sold for Jan. thru Sept. 2004				\$27.45

Using the NSER&A data again, locking feed cost into the future using the Chicago Board of Trade (CBOT) prices and using the Chicago Mercantile Exchange (CME) to set hog prices, average producers would be able to lock in \$6 to \$7 per hog through October 2005. A basis of -30¢ per bushel was used for corn, and soybean meal was priced per

ton at the CBOT level. CME lean hog futures were lowered by \$2.00 per cwt. for basis.

While that is considerably less than this year, it would still allow a profitable period through October of 2005. With the prices seen this year there is some room for optimism that 2005 prices could be better than the futures market now projects. For producers who have costs below the average, this year and next year could be more profitable than indicated above. With that in mind, and excepting those businesses who choose to exit the business when inventories will bring very good prices, there is little to encourage major reductions in the supply of live hogs.

Without a reduction in supply, demand will need to remain as good or better than it has been. The real question is, "how long can the current set of events continue?" Pork products have enjoyed a near "perfect storm" in a positive sense. The likelihood of that continuing another year is dependent on the border situation and when beef exports resume. Risk management practices that protect downward price moves may be prudent.

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**Figure 1.**