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Structural Change in the Pork Industry - Another Perspective -

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Market Report	Yr Ago	4 Wks Ago	8/6/99
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	$58.13	$63.15	$64.96
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	69.00	80.43	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	*	92.88	88.74
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	94.60	100.47	100.68
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	36.33	28.50	37.25
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	*	19.00	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	107.80	97.56	116.60
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	*	79.75	86.17
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	160.00	172.00	183.50
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu.	2.69	2.62	2.88
Corn, No. 2, Yellow Omaha, bu.	1.82	1.59	1.85
Soybeans, No. 1, Yellow Omaha, bu.	5.33	3.96	4.48
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.33	2.73	3.51
Oats, No. 2, Heavy Sioux City, IA , bu.	*	1.15	1.18
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	*	85.00	82.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	60.00	*	*
Prairie, Sm. Square, Good Northeast Nebraska, ton.	70.00	*	*

* No market.

Observers of the pork industry have had ample opportunity to explain what has transpired during the 1990's. It has been a period of dramatic and remarkable change. Concentration in production and processing has been a major part of the story. Approximately 8 percent of U.S. hog production was contributed by Mega hog farms at the beginning of the decade to over 50% by firms with 10,000 sows or more by 1999. The reasons for this remarkable growth in concentration are undoubtedly many.

One significant ingredient has been the change in consumer demand for pork. Ten dollars per cwt cash hog prices during the winter of 1998/99 brought pork demand into clear focus. It wasn't just the $10/cwt hog price. More importantly, it was the fact that retail pork prices remained stable as the price of hogs plummeted. Obviously the retail pork price includes more than the price of hogs. Also included are the cost of processing, transportation, packaging, advertising, financing, storage, etc. While those marketing costs do not change with the price of hogs, they also do not represent the total price paid for pork by consumers. Therefore some downward adjustment in the pork price would have been predicted when hog prices dropped to $10/cwt. A look at the record would be appropriate. During the 1970's the retail demand for pork behaved in an expected manner (Figure 1). At lower prices ($.80 per lb.) consumers would buy more and at higher prices ($1.58 per lb.) consumers would buy less.

Figure 1. U.S. Quarterly Retail Pork Prices and Commercial Pork Production, 1970-79

Source: USDA Statistics

Changes were apparent in the 1980's (Figure 2). An opposite relationship between prices and quantity still existed, but prices adjusted less dramatically to changes in quantity.

Figure 2. U.S. Quarterly Retail Pork Price and Commercial Pork Production, 1980-89

Source: USDA Statistics

Then came the 1990's (Figure 3). In this decade retail pork prices have been unaffected by quantity consumed or produced. In other words, a price of $2.25 per pound would describe the demand for pork at all levels of consumption during the 1990's.

In contrast, the price for live hogs became more price sensitive to changes in quantity over the last three decades.

Figure 3. U.S. Quarterly Retail Pork Prices and Commercial Pork Production, 1990-99

Source: USDA Statistics

What does this have to do with structural changes in the hog business? A great deal!! The 1990's retail pork demand describes a food product, not an agricultural commodity. The pork industries “The Other White Meat” advertising campaign, consistent pork quality and consumer affluence are all likely contributing reasons. The 1990's retail demand for pork puts food retailers in a controlling position. Not only do they control the shelf space, they are also the folks who do business with consumers. As a result, producer success in the swine industry means positioning to negotiate directly with retailers. Who is accomplishing that objective? Large integrated producers who own packing plants or contract for processing. That enables integrated producers to negotiate with retailers for a share of the consumers pork purchases. Under those circumstances there is little advantage in being a small independent pork producer.

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