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Hog Markets Live Hog Prices at Risk

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Hog Markets Live Hog Prices at Risk

Market Report	Yr Ago	4 Wks Ago	4/9/04
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$80.96	\$88.62	\$86.22
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	86.26	98.33	104.00
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	94.76	110.69	110.36
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	125.49	134.12	140.01
Hogs, US 1-2, 220-230 lb			
Sioux Falls, SD, cwt	33.50	*	44.00
Feeder Pigs, US 1-2, 40-45 lb			
Sioux Falls, SD, hd	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	91.97	106.19	113.20
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	91.50	*	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	193.74	200.00	193.15
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W.			
Omaha, bu	3.46	3.59	4.06
Corn, No. 2, Yellow			
Omaha, bu	2.33	2.84	3.10
Soybeans, No. 1, Yellow			
Omaha, bu	5.89	9.62	9.71
Grain Sorghum, No. 2, Yellow			
Kansas City, cwt	4.27	5.11	5.64
Oats, No. 2, Heavy			
Minneapolis, MN, bu	1.97	1.80	1.93
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	127.50	130.00	150.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	75.00	55.00	55.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	117.50	*	87.50
* No market.			

Live hog prices are very strong when compared to current hog supply. Supplies for the week ending April 10, 2004 were up 2.2 percent over the previous week, and 3.9 percent over the corresponding week in 2003. The national net carcass price was down -3.9 percent week over week, but up 23.4 percent over 2003. Monday's (April 12, 2004) cash quotes in the mid-west ranged from up \$2.00 in Peoria to up \$1.50 in Sioux Falls. Average for cash quotes was up about \$1.00.

Demand is up for pork products. In the wake of the export problems with both beef and poultry, pork has enjoyed strong markets. In addition, domestically the spread of high protein diets has apparently put beef and pork back on the "acceptable" list of foods even for more health conscious consumers.

The lean hog futures contract has remained strong through the end of the year, with Monday's average value for all contracts at \$65.42 per cwt. This is the equivalent of live hog prices around \$48.40 per cwt. Contract prices have been strongest through the August contract, with only slightly less enthusiasm for prices this fall and winter.

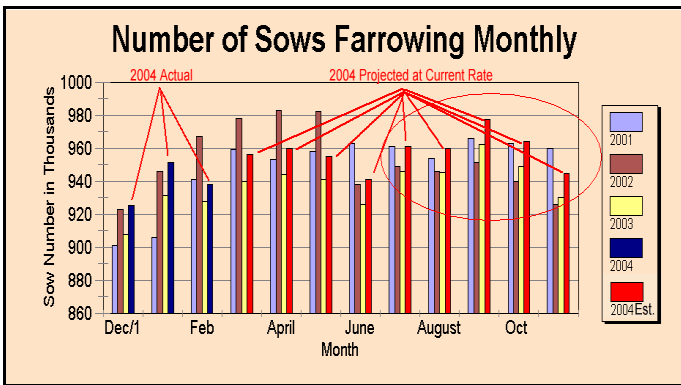
Hog prices are strong, but feed costs have risen. A current estimate places cost of production up 12 percent per cwt. But producers who are managing costs well have a potential for profits. The lean hog futures contracts through April 2005 averaged and adjusted for the basis difference for the Western Corn Belt hog market, would give producers a potential live hog market price of \$46.51 per cwt. Producer's cost of production taken from Nebraska Farm Business Association data, adjusted to feed cost using corn and soybean futures through March of 2005, gives a modest profit of about \$9.00 per market hog.

This profit potential is supporting production. This may not be a problem through the Summer of 2004. Producers have the opportunity to control some cost and lock in some level of price protection. If producers maintain the current



level of farrowings year over year, demand will have to remain exceptionally strong to prevent an oversupply situation this fall or winter.

In 2004 the average increase in the number of sows farrowing monthly has been about +1.7 percent. Using this factor for monthly farrowings for the remainder of 2004 shows that fall farrowings would be higher than the previous three years. If this happens, there is potential for the supply of market hogs in the Spring of 2005 to exceed the Spring of 2004, without considering productivity gains (Figure 1). Pork production in 2004 has exceeded production in the previous three years (Figure 2). A 1.5 percent productivity



gain has been a standard in the pork production industry for a number of years. If a normal productivity increase takes place, accompanied by a continued 1.7 percent increase in the number of sows farrowed, pork production in the Spring of 2005 could be over 3 percent higher and would look something like Figure 3. Demand for pork prices for pork up despite increasing supply. To have that continue in the face of further increased supply would be much less likely. Pork has enjoyed the benefit of the problems that both beef and poultry have

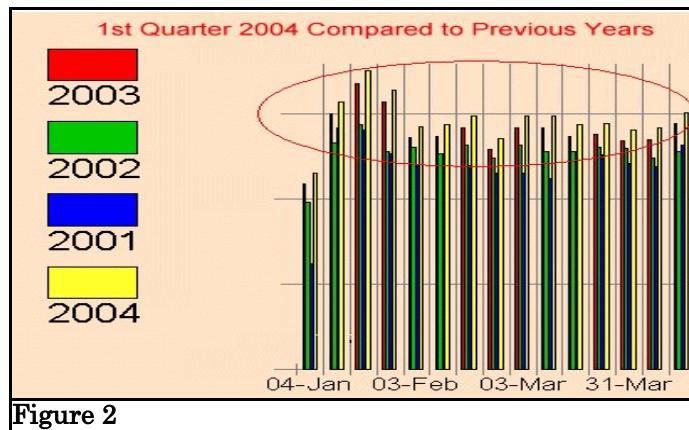


Figure 2

experienced in the export market as well as strong domestic demand. Any changes in either market have the potential to be negative to pork. Also, the possibility of future extraordinary events being as positive as recent ones, seems less

likely. There is a lot of uncertainty in the market place. Public policies and arguments over such things as BSE testing, the Canadian border and the Mexican border are all impacting the meat protein market. Pork producers have an opportunity to profit, but they also have the potential to have

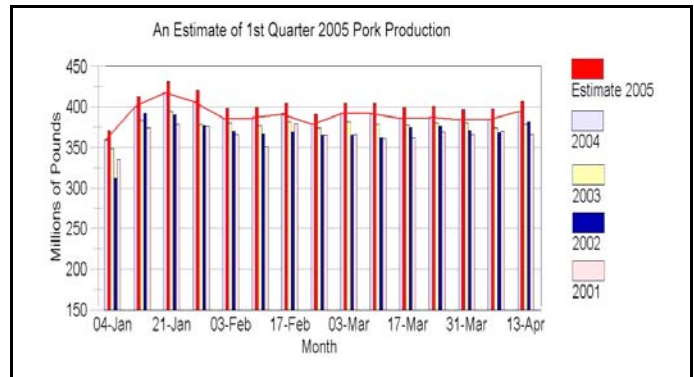


Figure 3

overproduction rather quickly. This could happen without any increase from the current supply situation if demand slackens. It is much more likely if available pork supplies continue to increase.

At this time producers may want to take advantage of the opportunities being offered in the market. Those who do, and who maintain excellent production cost control can look to profits in 2004. Also, it may be prudent to consider setting some floor prices for 2005.

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