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The Pork Industry -- A Year Later

Allen Prosch

University of Nebraska-Lincoln, aprosch1@unl.edu

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CORNHUSKER ECONOMICS

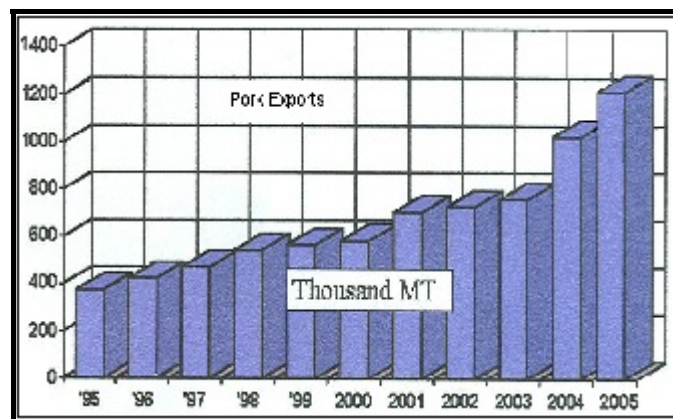
The Pork Industry -- A Year Later

Market Report	Yr Ago	4 Wks Ago	4/7/06
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$90.65	\$85.43	\$80.37
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	143.68	131.67	131.20
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	114.17	106.16	105.37
Choice Boxed Beef, 600-750 lb. Carcass	154.29	148.22	138.69
Western Corn Belt Base Hog Price Carcass, Negotiated	69.71	57.86	51.11
Feeder Pigs, National Direct 45 lbs, FOB	72.70	56.44	52.38
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	69.09	65.70	57.48
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	106.00	79.00	68.00
National Carcass Lamb Cutout, FOB	262.14	215.73	223.03
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	2.80	4.08	3.90
Corn, No. 2, Yellow Omaha, bu	1.78	1.93	2.13
Soybeans, No. 1, Yellow Omaha, bu	5.92	5.42	5.17
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.57	2.86	3.00
Oats, No. 2, Heavy Minneapolis, MN, bu	1.84	1.99	1.97
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	130.00	130.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	65.00	65.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	55.00	55.00
* No market.			

The only words for the pork industry in 2004, were “demand driven.” The industry had just put an annual record amount of pork on the market and received near record high prices for doing so. Demand for pork exports were at record levels and domestic demand was fueled by high protein diets.

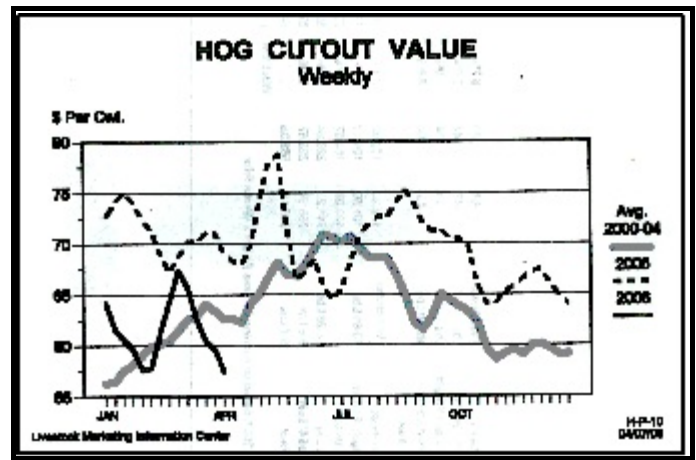
In 2005, commercial hog slaughter totaled 103.6 million head, slightly higher than 2004. The average live weight was up two pounds from last year, at 269 pounds. Another record year in pork production with prices near 2004 highs produced an excellent year for producers and processors. Again, in 2005 pork exports set another record year, exceeding 2004 by 22 percent.

Export markets were one factor in the pork industry. Without question, pork benefited from the closing of borders to beef. As the Pork Exports chart shows, both 2004 and 2005 showed exceptional export growth.



There was additional demand in the domestic market in 2004. Perhaps, fueled by the high protein/low carbohydrate diet phenomenon, pork enjoyed an increase in domestic demand along with the strong export demand.

While export demand remained high in 2005, domestic demand began to taper off. But by the middle of 2005, as Ron Plain, Ag Economist at the University of Missouri, put it, “The lack of daily stories this year about the Atkins Diet again makes it easy to explain this year's drop in meat demand.” For all of 2005, demand continued to soften. At the consumer level, January through November demand was down 4.7 percent and for the 3 month period of September - November was down 6 percent from the same time period in 2004. However, as the red line on the Monthly Hog Futures Chart shows, even with a decline in domestic demand for pork, December hog prices remained at historically high levels through the end of 2005. The close on the December of 2005 lean hog futures prices were exceeded only by closes in December 2004 and December 1996 (not adjusted for inflation).



Pork producers have been very slow to expand. Part of the increase in pork production comes from productivity increases. Since 2002, the breeding herd held by producers has actually decreased, except for 2006. Based on the March 1, 2006 USDA Hogs and Pigs Report, the breeding herd was 2 percent lower in March 2004 than in March 2003. March 2005 was .3 percent lower than 2004, and March 2006 was 1 percent higher than 2005.

In the packing processing portion of the industry, a new packing plant was added at St. Joseph, Missouri. Several plants have expanded either kill or further processing ability. These events were positive for producers. However, Tyson foods recently cited poor market conditions among reasons to reduce output for a pork plant. Coupled to that is an increased supply of both beef and poultry. Also, poultry is suffering declining exports due to the Avian flu problem. This increases the amount of lower price poultry cuts that are available. The supply of competing meats reduces the likelihood of significant price increases.

Many pork producers are still profitable, even at current market prices. However, they will see some unprofitable months in 2006 and early 2007, based on current futures markets. Current fundamental supply and demand information does not suggest the situation will improve.

References:

Swine Economics Report, Ron Plain, Extension Economist, University of Missouri, July 18, 2005.
Hog Outlook, Glenn Grimes and Ron Plain, University of Missouri – Columbia, December 30, 2005.
 Livestock Marketing Information Center.



If there were few signs of change coming into the first week of January 2006, the fundamentals of the pork industry had changed significantly from the same period of 2004 or 2005. Supply of hogs, based on the March 1, 2006 USDA Hogs and Pigs Report, had been increasing since March 2003. March 2004 was 2 percent higher than 2003, March 2005 was 1 percent higher than 2004, and March 2006 was again 1 percent higher than 2005. Coupled now to decreasing total demand, the price of hogs dropped quickly.

The increase in hog prices typically seen in the early months of most years has not happened in 2006. The market price of hogs has trended down, following lower pork cutout values. For the week of April 8, 2006, a .9 percent increase in pork production resulted in a 16.8 percent decline in the pork cutout value.

The weekly Hog Cutout Value Chart shows the average cutout values from 2000 thru 2004 and the 2005 and 2006 values. The drop in cutout value dramatically illustrates the impact of changing fundamentals in the pork industry. Small changes in supply or demand have large impacts on price.

Allen Prosch, (402) 472-0079
 Pork Central Coordinator
 University of Nebraska-Lincoln
 aprosch1@unl.edu