

# Cornhusker Economics

## Cooperative Extension

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

### The Hog Market

Market Report	Yr Ago	4 Wks Ago	5/21/04
<b><u>Livestock and Products,</u></b>			
<b><u>Average Prices for Week Ending</u></b>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt .....	\$78.31	\$86.26	\$86.05
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt .....	92.37	104.69	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg .....	96.86	113.00	111.28
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt .....	128.72	141.49	139.41
Hogs, US 1-2, 220-230 lb			
Sioux Falls, SD, cwt .....	*	48.75	53.50
Feeder Pigs, US 1-2, 40-45 lb			
Sioux Falls, SD, hd .....	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt .....	112.56	114.61	152.26
Slaughter Lambs, Ch. & Pr., 115-125 lb			
Sioux Falls, SD, cwt .....	*	*	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt .....	198.02	186.45	194.20
<b><u>Crops,</u></b>			
<b><u>Cash Truck Prices for Date Shown</u></b>			
Wheat, No. 1, H.W.			
Omaha, bu .....	3.37	3.73	3.79
Corn, No. 2, Yellow			
Omaha, bu .....	2.32	2.86	2.87
Soybeans, No. 1, Yellow			
Omaha, bu .....	6.17	9.65	9.04
Grain Sorghum, No. 2, Yellow			
Kansas City, cwt .....	4.00	5.16	4.91
Oats, No. 2, Heavy			
Minneapolis, MN, bu .....	1.68	1.93	1.68
<b><u>Hay,</u></b>			
<b><u>First Day of Week Pile Prices</u></b>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton .....	120.00	150.00	150.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton .....	70.00	55.00	55.00
Prairie, Sm. Square, Good Northeast Nebraska, ton .....	117.50	87.50	87.50
* No market.			

Pork producers have the opportunity to have a very profitable year, even through the summer of 2005. Using the Lean Hog Futures Contract and the futures contracts for corn and soybean meal, all adjusted for basis, the average margin per hog improved from mid-April and mid-May by \$4.75 per head. To be sure, the volatility in feed and hog markets makes for sizable swings in margins. The change of \$4.75 per hog amounted to a 33 percent increase in margin in a 30 day period.

The market is well above the trend line (Figure 1) created by summer highs beginning in 1997. While production may remain profitable for some time, the combination of events that created the current situation is unusual. The hog market has benefitted from the restrictions on exports of other meat protein. According to Glen Grimes, University of Missouri Agricultural Economist, exports account for one-third of current demand.

Domestically, pork offerings in fast food, a new pork barbeque sandwich and a breaded sandwich have helped. The popularity of high-protein/low carbohydrate diets is another factor. Demand for pork is up 5.3 percent, while demand for live hogs is up 11.6 percent according to data from the National Pork Board. And pork is moving to consumers without disruptions in the process and delivery chain.

However, with current production levels it will not take much negative news to push the market down. Total pork production in 2004 has been consistently above the previous three years (Figure 2). With production up and price outlook favorable there is little incentive for producers to reduce overall production.



Many producers need to operate at maximum capacity to maintain the efficiency and profitability of the operation.

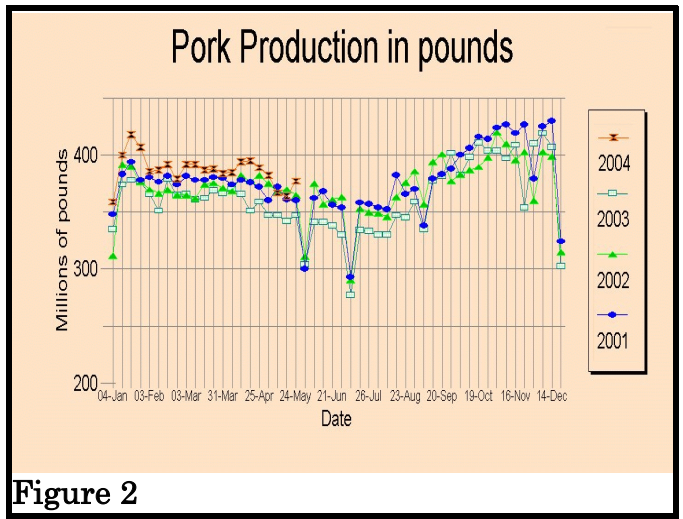


Figure 2

In a truly North American industry, both Canadian and U.S. producers have made adjustments. Based on the March 1, 2004 Hogs and Pigs Report, U.S. producers cut their breeding herd -1.7 percent, but still produced an inventory of market hogs that is +2.4 percent larger than last year. Canadian producers increased their breeding herd +2.1 percent in the first quarter of their reporting year. The first quarter Canadian pig crop was up +8.2 percent. Canadian hogs for slaughter, including those sent to the U.S. were 4 percent higher than a year ago. Feeder pig exports to the U.S. are up over 30 percent for the year to date.

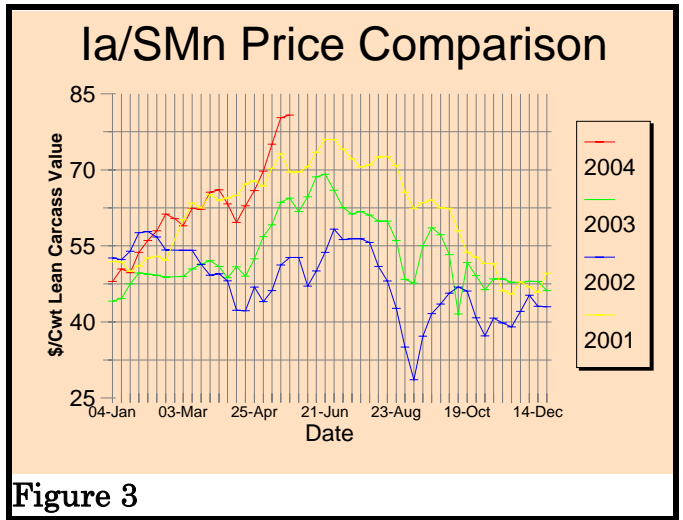


Figure 3

Combined North American live hog supplies will be high throughout 2004. The question is when will the export market accept beef and poultry supplies that are currently banned? There is no easy answer. International border trade agreements are in a state of negotiation and it is very much a political issue. This creates a very tentative situation, none of which appears to create a situation for better hog prices than we are seeing at this time. Managing higher pricing opportunities can be as tricky as managing lower pricing opportunities. No one wants to act too quickly and miss higher pricing opportunities.

Current prices (Figure 3) are very good. They are well above the previous three years and offer producers an opportunity for profit. That opportunity may be the production industry's headache in months to come, but for now producers certainly want to apply risk protection strategies that allow them to capitalize on the current situation.

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