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Hog Markets

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Market Report	Yr Ago	4 Wks Ago	4/8/05
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$86.40	$93.15	$90.65
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	115.39	129.23	143.68
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	97.81	108.33	114.17
Choice Boxed Beef, 600-750 lb. Carcass	150.80	157.07	154.29
Western Corn Belt Base Hog Price Carcass, Negotiated	59.64	69.42	69.71
Feeder Pigs, National Direct 45 lbs, FOB	48.22	67.22	72.70
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	69.62	70.18	69.09
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	92.75	109.00	106.00
National Carcass Lamb Cutout, FOB	229.40	268.05	262.14
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Omaha, bu	4.06	3.67	2.80
Corn, No. 2, Yellow Omaha, bu	3.10	1.97	1.78
Soybeans, No. 1, Yellow Omaha, bu	9.71	6.26	5.92
Grain Sorghum, No. 2, Yellow Columbus, cwt	5.18	2.82	2.57
Oats, No. 2, Heavy Minneapolis, MN , bu	1.93	1.86	1.84
Hay			
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	57.50	57.50	57.50
* No market.			

If the lean hog carcass futures prices are any indicator, producers should have four or five months of very good prices. Feed costs are down from this period a year ago and futures prices through September are very good. If actual prices are at or near futures expectations, profits will be good. Beyond September the profit picture changes quickly.

Three sources of production costs were reviewed to provide current information. Minnesota Finpak data for 2004 includes total direct and overhead costs for farrow to finish producers at $40.78. John Lawrence's data from Iowa State shows farrow to finish costs of $39.05 for hogs marketed in March of 2005. Actual calculated costs for a regional management operation have costs of $40.08. Using these values, an estimated cost of $39.97 was derived and used as a cost per hundred weight to compare with futures values to determine potential profit.

Profits through September could average near $40 per head. Profits for October 2005 through April 2006 would be about $10 per head. That is assuming feed costs remain the same over the year. Higher feed costs would push those profits down quickly. Ten dollars per head sounds like a reasonable profit. But, the average market hog live weight was over 270 pounds the week of April 4-8, 2005. The margin per hundred weight then is about $3.69.

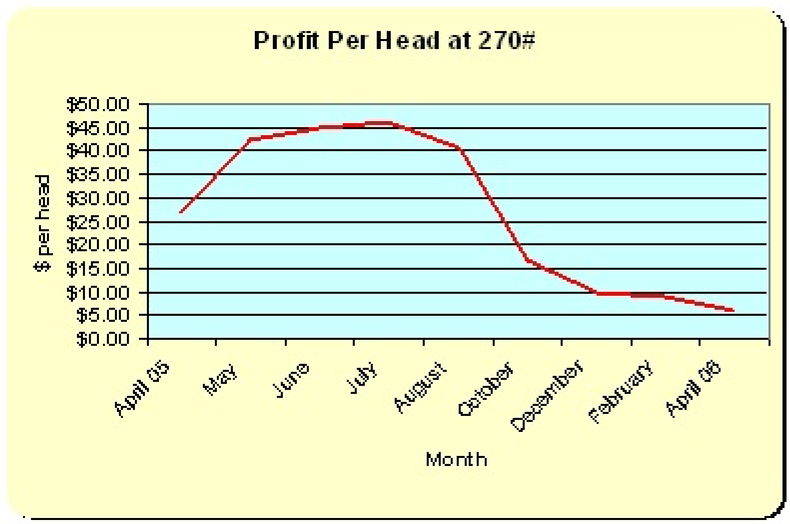
Futures prices are not necessarily good predictors of actual future hog prices. They do, however, represent the overall attitude of buyers and sellers at a given point in time. It is clear that buyers of Lean Hog Futures contracts are not willing to pay as well in the last half of 2005, or on into 2006.

Some of the unwillingness to pay is certainly contained in the uncertainty surrounding export trade. Pork had a very good year for export trade in 2004. Overall pork exports were 29 percent larger than 2003. For 2005 USDA increased it's projection for U.S. Pork Exports, now predicting 2005 up 16 percent over 2004.[1] Pork exports are expected to continue

[1] Meyer, Steve and Len Steiner. Daily Livestock Report, Volume 3, Number 68.

strong, while beef exports continue weak due to the border issues. As long as uncertainty remains over the ability to export beef, pork will benefit in the export market.

Also, involved in the international trade situation is the recent ruling by the U.S. International Trade Commission that U.S. pork producers were not being injured by "unfairly traded" Canadian hog imports. The number of live hogs and pigs brought into the U.S. from Canada did decrease in the first three full months after the tariff was implemented. During that period, November 2004 to January 2005, 6.3 percent fewer hogs and pigs were imported.[2] Many factors influence this, but some of the reduction may have been due to the temporary tariffs that were imposed on Canadian pigs, regardless of who paid them. However, as Ron Plain points out, the overall effect would not have been great enough to be much of a price mover.



Domestic demand for pork has been bolstered by the situation in the beef industry. Beef retail prices remain fairly high and pork offers a good substitute for price conscious buyers. The availability of beef, and a subsequent price decline at retail, could occur if the Canadian border was opened and more beef made available.

Markets are always complex and driven by numerous small factors. In the fall of 2003, all of 2004 and the outset of 2005 these numerous small factors have created outstanding hog prices despite record pork production. While each factor may not be a market mover, the combined effect has been very positive for pork producers. The likelihood that these factors will continue to favor the pork industry as much as they recently have is not great.

Any improvement in the international trade outlook for beef appears to be negative for pork. If exports of U.S. beef products, especially those not commonly consumed in the U.S. opens up, it will reduce demand for corresponding products in the pork industry. If larger supplies of feeder cattle are available from Canada, domestic beef prices may decline modestly. Consumers may find beef a more attractive value and reduce pork purchases. Importers in Asian countries may pick up beef items quickly in an effort to be "first to market" when beef is available. While this may balance out some of the increase in live cattle supply from Canada by helping overall demand for beef, it still could impact those cuts and products which are not commonly consumed in the U.S. The negative impact could still be felt in hog markets.

As these events unfold and markets absorb the changes, profitability for the processors in the food chain will undergo change. If having a ready market for the "whole hog" improves processor's willingness to bid for live animals, any pressure in those markets will likely create more cautious buyers at the processor level.

One positive outcome for pork producers, uncertainty discourages expansion. The March Hogs and Pigs Report from USDA indicated little if any expansion. A second outcome, producers should recognize the need to manage costs extremely well in the last half of 2005 and on into 2006. Feed costs are a big variable operating expense. Any means that a producer is comfortable with should be employed to insure these costs well into the future. Another related cost that can be impacted is herd health. With profits strong, investment in the best health management will pay dividends later. A little extra effort in cleaning and sanitation will be affordable and can pay dividends in the future.

Last, knowing exactly what it is costing to produce a market hog is critical. Producers can place a floor, using futures markets or Livestock Risk Protection Insurance, that reduces chances of losing money through the spring of 2006. February 2006 would offer about $9.00 and April 2006 around $6.00 per head profit. These are not very attractive amounts to many producers, but if used, even after transaction costs, would prevent giving back some of the earned profits from 2004 and early 2005.

Success in the pork industry is first and foremost about being a competitive producer. But markets fluctuate, so that even the best producers may find themselves losing money for a period of time. Today's successful managers limit the time and amount they lose. The past two years have allowed pork producers an opportunity to really put some money in the bank. The next couple of years may challenge their ability to keep it there.

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[2] Plain, Ron. *Swine Economics Report*, University of Missouri.