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## A Long Run of Profit

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# CORNHUSKER ECONOMICS

UNIVERSITY OF  
**Nebraska**  
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University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
<http://agecon.unl.edu/pub/cornhusker.htm>

## A Long Run of Profit

According to data<sup>1</sup> from Iowa State University, the longest run of profits for Iowa hog producers was from December of 1976 through August of 1979 (Chart 1). If hog prices continue as expected through October of 2006, that thirty-three month record will be broken. Already, this is the longest series of profitable months since the mid-1980s.

National net cash hog price, extended out using the prices of lean hog carcass futures contracts, indicated on July 31<sup>st</sup> that the profitable months may continue through the end of 2006. With current corn prices many producers can produce hogs for \$40 per cwt live value or on a carcass base, \$54 per cwt. Currently, futures adjusted for Midwest basis offer prices at this level or higher.

Much of the price movement in cash hogs, for the summer of 2006, came in week 23 when national hog slaughter for 2006 fell below 2005's slaughter numbers (Chart 2). Hog slaughter numbers subsequently recovered and futures prices moved down to near the 2002-2005 average. Projected slaughter for the remainder of 2006 is expected to be slightly above 2005. Based on the June 1, 2006 USDA Hogs and Pigs Report, market hog numbers will be nearly steady to one percent higher than 2005 levels for the rest of 2006.

However, market hog weights are up in 2006, which adds to commercial pork production. Market hog weights contributed to this summer's price peak

Market Report	Yr Ago	4 Wks Ago	7/28/06
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight . . . . .	\$79.02	\$83.45	\$80.05
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb . . . . .	131.45	139.85	137.69
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb . . . . .	114.66	117.45	119.30
Choice Boxed Beef, 600-750 lb. Carcass . . . . .	125.53	153.70	140.88
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	66.61	69.62	63.84
Feeder Pigs, National Direct 45 lbs, FOB . . . . .	45.70	50.12	47.86
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean . . . . .	71.89	79.58	70.31
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest . . . . .	101.00	*	101.00
National Carcass Lamb Cutout, FOB . . . . .	249.50	218.33	230.58
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Imperial, bu . . . . .	3.02	4.69	4.39
Corn, No. 2, Yellow Omaha, bu . . . . .	1.89	2.14	2.07
Soybeans, No. 1, Yellow Omaha, bu . . . . .	6.58	5.61	5.29
Grain Sorghum, No. 2, Yellow Columbus, cwt . . . . .	3.23	2.88	3.18
Oats, No. 2, Heavy Minneapolis, MN , bu . . . . .	1.81	2.20	2.19
<b><u>Hay</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton . . . . .	117.50	145.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton . . . . .	37.50	87.50	87.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton . . . . .	52.50	*	82.50

\* No market.

<sup>1</sup> John Lawrence, Professor of Economics, Iowa State University.

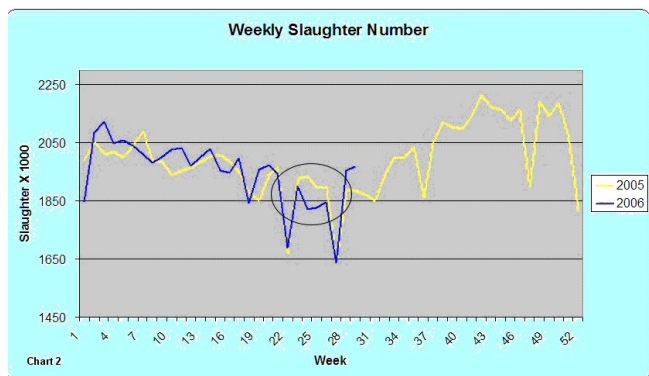
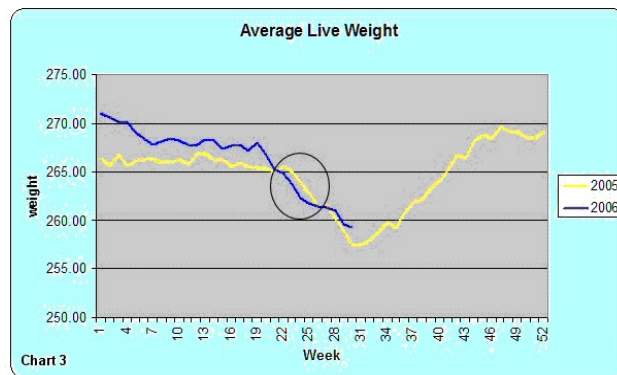
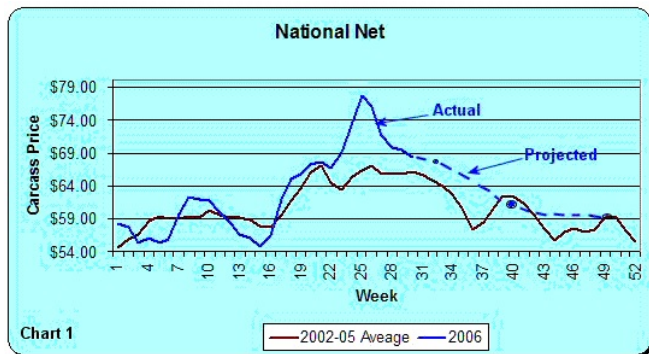


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when they fell slightly below 2005, at the same time total slaughter numbers fell (Chart 3). The combined affect caused a sharp increase in live hog prices, somewhat higher than had been anticipated for the 2006 summer seasonal high.

December, using a  $-\$2.00/\text{cwt.}$  basis. In December this profit margin would be  $\$0.71/\text{cwt.}$  or  $\$1.92$  on a 270 pound live market hog. While December Lean Hog futures contracts are positive for producers now, historically they would be lower by the time they close in mid-December.



Lean Hog Carcass Futures contracts have traditionally set a three or four year cycle between price highs and price lows (Chart 4). If the December contract does not close below  $\$53.00$  later in 2006, the cycle low will have been early in 2006, rather than in the fall months as has been seen in the past. That would put the cycle at 43 to 44 months from the 2002 low. However, if December closes below  $\$53.00$  this fall, the cycle would be about 51 or 52 months long. Using the 48 month four year cycle as a guide, either occurrence is equally possible.

While these events increased the likelihood that producers will remain profitable through October and beyond, it is only a sure thing if prices are hedged. In such a hedge, feed cost will be important. Corn prices are the key factor. On July 31, 2006, the September and December corn futures contracts closed at  $\$2.39$  and  $\$2.56$  respectively. Using  $-\$0.30/\text{bu.}$  basis for Nebraska prices, producers' cost would be  $\$2.09$  to  $\$2.26$  for corn through the end of the year. Holding all other costs constant, a  $\$40$  cost of production now, translates to a breakeven of  $\$40.85$  based on September and  $\$41.59$  based on December corn futures prices.

The lean hog futures contract offers the producer from  $\$48.73$  to  $\$42.30$  for September through



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