

January 2007

The Swine Industry: 2006 S The Year In Review

Allen Prosch

University of Nebraska-Lincoln, aprosch1@unl.edu

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CORNHUSKER ECONOMICS

UNIVERSITY OF
Nebraska
Lincoln

January 17, 2007

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
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The Swine Industry: 2006 – The Year In Review

Market Report	Yr Ago	4 Wks Ago	1/12/07
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$92.04	\$84.94	\$87.03
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	138.95	114.77	116.06
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	113.48	100.58	*
Choice Boxed Beef, 600-750 lb. Carcass	154.06	143.41	152.50
Western Corn Belt Base Hog Price Carcass, Negotiated	50.37	54.25	56.67
Feeder Pigs, National Direct 45 lbs, FOB	64.54	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	61.36	64.50	62.33
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	79.00	*	*
National Carcass Lamb Cutout, FOB	230.80	251.70	240.44
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	*	4.53	4.50
Corn, No. 2, Yellow Omaha, bu	1.89	3.33	3.65
Soybeans, No. 1, Yellow Omaha, bu	5.42	6.27	6.66
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.93	5.59	6.07
Oats, No. 2, Heavy Minneapolis, MN, bu	2.14	2.79	2.88
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	130.00	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton	65.00	87.50	87.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	52.50	82.50	82.50
* No market.			

January of 2006 was marked by some concern that the modest expansion in pork production may be more than markets could absorb. Cash and futures markets started lower, and it was clear that daily product movement would dictate prices. Both market fundamentals and attitudes appeared negative.

By mid-February some optimism had returned with export markets continuing year-over-year increases. The positive export picture improved overall attitudes and demand for live hogs continued strong. Pork producers enjoyed continued profitability with low feed costs and good prices. Despite continuing profits, which began by most estimates early in 2004, producers did not expand pork production significantly.

Mid-summer of 2006 saw prices equaling those of 2005 as export market growth offset the increases in pork production. In fact, the increase in export tonnage exceeded the increase in production tonnage, leaving slightly less pork product on the domestic market. Profits continued in the late Summer and Fall of 2006, and USDA Quarterly Hog and Pig Reports continued to show great restraint on the part of producers in expanding production.

Several suggestions were put forth for the lack of sizable production increases as had occurred during previous cycles of profitability. One suggestion was that the capital investment to expand significantly was a strong deterrent to many producers. Another thought was that producers remained well aware of the problems when they approached packer capacity in 1998, and were therefore reluctant to produce hogs that did not have a solid customer and perhaps a marketing agreement. Environmental permitting was suggested as a strong deterrent along with community reactions in many areas. Also, many producers belong to aligned systems where sows are handled at one site, perhaps with separate ownership. Finishing is done by



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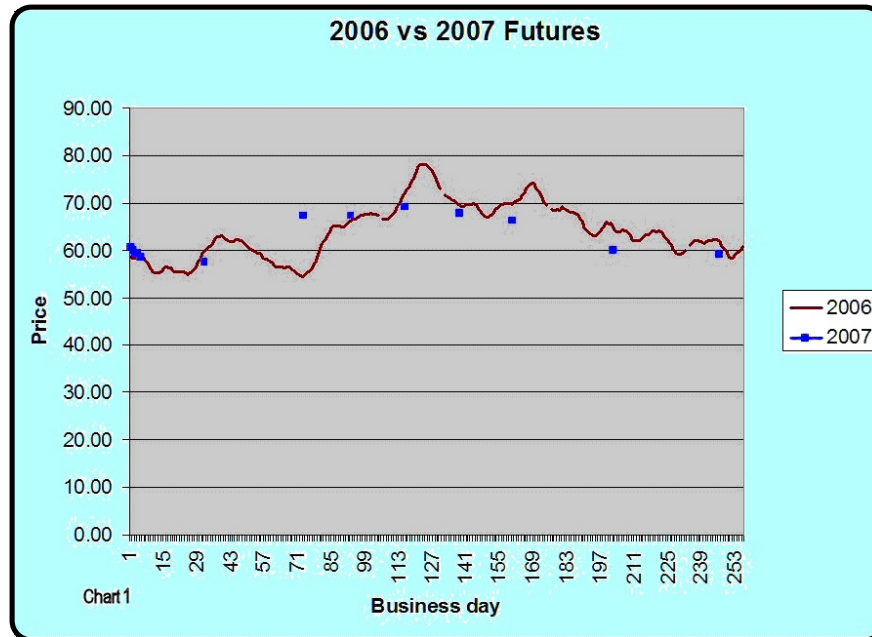
contract, either for the barn spaces or the contract price of pigs. These arrangements require more time to put into place and are long-term in nature. Even though the industry was realizing considerable profits, setting up long-term projects based on those profits would involve considerable risk. Also, in the swine industry there is a need to look at the whole North American (Canada and U.S.) breeding herd. Canada had been providing added feeder pigs for producers who simply wanted to contract to fill a finishing barn, thus reducing the need to expand breeding herds in the U.S. However, near the end of 2006, Canadian production had also become very stable, to even slightly declining. Exchange rates, production cost and processing problems slowed the Canadian industry, reducing pressure on the total North American system.

It is likely that all of the factors listed, and more, have been responsible for the slow growth in total pork production. Along with the slow growth in production, a significant event took place in the pork processing industry. Triumph Pork of St. Joseph, Missouri opened a new plant. This plant almost immediately increased to a double shift during 2006 and added capacity to the processing industry. A cooperative plant owned by producer members, this plant immediately increased the competition for other plants to replace hogs that the cooperative members had been selling to them.

With stable production, good demand for live hogs and positive fundamentals, producers saw the longest string of profitable months in pork production in history. The December USDA Hogs and Pigs Report still showed very little expansion, but producers faced an entirely new problem that both ended the months of profitability and threatens future profits.

The combination of increased demand for corn from the ethanol industry and the slightly smaller than expected 2006 corn crop have sent corn prices soaring. The pork industry is not able to easily offset or adjust for this feed cost increase. Corn prices have more than doubled for those producers who must buy corn, and with more specialized production that is a majority of producers.

Due to the rising corn prices, many producers now have a cost of production above current market levels. However, looking at futures as a predictor of this year's market, and using a -\$2.00 basis, prices would average near breakeven, with the best producers possibly gaining a few dollars per market hog (Chart 1). The longer term implications from



high feed costs for the swine industry could vary significantly.

In one scenario, similar to the corn price spike in 1996-97, live hog prices may rise along with corn. While keeping margins thin to non-existent, that may not cause enough loss to reduce the industry significantly. Continuing strong imports, modest decreases in total production, such as those gained by

feeding to lighter weight might support an industry adjustment such as this.

A second scenario would be a reduction in persons feeding their own feed stocks. Those not bound by contractual obligations may decide selling corn is the best alternative. This would be especially true of those that may have been taking advantage of older, cheaper facilities and would not have an expensive asset being idled. This would pressure feeder pig prices and production, and may result in some reductions in the breeding herd. Looking again at a North American breeding herd, Canadian feeder pig producers may be impacted.

It is possible for the pork industry to weather the current price changes. But unless live hog prices remain high enough to at least allow producers to restrict large losses, it will cause changes in the production industry.

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